Chairman Burns
B K12
Friedman (4)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

GEORGE W. MITCHELL
MEMBER OF THE BOARD

July 6, 1970

Burns tries to correct what he
sees as Friedman's misperceptions
about how monetary policy is implemented.

Professor Milton Friedman,
CAPITAF,
Ely, Vermont. 05044

Dear Milton:

There should be some way of avoiding the violently different interpretations of money supply data among those who understand their conceptual limitations. We are working on the latter problem, and I am hopeful we can remove the major defects on that score that are leading to different views as to contemporary trends.

One of your problems seems to be that you assume the Fed operates through the administration of a uniform daily monetary dosage. The manager does not operate in that fashion and is not instructed to so. The Committee asks him to achieve over a period of time--say a month to a quarter--an approximate rate of monetary growth. That growth may be in relatively large or small increments according to the Committee's instruction and the manager's operating judgment.

Why is M control difficult

Your preference for judgmental (i.e., non-aberrant) base periods from which to measure changes in monetary growth would have merit, if the aberrations in the data were promptly and easily recognizable, if they were infrequent, and if the Committee always moved during such base periods to make market changes in its policy posture. But, as you well know, none of the conditions are met with any consistency. In particular, most policy changes are gradual--their timing is diffused over several meetings through shadings of emphasis and shifts in the position of the Committee members.

For that reason I think it is better to use calendar periods for measuring monetary change--they cannot be juggled to suit any particular thesis and they are consistently appropriate to the actual pace of most policy changes.

Beyond this point we have little except details to disagree about--the Board and the Committee currently use the daily average for the last month of the quarter instead of the quarterly average to represent quarter-to-quarter changes. I have no particular brief for that system; over time, however, it will make very little difference, and its ability to mislead us in any interim is constrained by the attention we give to the averages for the component months of the quarter as well.

As to the numbers between last December and now, I don't think I or the System have misled you but that you are the victim of your beliefs as to the Committee's intent or competence. In December the Committee was shifting away from the excessive restraint to which I (and Sherm as well) had dissented in the Fall. It was perfectly obvious that a small monetary growth would displace no growth.

The first quarter growth in 1970 had freaks of timing but it had no freak of intent. The second quarter growth rate, judged by our reckoning now (4.2 per cent) and subject to some revision because of unexpected liquidity strains stemming from the Penn Central commercial paper problem, is if anything too low and not too high as your figures indicate.

We are trying to do better on the numbers and we need your help and understanding. I assume we will get more of it when we get your confidence.

Cordially,

George W. Mitchell

Our numbers

1970

Jan.	9.0	)	
Feb.	-10.7	)	3.8 Q1
Mar.	13.2	)	
Apr.	10.7	)	4.2 Q2 est.
May	3.5		

1969

July	+1.8	)	
Aug.	-1.8	)	0.0 Q3
Sept.	0.0	)	
Oct.	+ .6	)	
Nov.	+1.2	)	1.2 Q4
Dec.	+1.8	)	