

because an aggregate or blunderbuss monetary policy represses what ought to be accelerated, and has little or no impact upon what ought to be restrained, and feeds the fat while starving the lean. The 1969 CEA Report appears impervious to this problem, although it does make some very slight obeisance to the damage earlier done to housing by the prevalent monetary policy.

My view is that one of our largest problems is to integrate the policies of the Federal Reserve System with the policies of the Federal Government, and indeed to make monetary policy the servant of the objectives of the Employment Act of 1946, and of the governmental policies designed to achieve these objectives. The CEA has never come to grips with this problem, and its friendly commentaries about the prevalent monetary policy in its 1969 report ignores this problem.

*Tight money and rising interest rates work against economic equilibrium*

Let me now become more specific about the very foundation of the prevalent monetary policy during the past 15 years or longer—the entirely erroneous proposition that tight money and rising interest rates serve admirably to help contain inflation. This erroneous idea is essentially allied with the erroneous idea (discussed above) that policies inimical to optimum economic growth and conducive to excessive unemployment help to contain inflation. Consequently, the analysis which I present immediately below is essentially similar in method to that which I used in discussing the inflationary problem generally.

During the period 1955–68 viewed as a whole, the average annual growth in the nonfederally held money supply was only 2.5 percent, and the average annual real growth rate in total national production was at the deficient rate of 3.8 percent. I believe that there was a strong relationship between the deficient growth in the money supply and the inadequate economic performance, but I will not elaborate upon this particular point, especially because I believe that too much weight has been attached to monetary policy in the aggregate in this particular connection. Theoretically, and perhaps practically also, a more or less rapid growth in the money supply might affect the level of prices considerably, but should not affect the real trends in production and employment if economic equilibrium were maintained in the fundamental allocation of resource and in income distribution, which can be achieved either at a more or less rapid growth in the nonfederally held money supply.

Nonetheless, what I have just said does not apply to extreme cases. It seems perfectly clear that the extremely low growth rate in the money supply during 1955–57, and again during 1958–60, was intimately associated with the recession of 1957–58 and the minirecession in late 1960 and early 1961. It also seems abundantly clear that the extraordinarily low growth rate in the money supply during 1955–66 was an important factor in initiating the extremely low real economic growth rate during 1956–67 and the unsatisfactory average annual rate during 1966–68. The relatively more rapid rate of growth in the money supply during 1957–58 and during 1960–61, and again during 1962–65, appears to have been conducive to more favorable trends in the real rate of economic growth. The rapid expansion of the money supply during 1966–68 seems clearly to have helped prevent the very serious deterioration rate of economic growth during 1966–67 from being con-