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DON'T BE TOO HARD ON THE C.M.C.

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THE Report of the Commission on Money and Credit has come in for a certain amount of criticism, not least at the hands of Martin Bronfenbrenner. In my judgment, much of this is undeserved, and some of it reflects a misunderstanding of the terms of reference of the Report. No doubt it is disappointing that the Commission spent more than a million dollars without discovering a simple receipe against cost-push inflation. No doubt one might wish not to have read 282 pages without coming across at least a few ideas not already discussed in most competent textbooks. But the C.M.C. Report is not the product of a research group. It was intended to be, and it is, the collective opinion of a group of leading citizens, in an area in which all possessed practical experience, but few had theoretical preparation. Theirs was the kind of function exercised habitually by policy-making officials in large organizations. In short, their job was to supply judgment, not originality, and that they did.

It is indeed disappointing that the Commission made so little use of the vast amount of research provided for them. But, after sampling some of the research papers, at least one reason becomes apparent. Much of this material was too far removed from responsible policy thinking to be readily absorbed. It would have had to go through a long process of digestion by the staff, or by the Commission itself in extra sessions It might have been better if the Commission had put in more time and the consultants less. That would have meant an arrangement more nearly like the Radcliffe Committee — a small group, very frequent meetings, a report written by the members instead of by the staff. Perhaps the experience may serve as a guide to future efforts of this kind, if any.

Despite the unfavorable comparison with the Radcliffe Committee in the matter of working methods, comparison in terms of impact so far need not be at all adverse. The Commission's recommendations have received a remarkable degree of support on the part of the Administration. The principal fiscal policy recommendation, related to tax flexibility, has been taken over into the President's program with some modifications. The Commission's proposals for reform of the public and private financial system received 3 full pages out of 24 in the President's Economic Report. Whoever believes that such an impact is easy to achieve is unacquainted with the pressures, on the part of government agencies and others, to get ideas and proposals into the President's Report.

It seems hopeless to try to comment on even the small number of the research papers I have been able to see so far. Instead, I would like to address myself to a few points in the Report itself which I think deserve particular criticism or praise. In doing so I am aware that on matters that have been widely discussed one can do little more than register one's vote on one side or the other.

Failure to come to grips with wage policy in one sense or another strikes me as a significant lacuna in the Report. This becomes particularly obvious in the context of the policy debate that has been going on in the early months of 1962, high points of which have been the guidelines of the Council of Economic Advisers and in the events in the steel industry. The Commission's expression of opinion that measures to improve labor mobility will suffice is bland, to say the least. Here is a case where hope and compromise seem to have got the better of realism.

In the area of the balance of payments, the Commission deserves to be defended against the charge that it expects the deficit to be cured simply by the application of orthodox fiscal and monetary measures. The Commission proposes a considerable range of actions that would help redress the deficit although it is not clear that they would eliminate it. The Commission is at fault, it would seem to me, in not making balance of payments equilibrium a goal of policy coordinate with the three other major goals set forth in the Report — growth, low unemployment, and reasonable price stability. In contrast to some other speakers, I believe a statement of goals to have importance. While it adds little analytically, it has considerable "political" significance and helps clarify the direction of the discussion. In the case of the balance of payments, it seems clear that the Commission's thinking was overtaken by events as the balance of payments difficulty developed. But it is to the Commission's credit that it did not reach for any of the patent solutions now available in the market, even though its discussion and recommendations sound a little diffuse in consequence.

As a third major weakness I would rate the inconclusive treatment of organization for policy making. In the area of the Federal Reserve, the Commission's recommendation to remove the Reserve Bank presidents from the Open Market Committee is likely to leave deep wounds if implemented, without really changing anything very much. The Commission has come up with no evidence on the functioning of the Open Market Committee to document the need for major changes. The proposal that enables the President to appoint his own Federal Reserve chairman, which leaves me personally somewhat uneasy, has meanwhile been placed before the Congress by the President. Here at any rate is another instance of a politically successful recommendation.

Proposals for the coordination of policy suffer, not from misguided incisiveness as in the case of the Open Market Committee proposal, but from lack of any real muscle. Presidential committees come and go and are shuffled about by successive Presidents to suit their working habits. Little is gained by proposing slightly different combinations of bodies unless the hard bone structure determined by statute is modified. I happen to believe that no statutory modification, which would presumably involve power for the President to coordinate Treasury and Federal Reserve policy, is needed. But I regret the Commission's tendency to suggest nonstatutory rearrangements when in fact it seems to have felt, as I do, that statutory changes are not warranted.

It would not be fair to dwell at length on the defects of the Report without providing a brief list of what, to one reviewer at least, appear to be the main strong points. The Commission deserves high credit for having backed the proposal for administrative tax flexibility in the face of obvious Congressional distaste for it. The Commission has vigorously supported discretionary monetary policy and has rebuffed critics on both flanks, although one might have wished for somewhat more factual underpinning. It has largely endorsed the government lending programs and in some instances has proposed means of strengthening them. Finally, the Commission has boldly recommended the removal of arbitrary limitations of various sorts, some of them long raised to the status of sacred cows, including the Federal Reserve 25 per cent reserve requirement, the federal debt ceiling, the interest rate ceiling administered under regulation Q (which it wants put on a stand-by basis) and the 4¼ per cent interest ceiling on Treasury bonds. Some of these cuts might hurt a little, but they certainly would make the economy function more like a market.

My principal admiration goes to the Commission's recommendations on private financial institutions. Agreement on proposals for broader branch banking and increased competition on more even terms among different financial institutions, with greater functional and geographic mobility for financial resources, cannot have come easily to this group. Their importance has been underscored by the attention they have received in the President's Economic Report.