During the year, administration economists were warning that impending inflationary pressures and overheating in the economy would require a tax increase. Nevertheless, monetary authorities pursued the most expansive policy since World War II without any word of caution from administration economists. It would certainly see that in the face of repeated warnings of an overheating in the economy monetary authorities would have followed a more cautious policy. The fact is, they did not.

While there are many considerations that go into the making of monetary policy, there is one I believe which deserves special attention. This is the extent to which the Federal Reserve seeks to create favorable market conditions for Treasury borrowing.

In the minutes of the Federal Open Market Committee meeting of July 18, 1967, we find the following:

> 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 forthcoming financing militated against seeking a change in money market conditions at present. Moreover, even apart from the Treasury financing, most members felt that it would be premature to seek firmer money market conditions at a time when resumption of expansion in overall economic activity was in a fairly early stage; and some also referred in this connection to the growing expectations that the administration would press for measures of fiscal restraint. In addition, some members expressed concern about the possibility that any significant further increases in market interest rates might reduce the flows of funds into mortgages and slow the recovery under way in residential construction activity.

Here we see—at a time when administration economists were warning of impending inflationary pressures and at a time when inflationary expectations were strengthening—a move toward a less expansive policy was inhibited by the need to support growing Federal deficit financing. It comes up repeatedly in the 1967 minutes of the Open Market Committee. A possible shift in policy was also postponed by hopes for a tax increase that never came and by fear of rising long-term interest rates, which continued to rise despite the maintenance of a liberal credit policy.

I would like to emphasize that it is not unusual for the monetary authorities to maintain "an even keel" in the money markets during Treasury financing operations. However, in 1967, the original budget deficit figures proved unusually inaccurate and the ballooning requirements of the U.S. Treasury had the effect of promoting a more expansive monetary policy than might otherwise have been the case.

I might add that this committee in its Joint Economic Report last year urged the monetary authorities to adopt "the policy of moderate and relatively steady increases in the money supply, avoiding the disruptive effects of wide swings in the rate of increase or decrease." The general range suggested by the committee was 3 to 5 percent with the minority recommending 2 to 4 percent for 1967. It was further pointed out that: "Sudden changes in the money supply give rise to instabilities in the economy."

From January through August of last year, monetary authorities permitted money supply to grow at a 9-percent annual rate; if time deposits are included the annual rate of growth was 13.4 percent. That came on the heels of a decline of 1 percent and a rise of only 3.2 percent,