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The Fed does not control the U.S. money supply

Bruce Bartlett's Nov. 18 commentary, "Foreign holdings skew money supply," correctly observes that foreigners' willingness to hold U.S. currency saves over \$10 billion annually in financing the federal debt. However, Mr. Bartlett errs in stating that the Fed controls the U.S. money supply.

The Fed makes no attempt to control our money supply because that attempt would negate its efforts to influence interest rates. Most central planners understand that it is impossible to control both the quan-

tity and the price of anything, including credit. Consequently, the Fed passively supplies currency to both Americans and foreigners; accordingly they hold as much currency as they want, not a dollar more, or less. Likewise, as the Fed readily admits, it supplies whatever reserves the banking system needs. Therefore, reserve requirements do not control the quantity of bank deposits or loans.

The financial markets are sufficiently competitive that there is no need for the Fed, one of America's

last bastions of central planning, to send interest rate signals to the markets. The markets are perfectly capable of setting interest rates that will produce non-inflationary growth. The quantity of money, which is merely that portion of the credit supply that also serves as media of exchange, should therefore cause no more public policy concern than the number of cereal boxes on supermarket shelves.

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