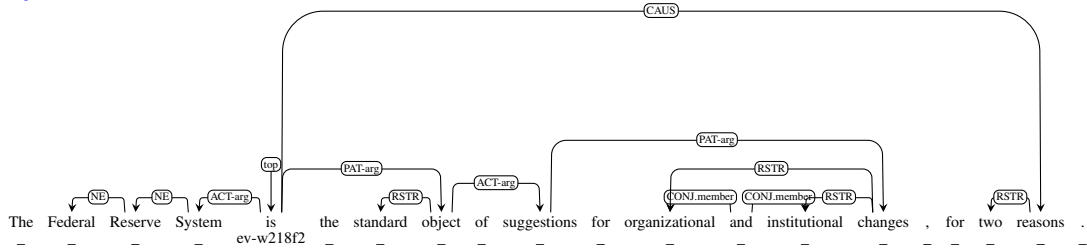
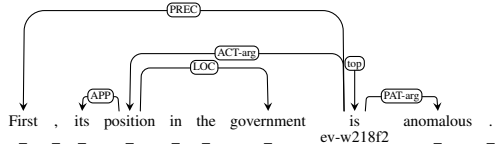


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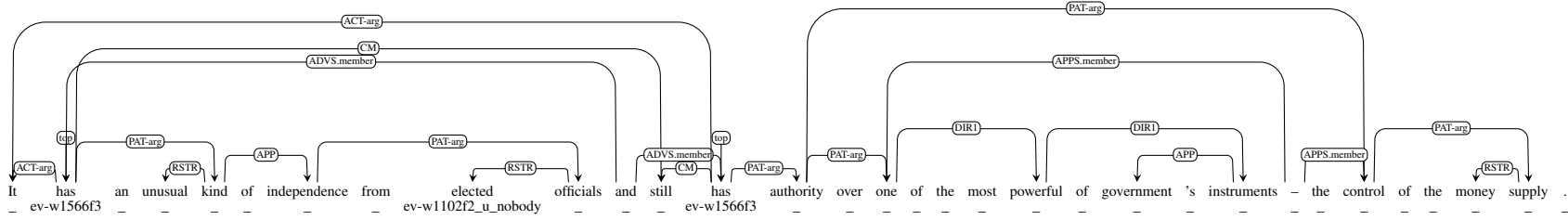
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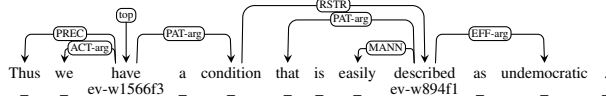
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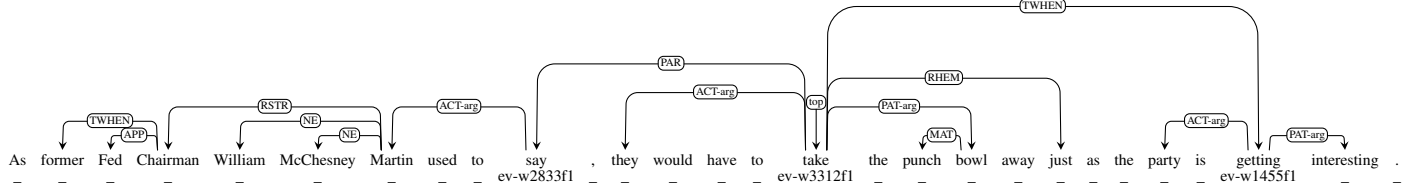
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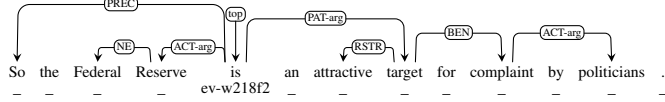
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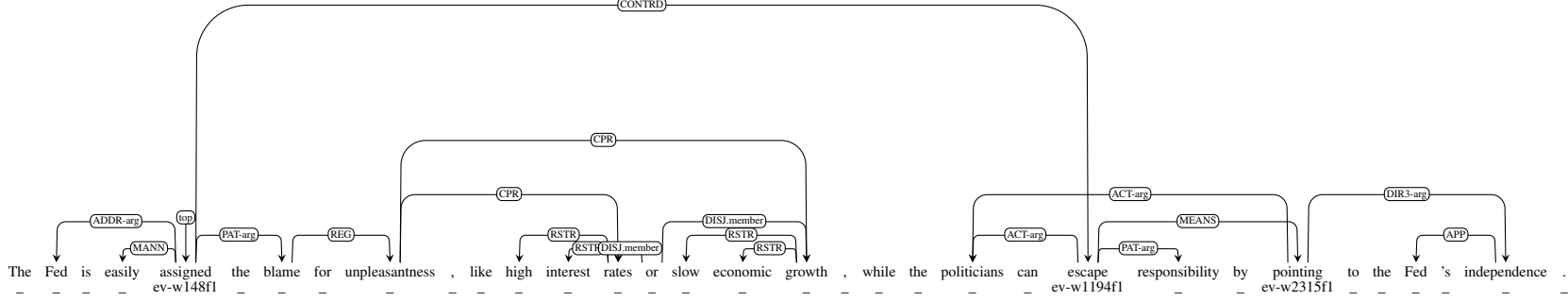
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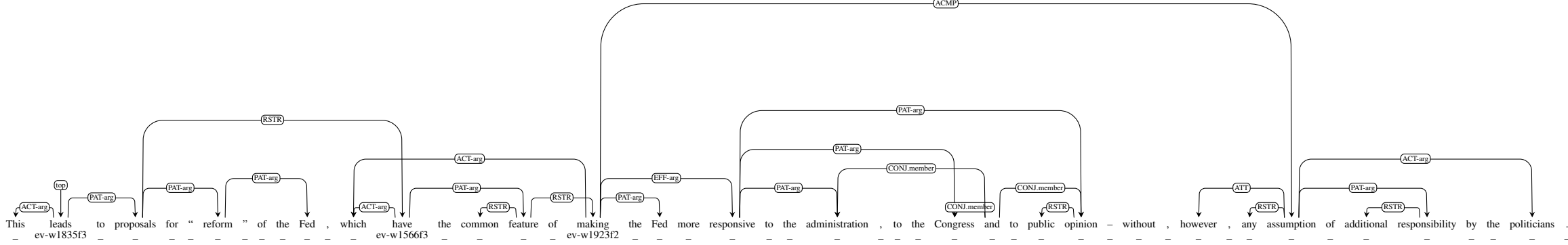
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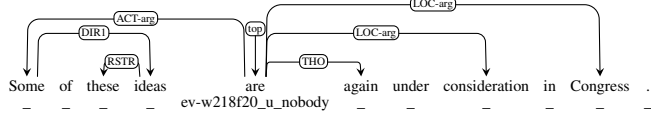
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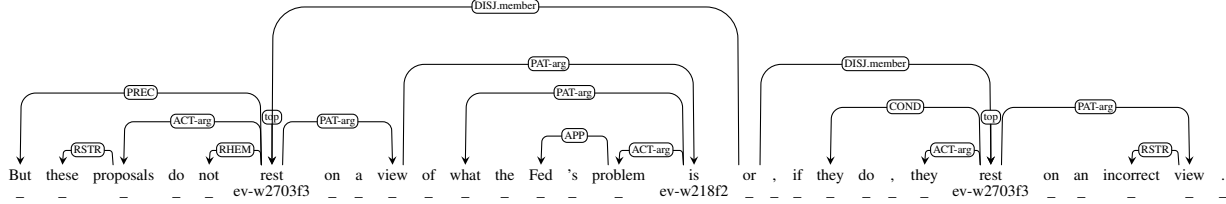
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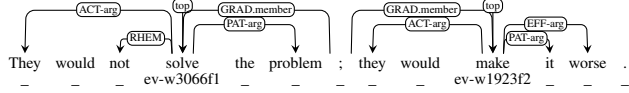
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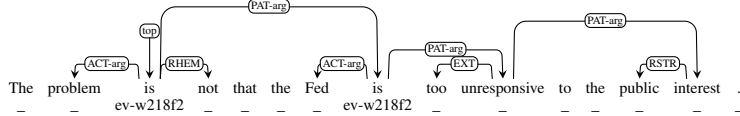
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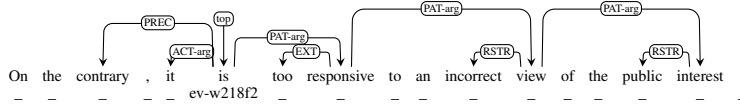
[21795013]



[21795014]



[21795015]



[21795016]

The price level in the U.S. is now about 4 1/4 times as high as it was 30 years ago .

[21795017]

On average , something that cost \$ 100 30 years ago now costs \$ 425 .

[21795018]

Or , a wage that was \$ 100 30 years ago would buy only \$ 23.53 worth of stuff today .

[21795019]

On two occasions the inflation rate rose to more than 10 % a year .

[21795020]

In each case the ending of this unsustainable inflation caused a severe recession - the two worst of the postwar period .

[21795021]

The enormous inflation over the past 30 years was largely due to monetary policy .

[21795022]

At least , it would not have happened without the support of monetary policy that provided for a 10-fold increase in the money supply during the same period .

[21795023]

And that increase in the money supply would not have happened without the consent of the Federal Reserve .

