

UNITED STATES GOVERNMENT

# Memorandum

Not particularly enlightening,  
but amusing.

TO : Herb Stein

DATE: 3 January 1972

FROM : Bill Gibson

SUBJECT: Andrew Brimmer's Paper, "Evolution and Impact of Monetarism in the Federal Reserve System"

→ this paper is available @ the FR Archives if you are interested

Andy Brimmer is a friend of mine, but this paper is not a candidate for the Monetary Economics Hall of Fame.

It consists of two parts. The first is a boring recounting and interpretation of past published material, often with some reference to the topic. The second is a 3-page set of "Concluding Observations" in which he essentially says "While I have you here, let me tell you what I think of monetarism." This was the section reprinted in yesterday's Washington Post, but it bears only the slenderist relation to what went before. The paper chronicles how monetarism has been continually rejected by the Fed, and the concluding material states that Brimmer rejects it as well. He restates traditional Fed lines that the monetarists are unconvincing and that financial matters are very complex and require close monitoring and reactions by policy makers. At a minimum, one would have expected him to explain precisely why he is unconvinced by the evidence produced by the monetarists and to advance some evidence of his own.

I believe that the first part is a correct recounting of the events, and with the staff at his disposal there is no reason to suspect otherwise. The emphasis on the question of quantification in the FOMC is, however, highly misleading. I have read the FOMC minutes from 1923 to 1961, and while the published directives may not have contained any numbers, the FOMC certainly had numbers in mind, and the Manager certainly knew what these were. The 1950s were perhaps the most "quantified" period ever. The FOMC would tell the Manager to produce free reserves of, say, \$250 million, allowing him to deviate to between \$200 and \$300 million if markets were disorderly. He attended the meetings and heard these, even if they were not in the published directive (which is nearly devoid of content).



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Two paragraphs of the paper merit recounting. The first, from page 17, describes the Fed's policy process:

"In other words, through reserve absorption or supplying operations in the market, the Manager of the SOMA attempts to bring about or maintain a desirable set of money market conditions (e. g. , raising or lowering the 3-month Treasury bill yield or rates on Federal funds) with the expectation that the intermediate monetary variables (e. g. , bank credit or money supply) will contract or expand at a rate consistent with the requirements of economic stabilization. For each FOMC meeting, the staff prepares an analysis of the relationships likely to prevail among money market conditions, interest rates, and the monetary aggregates over a coming period, indicating the growth rates in various aggregates expected to be associated with each of several described kinds of money market conditions."

The second, from page 65, gives the flavor of Brimmer's objective analysis of the development of monetarism at the Fed.

"But taking the Federal Reserve Banks as they are today, I would conclude that all of them (with the exception of St. Louis) remain highly eclectic and pragmatic in their conception of the tasks of monetary management. They appreciate fully the difficult problems of using monetary policy as an instrument of economic stabilization, and show no signs of being led astray by simple prescriptions as to how they should perform these jobs."