

STATEMENT OF GEORGE W. MITCHELL, MEMBER, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM; ACCOMPANIED BY DANIEL H. BRILL, DIRECTOR, DIVISION OF RESEARCH AND STATISTICS, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, AND ECONOMIST, FEDERAL OPEN MARKET COMMITTEE

Mr. MITCHELL. I am pleased to have this opportunity to appear before this committee to discuss the principles of conducting monetary policy as part of an overall economic stabilization program. My formal statement is addressed to a question that has been widely discussed in the past several years, and in which this committee already has demonstrated an active interest: what financial variable or variables should be used as intermediate targets of monetary policy? More specifically, in assessing whether monetary policy has been tight or easy, what interpretation should be assigned to the movements in the stock of money, as against movements in other financial variables such as broader measures of liquid assets, credit flows and terms, money market conditions, or the level and structure of interest rates?

On a question as complex and as controversial as this, there are bound to be differences in views among observers—even among those whose vantage points are very similar. Consequently, I could not hope to express adequately the judgments of the Board as a whole, nor shall I try to do so. The opinions to be expressed are my own.

The central question with which I shall be dealing—the intermediate targets of policy—has been debated extensively in the professional journals, although without sufficient agreement having been reached to provide any automatic guide for monetary policy decisions. Some economists affiliate exclusively, or primarily, with changes in the rate of credit expansion, either in terms of total credit expansion or some critical segment thereof, such as bank credit. Others look principally to changes in the economy's liquid assets, either in the aggregate or in some segment of the total, such as the money stock. Others look principally to the terms and conditions on which funds can be borrowed, regarding changes in the level and structure of interest rates as the basis for establishing the course of monetary policy.

To set forth the conclusion of my argument briefly, it seems to me that in our dynamic economy, no single variable—whether it be the money stock, money plus time deposits, bank credit, total credit, free reserves, interest rates, or what have you—always serves adequately as an exclusive guide for monetary policy and its effects on the economy. It follows from this that excessive concentration of our attention on any single variable, or even on any single group of related variables, would likely result in a potentially serious misreading of the course and intensity of monetary policy.

It may be helpful to establish the rationale for this conclusion in rather general terms first, and then appraise, in this context, the conduct of monetary policy in some recent critical periods. Monetary policies pursued by the Federal Reserve do have an important effect on the Nation's money stock. While our knowledge of the effects that reserve injections have on the time dimension of monetary expansion is imprecise, the Federal Reserve generally could make the money stock grow or decline in line with what was thought to be appropriate for economic stabilization purposes. But it is a mistake to assume that