[21795024]

The basic problem of monetary policy , to which reform of the Fed should be addressed , is to prevent a recurrence of this experience .

[21795025]

There were two general reasons for the mistaken monetary policy of the past 30 years :

[21795028]

Despite all the formal provisions for its independence , the Fed seems constantly to feel that if it uses its independence too freely it will lose it .

[21795029]

The common proposals for reforming the Fed would only make the situation worse , if they had any effect at all .

[21795030]

Putting the Secretary of the Treasury on the Board of Governors , one of the leading proposals today , is an example .

[21795031]

The secretary is the world's biggest borrower of money .

He has a built-in, constant longing for lower interest rates .

These days, the secretary suffers the further disqualification that he is a member of a club of seven finance ministers who meet occasionally to decide what exchange rates should be, which is a diversion from the real business of the Federal Reserve to stabilize the price level .

How should a reasonable member of the Federal Reserve Board interpret a congressional decision to put the secretary on the board ?

Could he plausibly interpret it as encouragement for the Fed to give primary emphasis to stabilizing the price level ?

Or would he interpret it as instruction to give more weight to these other objectives that the secretary represents - low interest rates, short-run economic expansion, and stabilization of exchange rates at internationally managed levels ?

The answer seems perfectly clear .

(True, a succession of Fed chairmen has given color to the notion that the Secretary of the Treasury belongs on the Fed .

The Fed's case for its own independence would be a little stronger if it were more solicitous of the independence of the rest of the government .)

The Fed's problem is not that it is too independent, or too unpolitical .

The Fed exercises a power given to it by Congress and the president .

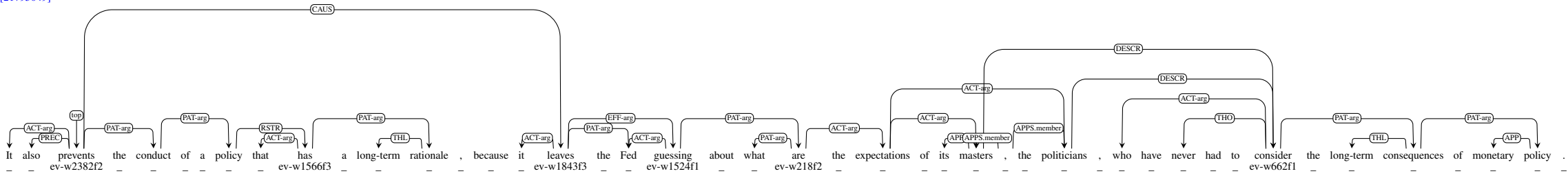
But Congress and the president accept no responsibility for the exercise of the power they have given the Fed .

Critics of the present arrangement are correct to say that it is undemocratic .

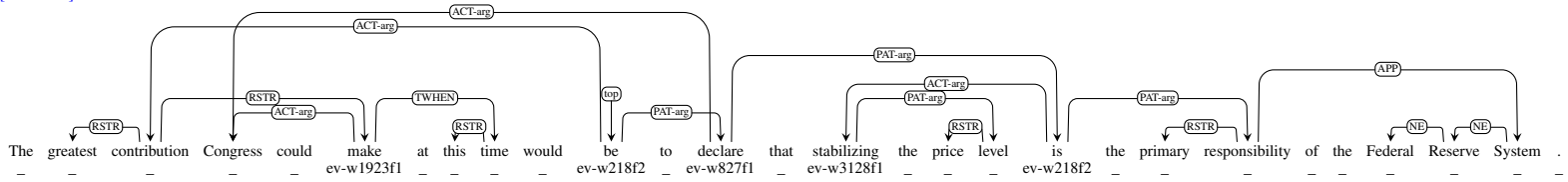
What is undemocratic is the unwillingness of the more political parts of the government to take the responsibility for deciding the basic question of monetary policy, which is what priority should be given to stabilizing the price level .

To leave this decision to an " independent " agency is not only undemocratic .

