

SUPPLEMENTARY VIEWS OF REPRESENTATIVE REUSS

While I join with my colleagues in the Joint Economic Committee report, I take this opportunity to present some additional views of my own:

I. MONETARY POLICY—THE JOINT ECONOMIC COMMITTEE VERSUS THE FEDERAL RESERVE SYSTEM

In recent years, dialog between the Joint Economic Committee, in its annual reports, and the Federal Reserve System, in the minutes of the Open Market Committee, might as well have been conducted in Urdu on the one side and Swahili on the other.

The Joint Economic Committee, in its 1967 Report, urged upon the Fed "the policy of moderate and relatively stable increases in the money supply, avoiding the disrupting effects of wide swings in the rate of increase or decrease * * * generally within a range of 3 to 5 percent per year."

Our "advice" is obviously not being followed. For the period April 1966 to January 1967, the money supply (narrowly defined as demand deposits in banks, and currency outside banks) actually declined, at a rate of 0.2 percent. From January 1967 to January 1968, it increased at a rate of 7.3 percent. To find a period when the money supply increase was within the suggested range, one has to look at the period November 1967 to February 1968, when it increased at the rate of 3.5 percent.

Obviously, the Fed had more on its mind than the money supply narrowly defined. Perhaps the Fed has some cause for complaint. It was not told, for example, why time deposits in banks, or deposits in savings and loan associations, mutual savings banks, and credit unions, were not included in its purview. It was not told what, if any, attention was to be paid to levels of interest rates, production, employment, prices, and bank reserves; to the timing of Treasury borrowings; to the balance of payments; to the housing industry.

Equally, the Joint Economic Committee has trouble making head or tail out of what the Fed is doing from the published minutes of the Open Market Committee. For example, from January 1967 to August 1967, the Fed increased the money supply at a rate of 9 percent. Yet at its meeting of July 18, 1967—at a time when the administration was stepping up its warning of inflationary pressures—the Fed declined to tighten up on its expansionary creation of money supply. The minutes of the July 18, 1967, Open Market Committee meeting give the following rationale for this action:

In the course of the Committee's discussion, considerable concern was expressed about the recent, high rates of growth of bank credit and the money supply, particularly in view of the prospects for more rapid economic expansion later in the year. It was generally agreed, however, that the Treasury's