We turn now from these more detailed issues relating to establishment of target rates of monetary expansion to discuss Mr. Reuss' suggestion as to how balance of payments considerations should affect monetary policy. He proposes that balance of payments problems should be taken into account in the formulation of monetary policy only to the extent of altering the maturity distribution of the System's portfolio.

This proposal might be appropriate in a period in which domestic prices were stable or declining and considerable slack existed in the use of our labor and capital resources. Under those circumstances, domestic economic developments could not be held accountable for a less than optimum international current account surplus. Consequently an effort to encourage more favorable international capital flows by altering the differential between long and short-term interest rates would be about all monetary policy could properly undertake in the interests of international payments equilibrium. This was, in effect, a basic ingredient of the policy pursued in the early years of the 1960's, before domestic economic overheating and inflation became the serious problems they are today.

But it would be inappropriate to try to establish a separation of domestic and international stabilization policies applicable at all times and under all circumstances. When both domestic and balance of payments considerations point in the same policy direction, this reinforcement quite properly influences the intensity with which current policies are pursued. Currently, for example, we are in the process of seeking solutions for the most serious balance of payments and international financial problems this country has encountered in several decades. Our domestic economic and financial policies cannot ignore the existence of these problems. The Federal Reserve has supported the selective measures taken to restrict outflows of capital. But it cannot enjoy the luxury of supposing that the problems of external equilibrium that still remain are someone else's responsibility. The stakes at issue are simply too serious.

Balance of payments equilibrium deserves a place among the goals of central bank policy—not merely for its own sake, but for what it contributes to economic and social welfare both here and abroad. The lessons of the past weeks and months indicate clearly that failure to restore equilibrium in our payments accounts could lead to very serious disturbances in the international monetary system, and therefore in the world economy.

Finally, we turn to Mr. Reuss' suggestion for taking into account the effects of monetary policy on homebuilding by Federal Reserve open-market operations in the obligations of FNMA and the Federal Home Loan Banks "in meaningful amounts," and by lengthening the maturity of the System's portfolio of Treasury securities. The results which would ensue from Federal Reserve open-market operations in FNMA and FHLB issues would depend importantly on the scale of transactions contemplated. For purposes of the discussion here, we interpret his suggestion to imply System purchases in amounts sufficient to effect a perceptible reduction in borrowing costs to these agencies, relative to other market interest rates, but with these institutions still relying predominantly on the money and capital markets as the principal source for their funds.