

nological progress were constant without changing its nature, where exports behave regularly in time—in such a world, it is true that one would find that a steady rate of growth of the money supply would be needed to have both a stable high level of employment and a stable price level.

And by the way, this is fundamentally the reason that justifies rules of the kind that have been proposed by many people such as Mr. Friedman. If, let us say the population plus the technological progress lead to a situation where, with a stable high level of employment, GNP rose at 3 percent per year in real terms, then by and large the money supply would have to rise at this rate. But, of course, we do not live at all in a world of this kind. There are all kinds of things that are continuously changing, sometimes abruptly.

Some things change more smoothly, such as labor force and population; some things change less smoothly, such as technological change. There are variations in the nature of this change, variations in inventions that change the contribution of capital to production and require corresponding changes in the rate of return to capital.

Finally, we live in a world in which our fiscal policy has been far from stable because of a variety of circumstances, ranging from response to changing domestic needs, to response to international situations, responses with which one might disagree, but nonetheless, must be taken into account. We find very sharp variations in Government expenditures and, given the complex process of adjusting taxes and the politics involved in this, these changes in expenditures have frequently not been promptly accompanied by corresponding appropriate change in revenues.

Under these conditions, I think most economists would agree, that the appropriate behavior of the money supply is not at all one in which the money supply would rise at the steady rate.

I believe, in fact, that the attempt by Mr. Reuss to formulate specific rules of monetary action, spelled out in his "Supplementary Views," is an excellent illustration of the difficulty one has in formulating such rules. He started out by modifying the 3-percent rule to a range of 3 to 5 percent, which is already a considerable departure from the pure rule, because the difference between a 3-percent and a 5-percent rate of growth of the money supply it sustains is by no means negligible.

Second, he had to introduce a large number of exceptions. I think I agree with most of the exceptions made, although not all of them—I think there are some questions about his rule saying that if there is a cost push, then the money supply should adjust and permit any expansion, any increase in the price level that the cost push is creating. I think that would be a dangerous principle.

However, once you allow for all these exceptions, it is clear that you are back to a discretionary policy, especially if you consider that some of these exceptions are really not easy to formulate in operational terms. He makes some reference to the extent to which other forms of near moneys substitute for money. Now, we do know that, in some sense, the substitution exists, but you cannot put a number on it and therefore, to say you have to allow for it just means you have to use your discretion or all the information you have, in deciding how to respond to variations in these other assets.