

It seems to me that although the Constitution makes it clear that the Congress has the authority to coin money and regulate the value thereof and has this money power very clearly, that the position of the Board is that the Congress should delegate that authority to the Board and then get lost. In other words, listen to these very fine and very erudite and quite persuasive arguments that you gentlemen make to us, but do not ever suggest any policies that would direct the Board to do anything. Give the Board the discretion and rely on the Board's judgment to do the right thing.

Mr. MITCHELL. Well, I think that the Board's position with respect to various monetary variables is not adequately described by the question you raise.

Chairman PROXMIRE. First I want to ask the overall question. Is there anything at all that the Congress can do in terms of affecting monetary policy that you think would be sensible and wise, or can Congress do nothing?

Mr. MITCHELL. My view would be that Congress would not be doing the right thing if it suggested to the Board a very narrow band of growth in the money supply, just that single target.

Chairman PROXMIRE. I do not agree with your view of course, but I understand your objection to that particular kind of monetary guidance.

My question is, do you think Congress has any—Congress obviously has the authority to do anything it wishes in this regard.

Mr. MITCHELL. Certainly.

Chairman PROXMIRE. But do you think it would be wise for Congress to give any sort of guidance of any kind to the Board that affects the monetary policy?

Mr. MITCHELL. I think if the state of the art or the state of our own knowledge were such that Congress could prescribe a better rule, one that would achieve a better result than what we are able to achieve now, it would be a fine thing to do. But I do not think you can do it. I do not think the state of the knowledge is such that you are able to do it.

Chairman PROXMIRE. Let's get into the specifics.

We argue that the state of the knowledge is such that it is necessary to prescribe this. In other words, the lags are great, as you have specified in your presentation here.

Mr. MITCHELL. That is right.

Chairman PROXMIRE. The lags are great between policies that you decide to follow.

Mr. MITCHELL. That is right.

Chairman PROXMIRE. And the consequences of those policies, income and so forth. And because the lags are great, and because you cannot foresee accurately economic conditions at the time the policies will take their effect, that for this reason it might be wise to follow some kind of a general principle or a rule rather than to go by the seat of your pants.

Mr. MITCHELL. Well, I do not think we go by the seat of our pants. Any policy decision is made with a projection as a background.

The projection can be explicit or implicit. In our case our projections before the Federal Open Market Committee and before the Board are explicit. They may not be perfect, because the state of the forecasting art is not that good. But over a short-time horizon, I think they have been quite good.