The committee recognizes that in tempering the pressures of rising interest rates, the Federal Reserve System is unable to avoid alternative risks associated with the higher growth rate of money supply, although it must take account of other forces in the economy so as to minimize these risks as much as possible. For this reason, the committee is prepared to regard some short-term increases in the growth rate of the money stock as reasonable, so long as they do not stimulate an immediate inflationary rise in bank credit.

The least satisfactory aspect of the problem was that neither the monetary authority itself nor the private witnesses were able to outline in any but the most general terms the manner in which the credit flow generated a flow of real output over time. Apparently the guidance offered by econometric models has not yet reached the stage of refinement that would yield a sufficiently accurate estimate. This is also the conclusion of the staff study of the Federal Reserve-MIT model, reported in the January 1968 Federal Reserve Bulletin.

Imperfections of knowledge not withstanding, the monetary policymakers have not given the committee or the public an adequate assurance that their time horizon is distant enough when they evaluate their alternatives. There was no hint that decisions were evaluated in the light of any agreed or stable priorities of aims. There was no description of the resolution of conflicts between competing aims, which must assuredly generate a high proportion of internal debate within the Open Market Committee. Above all, there was no allaying of the widespread doubt that the deliberations of the Open Market Committee were overly influenced by the most recent developments and the atmosphere generated by them, a process which, if it occurs frequently, could cause damaging variability of intentions and actions by the Federal Reserve Board. The suspicions have been increased rather than allayed by the ambiguous, nonquantitative, imprecise language of the directives to the Manager of the Open Market Committee which are now published with a 3-month delay in the Federal Reserve Bulletin.

The committee is aware of the high quality of the analysis performed within the offices of the Board of Governors, and of the advances in monetary analysis to which the Board has made a notable contribution. It would be gratifying to have some assurance that these new methods are being subjected to operational testing. In this way, the Federal Reserve System might best answer their critics whose testimony the Joint Economic Committee has heard with some sympathy, for it is certain that the current debate is not, to any extent, on the nature of the ends to be pursued, but almost entirely, on the methods and decisionmaking in their pursuit.

It behooves the Federal Reserve System, in brief, to show that it is taking adequate account of the income-generating potential over a long period that results from its making credit available, and is recognizing that an overfast increase has an inflationary potential.