

ought to be in harmony. The Congress is the only authority that can make them so.

Treasury and Federal Reserve actions can be substitutes for each other with respect to aggregate demand. For example, the Treasury alone can stimulate aggregate demand by selling new securities to the private sector and using the proceeds to buy goods and services for Government programs. Or the Federal Reserve alone can stimulate aggregate demand by buying securities for the private sector in the open market, thus increasing the stock of money. But the effects of the two methods upon interest rates are different. When the Treasury buys goods financed by borrowing from the private sector, interest rates are bid up; when the Federal Reserve buys securities in the open market, securities prices are bid up and interest rates are pushed down.

The Federal Reserve can counteract the aggregate-demand effect of this Treasury action, or in the interest-rate effect, but not both. Treasury and Federal Reserve action can be substitutes for each other when a certain effect on aggregate demand is desired, or when a certain effect on the general level of interest rates is desired. But when there is a desired level of aggregate demand, and a desired level of interest rates, then cooperation between the Treasury and the Federal Reserve is required.

It is extremely important to realize that the policies required of the Treasury and the Federal Reserve to achieve the domestic objectives of full employment and stable prices will sometimes conflict with the achievement of balance-of-payments equilibrium at a given exchange rate. This conflict has persisted in the United States for several years, programs 3 or 4 years. It may still be with us even if the present buoyant business temper moderates. In the face of such a conflict, we have several choices. Since we have gold and foreign exchange reserves, we can continue in deficit on our balance of payments, but only until the reserves are gone. Our other choices, among which we *may* choose now, but among which we *must* choose when our reserves are gone, are these: reduce Government spending and lending abroad; impose restrictions on private foreign trade and capital movements; impose a recession on the domestic economy to dampen private import demand and possibly increase exports; or seek a new exchange-rate level where equilibrium is possible. The last of these alternatives, in my view, is the best.

It is encouraging to see the development of econometric models of the U.S. economy, in greater sophistication and detail. I believe that they hold promise of teaching us ever more about our economy and how it operates and responds to public policy. In spite of substantial improvements in the past generation, I am sorry to say that I know of no model that I would now trust with the task of formulating stabilization policy for the United States.

In summary, my answers to the questions before us are these: *First*, the Federal Reserve *can* control the stock of money very closely. *Second*, I believe it would be an improvement if the Federal Reserve would increase the money stock each calendar quarter at a seasonally adjusted annual rate of between 2 and 6 percent. *Third*, the Federal Reserve should adjust the rate of growth of the money stock within these limits, making only gradual changes in the rate of growth, and raising or lowering that rate of growth in accordance with its best