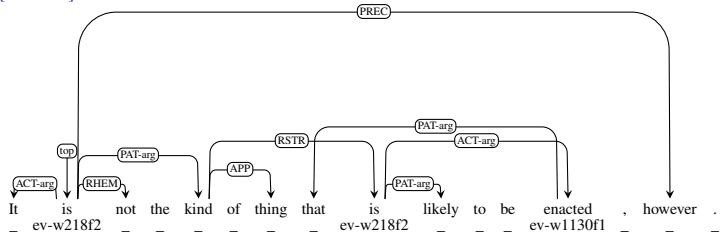
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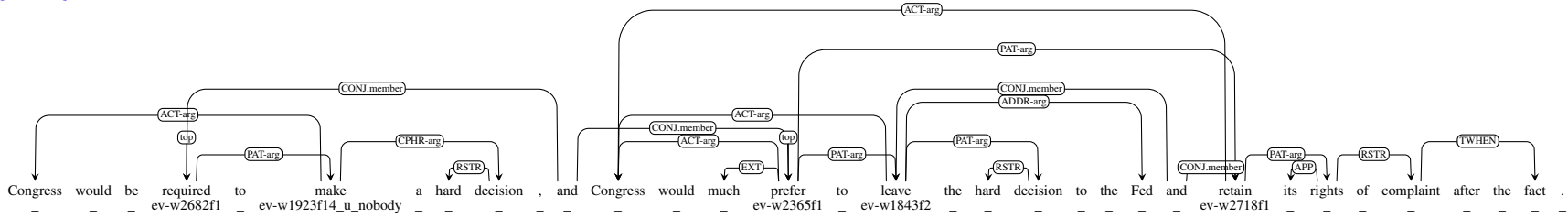
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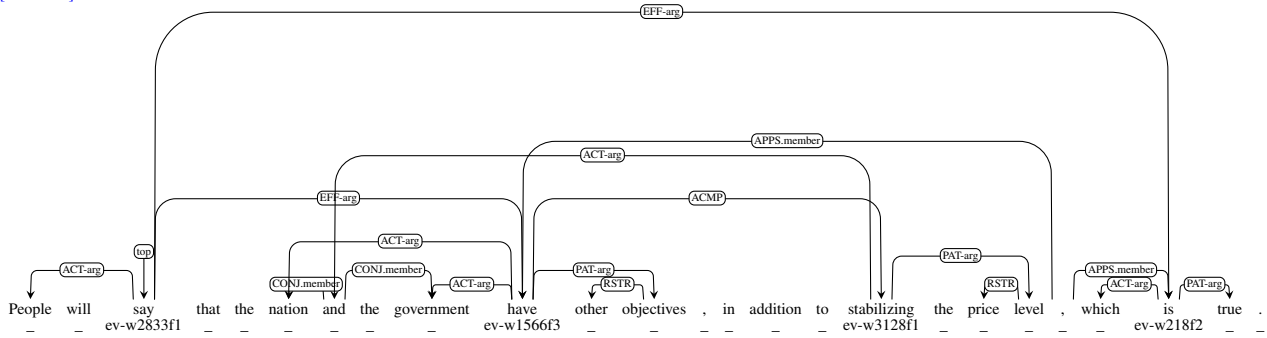
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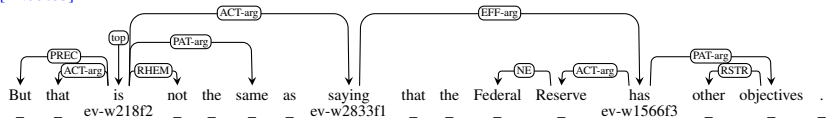
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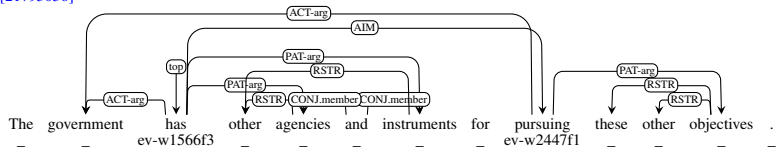
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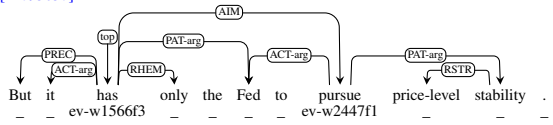
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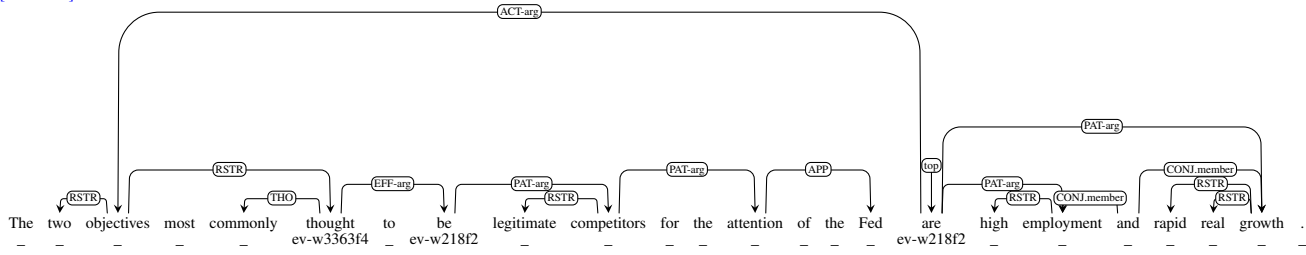
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[21795061]

