

But it is a mistake to pay heavy attention to attempts to smooth out the interest rate. It is more important to see to it that the money stock grows at a fairly steady rate. I would like to see the Fed have some opportunity to increase the rate above 4 percent when they think it is necessary, and to reduce it below 4 percent when they think it is necessary. But they have gone too far. Usually they have reacted about as soon as you could expect an authority to react, but they have reacted too much, and I would like to see them not worry so much about changes in the interest rate and to worry more about moderating the rate of change of the money stock. I think that the long run effect of this would be that we would have smoother variation in the things that really matter, namely real output, and we would have some periods when we would have to face high or low interest rates, but I don't think that is as important as smoothing the general level of activity.

Chairman PROXMIRE. Mr. Selden?

Mr. SELDEN. I would like to disagree a little bit with one aspect of Mr. Christ's comment just now. To go back to the beginning of 1967 and suppose that we did have a policy of slower monetary growth, say $5\frac{1}{2}$ or 6 percent, I think that the pattern of interest rate changes during 1967 would have been different from what it was. But I think by the time the end of the year had been reached, it is just as plausible to expect that interest rates would have been lower than they, in fact, turned out to be rather than higher.

Chairman PROXMIRE. You think there would have been possibly an expectation element here if the public, if the borrowing public, the banks, the bankers and others who were aware of this recognized the fact there was a limitation on the rate at which the Fed would increase money and that they would try to stabilize it around 4 percent, give or take 1 or 2 percent, that this would have been constructive in maybe stemming the liquidity preference.

Mr. SELDEN. Yes.

Chairman PROXMIRE. Liquidity preference, I take it or at least affecting the liquidity preference one way or the other?

Mr. SELDEN. Well, I simply think it is wrong to argue that we raise interest rates by reducing the stock of money. I think that tight money paradoxically leads to lower interest rates rather than to higher interest rates. There are various ways in which this can be argued.

Chairman PROXMIRE. That certainly contradicts the conventional wisdom, doesn't it?

Mr. SELDEN. It certainly does.

Chairman PROXMIRE. The argument is that money is like other commodities, you increase the supply and the price drops, the price or interest rate drops. You reduce the supply and the supply or interest rate increases. Why isn't there that tendency?

Mr. SELDEN. I think one has to distinguish between a rather short run effect which works over a 3- or 4-month period possibly and the longer run effect. Over a relatively short period I think that the conventional wisdom is correct. In other words, if the policy of slower growth had been instituted in January 1967, the course of rates through maybe April or May of 1967 might have been different—I think there was some easing tendency in interest rates at that time. Under the policy I am proposing there would have been less easing probably.