

appropriate target of monetary policy in inflationary periods is moderate monetary growth. Unlike in the case of interest rates, there is no chance that the Fed will think it is doing something when it is doing nothing if this is its target. This is because the natural tendency in inflationary periods is for accelerated, not moderated monetary growth. (Monetary growth accelerates in such periods because banks use their reserves more intensively when interest rates rise and, as we have observed, interest rates tend to rise in periods of business expansion and inflation.) Because monetary growth will moderate in inflationary periods only if the Fed acts to moderate it, the stock of money is a reliable target of monetary policy. It also is a pliable target because the Fed can closely regulate the supply of money balances. Actions taken to decrease monetary growth will tend to do exactly that in the final analysis as well as in the short run.

Second, officers of the Federal Reserve and especially Chairman Martin should stop blaming loose fiscal practices for the current inflation. There can be no doubt that the money supply changes of 1967 greatly aggravated, if they did not give birth to the current inflation. "People who live in glass houses," warns an old adage, "should not throw bricks."

Last, the Fed should moderate the growth of the conventionally defined money stock, currency plus demand deposits. I do not know precisely what the growth rate now should be. But such foreknowledge is not required, because monetary growth now should be whatever it takes to achieve the sort of price stability we had in 1963 and 1964 when the CPI increased only 1.5 per cent per year and the WPI was almost completely stable. Perhaps the current rate of monetary growth—5.5 per cent—will achieve this stability. If not, it would be judicious and prudent as well to try 5.0 per cent, and if this does not work, 4.5 per cent, etc. The important things are to decelerate the growth of the money stock until the inflation is ended and not to overreact but to decelerate gently so as to avoid recession. I am not however hopeful that this will be done except by some "happy" accident. It would be naive and romantic to think the Fed which has traditionally tried to influence total economic activity via intervention of money market and credit variables will now voluntarily decide to aim its actions at controlling the money stock in a judicious and prudent way. But it should.