proposal raises a number of fundamental issues regarding the part the Federal Reserve System plays in economic stabilization, you may also be interested in the other materials I am enclosing, which include remarks by Governor Maisel on the relation between money and income, an article on the same subject by a member of the staff of the Federal Reserve Bank of New York, and a copy of a letter to Representative Clawson concerning Federal Reserve purchases of Federal Home Loan Bank obligations.

I have a great deal of sympathy for the feelings that must have prompted your remarks about Urdu and Swahili. Part of the trouble lies in the lack of exact knowledge on anyone's part about how monetary policy affects the economy. And all of us are plagued by the fact that the same words—even though spoken in English by Americans reasonably practiced in the art of communication—all too often mean different things to different people. But we must keep at our efforts to communicate, and I hope the enclosed materials will make some contribution to mutual understanding.

Sincerely yours,

WM. McC. MARTIN, Jr., *Chairman.*

[MEMORANDUM]

To: Board of Governors.
From: Division of Research and Statistics, Division of International Finance.
Subject: Comments on Mr. Reuss' guidelines for monetary policy.

In the Report of the Joint Economic Committee on the January 1968 *Economic Report of the President,* Representative Reuss sets forth as a basis for discussion some guidelines for Federal Reserve monetary policy. These guidelines specify that the Federal Reserve should expand the money supply by 3 to 5 per cent annually, with certain qualifications. This memorandum discusses the character of the guidelines proposed by Mr. Reuss and their implications for monetary policy.

The assumption implicit in Mr Reuss' proposal appears to be that a growth rate of 3 to 5 per cent in the money stock constitutes a long-run "norm". The proposal does recognize that short-run deviations from this norm would, from time to time, be appropriate, but these deviations would have to be justified by reference to specific factors listed. In commenting on this proposal, it may be useful to begin by considering the appropriateness of a 3 to 5 per cent growth rate in money over the longer run, and then to turn to the specific considerations that would justify short-run deviations in the growth of money balances.

The issue of how much growth in money the economy needs over the long run to promote orderly economic growth is one of the central problems faced by monetary policy. Experience indicates that the Federal Reserve should be chary of rules that seek to specify, once and for all, what growth of money over the long-run is appropriate. In an economy as dynamic as ours, factors affecting the amount of money the public may wish to hold change over time.

The experience of the period since World War II is illustrative. Throughout this period, the public has been adding to its money holdings at a slower pace than the growth of GNP, and at a sub-