

# Commentary: The Role of Judgment and Discretion in the Conduct of Monetary Policy

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When the organizers of this conference invited me to discuss Benjamin Friedman's paper, they anticipated that we would not agree about the costs and benefits of adherence to precommitted policy programs, or rules. I will not disappoint them. But I would like to begin by commending Ben for defining discretion, outlining some of the procedures for implementing a discretionary policy, and arguing for its virtues. In a time when efficient markets, rational expectations, neutral money, and time consistency have changed academic discussion, it has become hard to find an academic economist who defends discretionary monetary policy.

Earlier generations of economists rarely defined or defended discretion. They were content to criticize rules that fixed the rate of money growth **once-and-for-all**. Using real or hypothetical examples, they showed that there were costs of neglecting new information, as required by Milton Friedman's rule for constant money growth. Generally, these discussions avoided the difficult issue about whether discretionary judgments would, on average, do better—whether the gains from discretionary action were less than the costs of errors.

Ben's main arguments are:

- (1) monetary aggregates are no longer related to output and prices;























