Federal Reserve Bank of Minneapolis Quarterly Review

Summer 1977

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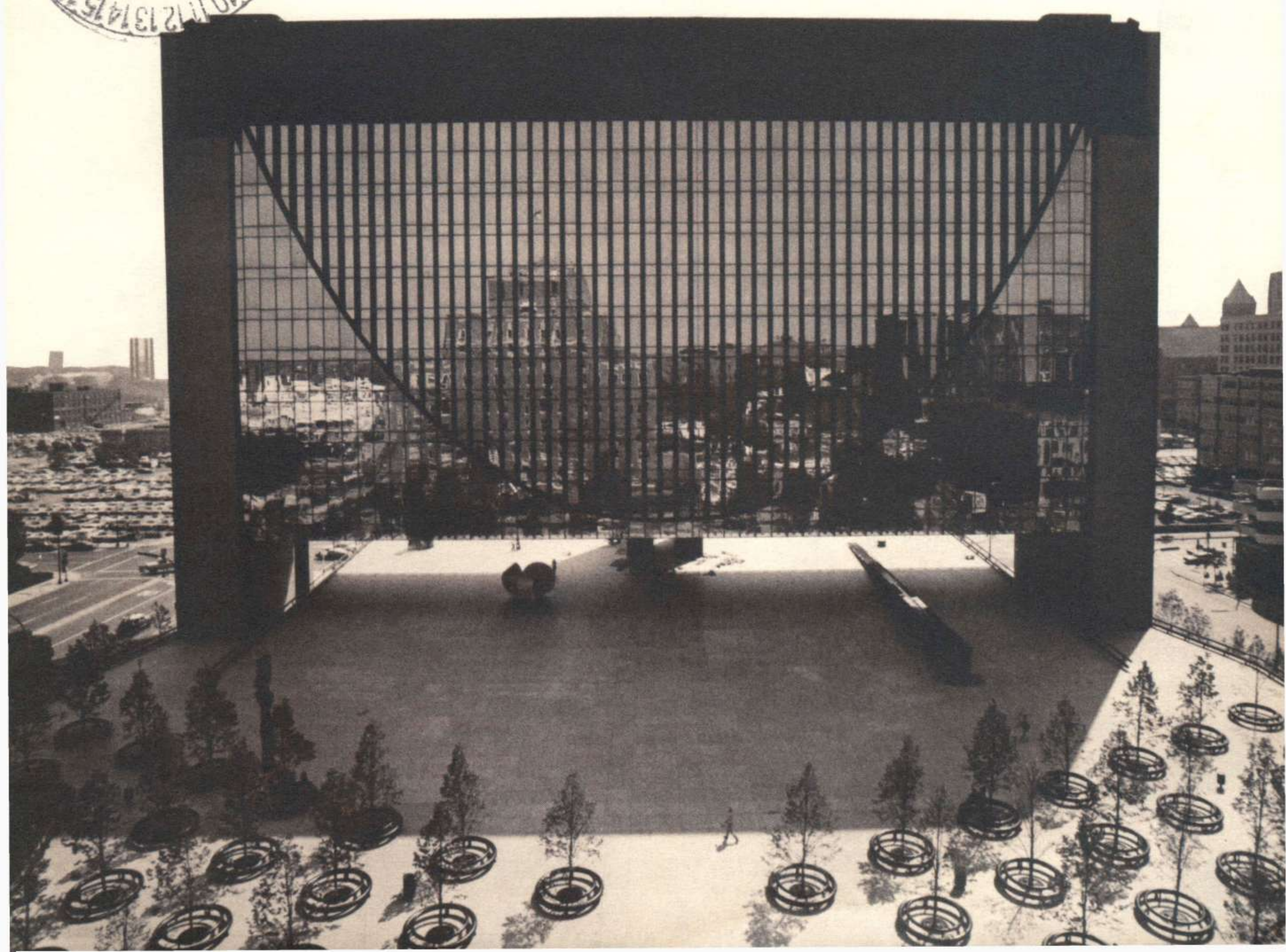

Notice

The *Federal Reserve Bank of Minneapolis Quarterly Review* replaces the *Ninth District Quarterly* (its last issue was in Spring 1977). As this first issue illustrates, the new publication will primarily present economic research aimed at improving policy making by the Federal Reserve System and other governmental authorities.

All *Ninth District Quarterly* readers will automatically receive the *Quarterly Review.* Address questions or comments to:

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Questioning Federal Reserve Policies

What is government's proper role in a free market economy? In particular, what should be the role of the monetary authority? Economists have been debating these questions for at least 200 years without coming to any generally accepted answers. Lately, though, political, financial, and technological developments have focused attention on three specific policy questions.

Should the Fed control M_1, M_2, . . . ?
As public scrutiny of all governmental bodies has increased, the Federal Reserve System has begun telling Congress its targeted growth rates for various measures of the money supply. The first article in this series, "Why the Fed Should Consider Holding M_0 Constant," (p.2) argues that since economists have not agreed on a theory that explains the use of money, these announced monetary policy targets have no adequate theoretical support. It then presents a theory of money that should be accepted—a theory, as the title suggests, with policy implications quite different from current practice.

How much should the Fed regulate banks?
In the last few years, banks have expanded into "riskier" activities despite extensive regulation by the Federal Reserve and other governmental agencies. The second article, "Bank Regulation: Strengthening Friedman's Case for Reform," (p.11) reexamines Milton Friedman's 1959 proposal to free banks from all regulation except 100 percent reserves on demand deposits. It points out that banks' increased aggressiveness since 1959 actually buttresses this proposal.

Should the Fed charge for its services?
As the Fed considers its role in electronic funds transfer—specifically, in automated clearinghouses—it must decide who should be able to use this new service, whether they should have to pay for it, and if so, how much. The last article, "The Right Way to Price Federal Reserve Services," (p.15) argues that economic efficiency should be the Fed's objective in providing any service and that the right access and pricing policies are whatever is required to meet that objective.