

market that would be consistent with the pressures one would expect at such a time upon our trade balance. In effect, pursuit of the proper policy with respect to credit flows would automatically lead to the type of interest rate relationships described here, so that the interest rate relationship would be more a reflection of policy than a target of policy.

Finally, a critical guideline for Federal Reserve policy should be to avoid unduly sharp shifts in one direction or another, shifts that would be reflected in widely fluctuating interest rates. In the face of the huge Government deficits that have had to be financed last year and this year, the Federal Reserve System has had no choice but to permit credit growth at a faster rate than is desirable, with the sheer pressure of the demand for credit creating historically high interest rates.

If one may assume that fiscal policy in the future will be better adapted to economic requirements, however, it should be possible for the Federal Reserve to vary the impact of its policies as economic circumstances warrant by relatively minor degrees that would not occasion wide interest rate movements.

In summary, then, my proposal is that Federal Reserve policy be guided primarily toward regulating credit flow rather than money stock. Working through the financial flows model recently developed by the Federal Reserve System, it should be possible to measure with some degree of exactitude the total of credit flow consistent with optimum utilization of labor and material resources and, therefore, optimum real growth rate. Pursuit of such a policy would, over time, in all likelihood generate a fairly regular rate of growth in the money stock, but this outcome would be a secondary consideration rather than the object of policy.

With the proper fiscal policy, the appropriate monetary policy aimed at growth-supporting credit flows would not require sharp policy swings from one year to the next or sharp movements in interest rates. Such policy would set an orderly framework for sustained economic growth and for steady development of the scope and usefulness of the international money market.

Mr. Chairman, I think an analogy might be helpful here. In regulating the speed of an automobile, we could regulate it by looking at the odometer and the speed with which the odometer changes, but it ordinarily is more useful to regulate it by looking at the speedometer and regulating our gas consumption that way.

Thank you.

Chairman PROXMIRE. Thank you very much.

Mr. Hart?

**STATEMENT OF ORSON H. HART, VICE PRESIDENT AND DIRECTOR
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Mr. HART. Thank you, Mr. Chairman.

I appreciate very much the committee's invitation to me to testify on this important matter. The statements of previous witnesses that I have read have addressed themselves, for the most part, directly to the questions of standards for monetary policy.