

This kind of long-term, secular peak and trough interest rate variability would, in my mind, certainly be moderated by a policy of moderating variation in monetary growth.

As far as economic efficiency is concerned, the average level of unemployment would likely be reduced as a result of a policy of moderating variation in monetary growth. This is accountable in part to the cyclical effect, but in addition there is an argument included in the paper that if we moderated monetary variation over the course of the seasons and permitted interest rates to vary instead, and if this happened every year, it is conceivable that we could avoid some seasonal variability in unemployment. For example, there is peak economic activity and employment in October and excessive unemployment during the summer months. I don't want to make much of an argument for this because it is mainly conjecture, and there is little evidence that bears on the possible effects of seasonal interest rate variability on the economy.

As far as the effect of moderating variation in monetary growth on foreign exchange rates, it is conceivable that it would be necessary to change foreign exchange rates from time to time as a result of a drift in prices and interest rates here in comparison with overseas. Nevertheless it is possible that the fixed exchange rate system would work better than it does now to the extent that excesses in terms of inflation and deflation were moderated.

Finally, would moderating monetary growth be a better policy than what we have got?

I certainly think it would be. I don't think a constant rate of growth in the quantity of money is necessarily the best policy but it is a norm against which we ought to compare what monetary policy should be. I think that over the course of a cyclical downturn, it is reasonable that the rate of monetary growth at least expand at the average of the business cycle; and during a period of high level economic activity and threatening inflation, it is reasonable that the rate of monetary growth not exceed its average of the business cycle. That has not been the historical pattern no matter how you define money.

Thank you.

Chairman PROXMIRE. Thank you, Mr. Dewald.

(Prepared statement of Mr. Dewald follows:)

PREPARED STATEMENT OF PROF. WILLIAM G. DEWALD

COULD THE FEDERAL RESERVE CONTROL THE MONEY SUPPLY AND WHAT WOULD HAPPEN IF IT DID?

The Federal Reserve (F.R.) has not tried to control short term variation in monetary growth, but it could if it tried. Limiting variation in monetary growth would probably increase day-to-day and week-to-week variation in market interest rates; decrease variation in interest rates over the business cycle; reduce average unemployment and increase economic efficiency; necessitate changes in the foreign exchange rate of the dollar if U.S. prices and interest rates got out of line; and not be the best possible monetary policy but be better than what we have had.

I. HAS THE FEDERAL RESERVE CONTROLLED MONETARY GROWTH?

If this is interpreted to mean that the F.R. has consciously sought to limit variation in monetary growth, the answer is no. The evidence is that monetary growth has been very erratic. Money narrowly defined increased 7.2 percent during 1967. If that were the desired rate, there would have been a very strong