

accommodate the Treasury's borrowing plans. Finally, I believe that Congress should make all insured banks, whether members of the system or not, subject to the same reserve requirements.

A much more important source of disagreement on the advisability of establishing guidelines is the lack of consensus on the way in which monetary policy influences economic activity. Typically monetary, fiscal, debt management, and other policy changes take place simultaneously, along with a multitude of "exogenous" nonpolicy changes—all of which influence the economy with varying lags. At any moment it is impossible to say with certainty just what the contribution of monetary policy has been to the end result. It is possible, therefore, for competent economists to hold rather different views about the relative importance of the money stock (variously defined), bank credit, total unborrowed reserves, the monetary base, etc., as factors influencing the ultimate goals. Even if the general idea of guidelines is accepted, there may be disagreement over the selection of an appropriate target. There may also be disagreement about the ability of the Fed to hit whatever target is selected, although I certainly agree with Professor Dewald that there is not a whole lot of room for disagreement on that point. But one should not exaggerate the extent of our ignorance of monetary economics. In my judgment adoption of target growth rates for any of the variables just listed would probably give better results than we have been getting from monetary policy in recent years.

This leads us to the third source of disagreement—the likely obsolescence of any monetary rule. I have called this a red herring because those advocating guidelines have always recognized the desirability of continuous appraisal of results and the possibility of occasional modifications when the results turn out to be negative. Several years ago I suggested a mechanical device for imparting some flexibility into the monetary growth rule by making the growth rate of money depend on a moving average (say over a 15-year period) of past growth rates in real output and in the velocity of circulation of money. Perhaps a more sensible procedure would simply be an annual review of the guidelines to determine whether they need revision. Of course, the spirit of the whole guideline approach would be violated by sudden revisions of a substantial magnitude but this would in no way preclude a high degree of flexibility in the long run.

I turn now to Representative Reuss' suggestion that the Fed keep monetary growth (money defined narrowly) within guidelines of 3 to 5 percent per year. I think this is a reasonable suggestion and one that would achieve better results over the long haul than those we have attained in the last decade or so.

My only criticism is of the loopholes Representative Reuss has created by design. I have no quarrel with the idea of allowing for changes in the relative importance of time deposits and other liquid assets so long as this is restricted to taking account of what seem to be longrun trends. However, if we are convinced that the demand for money is highly sensitive to variations in yields on these assets, then the solution would be to expand the scope of our monetary target to include them. Similarly, I am skeptical of the value of Representative Reuss' second and third qualifications, which would permit suspension of the guidelines during slack and inflationary periods and during periods when businesses "are making exceptionally heavy demands