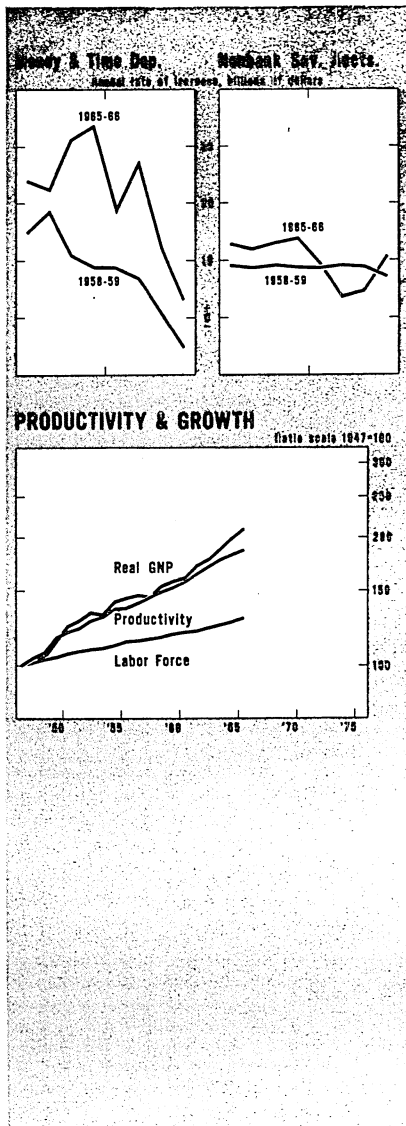




decline in residential construction. Not all sectors were affected equally by monetary policy during the year. These structural effects raise important questions of equity and social priority, and it is necessary to take them into account in deciding when, how much, and what kind of policy actions are appropriate.

With monetary restraint extended to a wider range of financial assets and institutions, and with an uneven impact of restraint on spending, an assessment of monetary policy from the changes in any single variable goes further astray. Sophisticated monetary analysis does not—and need not—rest its case on the behavior of free reserves, or the money stock, or bank credit, or interest rates, or any other single factor. Recognition of the need to comprehend the interdependency among financial variables, and between financial and nonfinancial variables, underlies much of contemporary monetary research, and the Board's staff is devoting a large share of its resources to that quest. It is clear that determination and interpretation of policy require a weighing of the movements in all these variables together and jointly assessing their meaning for the ultimate targets of monetary and fiscal policy—that is, employment, production, and prices.

For in the long run, the test of the success or failure of stabilization policies depends not on the growth of the money stock, nor on the level of interest rates, nor the size of the Federal deficit, but on the extent to which monetary and fiscal policies together fulfill the potential for real economic growth that our resources make possible.