

tinued over a longer period of time. On net balance, in a long term perspective, it seems quite clear that the monetary policy has been much too tight, and that a relatively liberal monetary policy is highly conducive to satisfactory economic growth.

More seriously, the monetary policy has worked powerfully against economic equilibrium, because it has helped to reallocate resources in directions bearing no relationship to economic equilibrium, and in many cases quite destructive of it. The tightening of the money supply has had practically no effect upon the relatively excessive investment booms in plant and equipment, because those indulging in these booms are not greatly affected either by general shortages of credit or by rising interest costs; they finance mainly out of retained earnings and out of the price structure. On the other hand, a better rate of economic credit nor by rising interest costs; they finance mainly out of retained earnings and out of the price structure. On the other hand, a better rate of economic expansion in other important sectors, or, more generally, a relatively larger ultimate demand composed of both private consumption and public demand, would have been much more conducive to economic equilibrium at steady and optimum growth, and these developments have been very harshly impeded by both tight money and rising interest rates.

Tight money and rising interest rates are in themselves inflationary

Most important of all, in the context of the argument that tight money and rising interest rates restrain inflation, let us look at the empirical evidence. The extraordinarily contraction in the growth rate of the money supply during 1955-57, while it impacted severely upon the real rate of economic growth, was accompanied by a 3.5 percent average annual rise in consumer prices from 1956 to 1957. The greatly expanded growth rate in the money supply during 1957-58 was accompanied by a reduction in the rate of consumer price inflation to 2.8 percent. During 1958-61, there was throughout an inverse or negative correlation between the trends in the money supply and the rate of consumer price inflation. During 1962-65, a sustained and relatively rapid expansion of the money supply was accompanied by remarkable price stability. During 1955-66, a very sharp contraction in the rate of growth of the money supply was accompanied by a very rapid acceleration of the rate of price inflation. During 1966-67, the money supply expanded about three times as fast as during 1966-67, but the rate of consumer price inflation was slightly lower. During 1967-68, the rate of expansion of the money supply was the same as during 1966-67, but the rate of consumer price inflation was tremendously higher.¹⁹

Viewing these relative trends in an adequate time perspective, it appears to be clear that excessive restraints upon the growth of the money supply worked toward more price inflation in the long-run for practically the same reasons that excessive restraints upon real economic growth and employment expansion worked in the long run toward more net price inflation.

Beyond all this, the almost unbelievably erratic changes in the rate of growth of the money supply over the years represents an attempt at "fine tuning" which is utterly impractical, and really indicative of

¹⁹ See chart 18, following text.