

What I am afraid of is that they will file a report and the committee may have hearings, and that is the end of it. If we set guidelines and it is modified or improved, then we have a target for them to shoot at and we have a basis for focusing our inquiry and we have a basis perhaps for getting greater understanding on the part of members of the committee, the Congress and the public of what the Federal Reserve Board is doing and why.

I think the main trouble here is a lack of communication and understanding. This monetary policy can be very complex and very hard for Members of Congress to understand, and many of us feel that it has been most perverse, many of the ablest people in the academic area feel that is the case.

Mr. GAINES. I agree that it has been perverse on a good many occasions and I would have no strong objection to a money supply target, so long as there was a great deal of flexibility in the interpretation of the ranges of that target, and so long as the Fed had an opportunity to explain why at one time or another it had permitted rates of growth outside those ranges.

Senator PROXMIRE. Let me just interrupt to say supposing we had had a situation where in the second quarter of 1967, after the money supply had been increased at the rate of 10 percent, the Federal Reserve Board had had to come before this committee and explain why, when the President was calling for pretty drastic fiscal action and we were all recognizing inflationary pressures, why, the Federal Reserve Board was indulging in what seemed to be policies that were inflationary. Under those circumstances do you think it would have had a good effect on the Federal Reserve Board as well as a very good effect on the Congress?

Mr. GAINES. I agree with you. You could have asked the question not only in terms of money supply, though, but you could have asked why 90-day Treasury bills were trading at 3.35, what possible justification was there for that given the economic outlook and so on. The difficulty with money supply, I think, is this: Take the entire decade of the 1950s. During that period business corporations were steadily learning how to manage their cash better. If you look at the performance of the New York and the other big city banks, during that decade, and into the 1960's, you will find that there was no growth in demand deposit totals at all. Their business customers were learning to operate on lower balances, year by year.

Senator PROXMIRE. That is fine.

Mr. GAINES. Suppose that you had had a 3 to 5 or 2 to 6 percent or some such target rate of money supply growth. That could very well have been too large.

Senator PROXMIRE. Sure.

Mr. GAINES. Under the circumstances of the 1950's.

Senator PROXMIRE. Then they come up and say why. We ought to change it because there is greater efficiency in the use of money, the velocity is increasing.

Mr. GAINES. That is why I said I would be quite agreeable to the idea of targets so long as there is great deal of flexibility in interpreting what was the appropriate target. But again, in 1967 I interpret the large increase in money supply first to the decided upward shift in the liquidity preference function as a result of the 1966 crunch, and second, to the pressure the banks were putting on their customers to