

which could hardly be said to deemphasize the importance of changes in the money stock.

The chairman of the economics department at the University of Missouri, when I was an undergraduate there, had been a student and protege of Irving Fisher and coauthored with him his classic work on the purchasing power of money. Later when I moved on to do my graduate work at Yale, Professor Fisher had retired from active teaching, but he continued to participate in the informal seminars and his influence continued to be felt.

I have never regretted my exposure to this analytical framework which, as you probably know, generated the long-accepted equation of exchange: $MV = PT$. Nor in my subsequent education, both formal and informal, have I had any occasion to abandon much of what I learned in that earlier period.

The longrun relationship between money and prices and between stable economic growth and stable monetary growth is overpoweringly convincing. It is so convincing in fact that there is always a strong temptation to assume away the problems which are really at the heart of these hearings.

If we assume that the net impact of all economic forces other than monetary policy would be such as to produce an adequate and stable rate of economic expansion, then it is obvious that an intelligently conceived rule administered in more or less automatic fashion by the monetary authority would be most unlikely to upset the pattern of stable growth. But it is also most unlikely that discretionary authority in the Federal Reserve System would lead to anything other than a stable and adequate rate of monetary expansion in these happy circumstances. It is when the economy is disturbed and distorted by a war, an international payments crisis, a spiraling boom in capital spending, a highly inappropriate fiscal policy, or some similar phenomenon, that neither a rule nor discretionary freedom in the Federal Reserve is likely to produce results that are wholly satisfactory to anyone and when differences of view emerge as to which alternative would minimize the damage—which may be considerable in any case.

The problem that confronts the monetary authorities, and the Congress when it considers the desirability of laying down more rigid guidelines in terms of money or otherwise for the monetary authority is that there is no way you can be certain that, in an overzealous effort to offset other, and perhaps transitory, developments in the economy, flexible monetary management may not contribute itself to instability.

On the other hand, if you deny it full flexibility of movement, you cannot be sure that you will not thereby prevent it from offsetting forces in the economy which would produce serious and long-lived distortions or prevent it from accommodating surges in economic growth that can and should be financed.

It is clear that concern for such contingencies has led Congressman Reuss to propose a more complex guideline. And it is hard not to be sympathetic to his effort. But it is also hard to write that kind of a rulebook. And, as some of the testimony you have already heard indicates, even if you accept the idea of a "rulebook," it is very difficult to get any agreement among so-called experts as to what it should say.