on credit" in order to replenish liquidity. What we know about lags in the effect of monetary policy suggests that these deviations from the guideline would be ill advised.

The next three qualifications seem to be especially questionable. The fourth, relating to the accommodation of cost-plus inflation, would guarantee a secular rise in the price level. The basic reason why cost-plus inflation has been such a minor problem in the U.S. economy has been the unwillingness of the Fed to underwrite "excessive" wage increases through monetary expansion. With respect to the accommodation of the Treasury, I see no reason why the Federal debt should be managed in such a way that large indigestible blocks of debt must from time to time be refunded, with the tacit cooperation of the Fed. A more even spacing of maturities over a long time span would obviate any special function for the Fed in aiding debt management. With respect to the balance of payments, I certainly share Mr. Reuss' dislike for subjecting the domestic economy to monetary change because of balance of payments problems. However, I believe he is much too optimistic about what can be accomplished through strategies such as "Operation Twist." Ultimately it will turn out that monetary policy can ignore the balance of payments only if exchange rate variations are used as an equilibrating device. This is an expedient I am quite content to see us follow, especially if "exchange variability" means a regime of floating rates.

Finally, I think it would be most unwise for the Fed to engage in open market operations in obligations of the FNMA and the FHLB's Down this path, it seems to me, there is a real danger lurking—that gradually the Fed will be drawn into all sorts of overt interferences with the free market in order to "improve" the allocation of resources. The Fed already has too many responsibilities—for example, regulation of bank holding companies and administration of "voluntary guidelines" for bank loans to foreigners—to permit devotion of its best efforts toward achievement of our ultimate goal; it should not be encumbered with this additional duty. Moreover, in my judgment the difficulties that beset savings institutions and the housing industry in 1966 were in part unique events that are not apt to be repeated and in part the result of the absence of monetary rules in 1965 and 1966 of the very sort Mr. Reuss is proposing. In my opinion the credit crunch was a result mainly of excessive monetary growth, well above 5 percent per year, during the 18 months or so prior to the summer of 1966.

I should like to close by making a few observations on the Federal Reserve Board staff comments on Representative Reuss' proposed guidelines. At the top of page 2 it is stated that "the Federal Reserve should be chary of rules that seek to specify, once and for all, what growth of money over the long run is appropriate." Of course, but that is hardly the issue. The problem that the guidelines are aimed at is excessive *short-run* variations in money, as in 1965–67. The guidelines could be adjusted gradually to take care of long-run changes in the demand for money.

The illustration of dire consequences that may result from adoption of a monetary rule given on pages 2–3 of the comment also is not very convincing. One can always select time periods that are congenial to a particular point of view; calculation of growth trends in money over