that one should put money changes. Analysis by Brunner and his collaborator, Allan Meltzer, has shown a much closer correspondence between economic activity and the money supply variously defined that between economic activity and alternative measures of the stance of monetary policy such as interest rates and free reserves.[12]

It is reasonable to conclude that limiting variation in monetary growth rates and letting interest rates vary seasonally would moderately reduce average unemployment. Limiting monetary growth variation cyclically would be expected to reduce the amplitude of the business cycle and increase economic efficiency.

VI. WOULD LIMITING VARIATION IN THE RATE OF MONETARY GROWTH REQUIRE FOREIGN EXCHANGE RATE ADJUSTMENTS?

An implication of a policy to limit variation in monetary growth rates is to commit the U.S. to put domestic policy objectives first. It might be necessary to change the value of the dollar in terms of other monies from time to time. But there is no reason why one should expect balance of payment disequilibrium to be any more of a problem than presently. In fact, if moderated variation in monetary growth had the effect of damping the business cycle, the critical problem of inflation and an associated balance of payments deficit would be reduced. This would make the dollar more attractive as an international reserve currency. If not only the U.S. but other countries initiated policies of moderating variation in monetary growth and other policies that had the effect of stabilizing domestic prices and maintaining production reasonably near capacity, there would be much less reason than now for the price of one currency to change in terms of others.

Over the years, as tastes and productive capabilities changed in different countries, one should expect that it would be necessary to adjust foreign exchange rates. But such fundamental disequilibrium in currency values is best eliminated by foreign exchange rate adjustments and not by inflation in surplus countries or deflation and depression in deficit countries. It is more than a remote possibility that the present fixed exchange rate system would operate a lot more efficiently than now if the U.S. and other countries took steps to limit variability in the growth rates of their domestic money supplies. Nevertheless, it is an implication of domestic stabilization policies that any resulting balance of payment disequilibrium be adjusted by exchange rate changes. If more stable monetary growth rates than we have had should result in greater relative inflation here than overseas, the implication is that foreigners would eventually get more dollars than they would want and the price of the dollar would fall. On the other hand, if limiting variation in monetary growth should result in less inflation here, the implication is that we would accumulate additional foreign currencies or gold—eventually more than we would want—and the price of the dollar would have to rise in terms of other currencies.

VII. WOULD MODERATING VARIATION IN MONETARY GROWTH BE A BETTER POLICY THAN WHAT WE HAVE HAD?

I have argued that moderating variation in monetary growth would be an improvement over past policies. This does not mean that a constant rate of growth in money would be the best policy. But it is a reasonable norm against which to compare counter-cyclical policy actions. The economic record suggests that a constant rate of increase in the money supply would have provided more expansive action before and after cyclical peaks than what we actually got. It would have provided less expansive actions during the Korean War and the present Vietnam War. It is reasonable to conclude that a constant rate of increase in the money supply would have moderated the extremes of postwar booms and recessions.

The reason why the F.R. has so often pursued policies that caused monetary growth rates to accelerate with accelerating economic activity and to decelerate with decelerating economic activity is associated with the idea that the thrust of policy actions is measured by interest rates and money market conditions. An implication is that monetary policy actions have often tagged along behind fiscal policy, rather than exerted an independent role. This is probably even more

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[12] Karl Brunner and Allan H. Meltzer, "The Meaning of Monetary Indicators," in George Horwich (Editor), "Monetary Process and Policy: A Symposium," Homewood, Ill.: Richard D. Irwin, Inc., 1967.