

Also, I think if you look at the list of Mr. Reuss' exceptions, you cannot fail to be impressed by the fact that some of his exceptions were colored by very recent experience. I think, for instance, that in formulating his qualification 3, he clearly had in mind the specific situation that developed early in 1967. It is clear, however, that the exceptions that he has listed are not all, that there are many other circumstances which have not occurred in the past which might occur in the future, which would also require exceptions.

In other words, I think it is impossible at any point in time to list all of the exceptions, and if you list them all, then I think you are really back to favoring a great deal of discretion and room for the central bank to maneuver.

It is, of course, true that if we allow the use of discretion, discretion may be misused; that is, trying to do the best we may not do very well. I think Professor Friedman is prepared to agree that, on the whole, a world in which the money supply rose at 3 percent per year would by no means be an ideal world. It would be a world in which there would be significant fluctuations in employment, fluctuations in prices. But he would argue that these fluctuations, as bad as they might be, are not as bad as those that might be generated by an attempt to respond to circumstances by an appropriate money supply policy. In principle this is a possibility, and I think Professor Friedman is correct in pointing to some past experiences in which the Federal Reserve has made very large errors. However, I think it is also true that we learn from past errors, and I believe the Federal Reserve has learned and is continuing to learn a great deal.

The question, therefore, of whether in fact it is preferable to use discretion at some risk versus tying your hands by a mechanical rule is an empirical one which has to be looked at against the record.

Let me put it this way: It is true that if one takes aspirin to cure headaches, one does not really know everything about the right dose, and when it should be taken. Sometimes we wait and take aspirin after the headache has come, and sometimes we take aspirin and the headache really was not developing and we have some stomach acidity. But I would still be against replacing rule discretion in using aspirin with a saying, every day take half an aspirin. That would be analogous to the kind of rule it is proposed to prescribe for the money supply. I think this rule would be most of the time too much and sometimes too little.

I have attempted a study of the record, trying to compare discretionary policies with certain rules in a recent paper, "Some Empirical Tests of Monetary Management and of Rules versus Discretion," in the *Journal of Political Economy*, University of Chicago, June 1964. Although such an attempt is fraught with difficulties, and my attempt can be probably improved, my own conclusion was that on the whole, the Federal Reserve is able to pursue very effectively the goals which it wants to pursue.

That leads directly to the question of the choice of goals, the distinction Professor Chandler has made between discretion about goals and discretion about tools for achieving those goals. I find that on the whole, in most of the cases in which the policy the Federal Reserve pursued did not agree with the one I would have liked to see them pursue, it was mostly because of differences in goals that were pursued,