

not because of disagreement as to the best means of achieving those goals. I think a good illustration of this has been our record during the early 1960's, when I think the economy was kept in a state of relatively low employment and output, essentially because the central bank was concerned with the balance-of-payments problem which it rated as the highest priority and was willing to sacrifice the domestic goals to that particular goal. Thus, what I got out of the study of the record is the conclusion that it is all right to give to the Federal Reserve ample discretion in the pursuit of goals, but that much could be done in specifying these goals more explicitly.

One of the dangers of not having these goals explicitly specified, I think, is that it is hard to tell in the action of the Federal Reserve to what extent they are due to discrepancy of goals with those of other people and to what extent to a difference of views as to what are the means for achieving those goals. By essentially deciding simultaneously on goals and on the means of pursuing those goals, there is also a danger that the conflict between goals is not brought out into the open. I think if the Federal Reserve in the early sixties had pursued a goal of high employment instead of the balance-of-payments goals, it would have brought out into the open the conflict which existed then perhaps between maintaining a high level of employment and controlling our balance-of-payments problem, and bringing this into the open would have facilitated a discussion of a ranking of these goals and the establishment of trade-offs between them.

Just how these goals can best be set is a question which we cannot handle here in these few minutes, nor is it clear whether the goals should be set by the administration or they should be set by Congress, or perhaps by both. I have at some point suggested that a sensible way of stating goals might be to state some target in terms of aggregate demand, a target that would essentially be binding on the administration and on the Federal Reserve. Perhaps associated with this aggregate demand goal there should be some provision that if pursuing this aggregate demand target should lead to an excessive rate of increase of prices, then some trade-offs should be established in order to let go of one goal or reduce our aims in one direction and increase them in some other direction.

Now, we might ask: If we agree that the Federal Reserve should be given ample discretion, should anything be done in terms of limiting this discretion about tools in any way? I doubt there is anything that can be done by way of legislation to put any limits on this discretion.

Perhaps the only point on which there might be a wide agreement among experts in this area is that in a period in which economic activity is declining, money supply should not be allowed to decline. I think most people would agree with that.

One can point in the past record several occasions in which this has not happened, in which we have had at least for a while decreasing economic activity and decreasing money supply. I believe this was due frequently to errors of the Federal Reserve—sometimes to a delay in recognizing the onset of a recession, sometimes, perhaps, to the Federal Reserve looking at the wrong target—for instance, at interest rate targets—and being satisfied with the interest rate level and permitting the money supply to shrink.