STATEMENT OF BERYL W. SPRINKEL, VICE PRESIDENT AND ECONOMIST, HARRIS TRUST & SAVINGS BANK, CHICAGO

Mr. SPRINKEL. Yes, sir. Mr. Chairman and members of the committee, I am honored and pleased to have the opportunity to present my views on monetary policy to this committee.

I. INTRODUCTION

There is general agreement among students of money that monetary change is capable of affecting total spending upon goods and services. But the intensity of the effect, the timing of the effect, and the channel through which monetary change works remain in dispute. Since wages and prices are not, and never have been, perfectly flexible, changes in total spending in turn affect production and employment, in addition to prices.

Students of money frequently disagree on the appropriateness of a particular policy. Disagreement stems either from: (1) Disagreement as to the effects of monetary change, or (2) disagreement as to the social desirability of a particular result. A careful, dispassionate study of positive monetary economics should be capable of eliminating many disagreements of the first order, but different value judgments will make inevitable disagreement as to the desirability of a particular economic result.

Far too much time and talent has been devoted to argument over theoretical niceties of various monetary approaches and too little time and effort devoted to testing alternative theories against accumulated historical evidence. Unless it can be established, beyond reasonable doubt, that monetary change does affect economic activities in a predictable fashion, it is meaningless to talk about a monetary policy designed to facilitate achievement of widely accepted social objectives such as high employment of resources and price stability, since we cannot know what monetary action should be taken under particular circumstances.

I plan to present what I believe to be some empirically supported results of the effects of monetary change upon other economic variables, discuss some of the implications, and comment on some current monetary policy debates.

II. EMPIRICAL STUDIES OF THE EFFECTS OF MONETARY CHANGE

In the writer's opinion, the most careful and exhaustive recent study of the effects of monetary change has been conducted by Prof. Milton Friedman and associates of the University of Chicago. A study entitled "The Relative Stability of Monetary Velocity and the Investment Multiplier in the United States, 1897–1958" by Professor Friedman and Prof. David Meiselman, will shortly be published by the Commission on Money and Credit.

That study contains the strongest available evidence of the close and consistent relation between the stock of money and income and between changes in the stock of money and income. The study supports the view that the quantity of money matters because: (1) Changes in the quantity of money do result in substantial changes in income, prices, and employment, (2) the relationships between the quantity of money and other assets and income are relatively stable