

That crystal ball of economic forecasting is mighty cloudy on the basis of the experience I have had since I have been on this committee and previously. It seems to me that our economists cannot see very clearly in the future and can't really foretell.

This way you avoid any concern about trying to predict the future and adjust your money supply accordingly.

Mr. CULBERTSON. Professor Friedman's doctrine of the long and variable lag in effect of monetary policy is far from universally accepted. I think it is wrong. Many people are undecided. This has not been demonstrated. So that particular argument is not necessarily applicable to policy judgments. The other relevant argument is that money managers are not likely to do anything intelligent so you had better give them a formula. On this point, I still—despite the gloomy record of experience—manage to be optimistic. Thus, I should like to retain some flexibility in the control of the Nation's money supply.

Senator PROXMIRE. How much time did you spend on the Federal Reserve Board?

Mr. CULBERTSON. I was on the staff for 7 years.

Senator PROXMIRE. You are eminently qualified on this subject.

Mr. CULBERTSON. Thank you.

Mr. RITTER. May I join Professor Culbertson in my dissent from the Friedman rule as an appropriate monetary policy. I think what Professor Friedman has to say is very relevant and important. He is one of the few institutions that does serious research in monetary matters. I think we can call him in a sense an institution.

But I don't think it follows from all we have said that the rule would be an improvement.

In other words, we recollect that when we took an elementary economics course they talked about both the money supply and the velocity of money, as both being important. I think that velocity may change rather drastically, and then the Friedman rule loses much of its attractiveness. We do not know enough about the future behavior of velocity to simply institute such a rule and then forget about monetary management from then on. Remember that this rule is supposed to be for all time.

Senator PROXMIRE. I certainly would get off the bus at that point. I do not think it ought to be for all time. I think it ought to be under constant review. At the same time it is hard for me to see how the Fed could have done much worse at least many times in the past than they have done.

Mr. RITTER. Yes; that is true. But Professor Friedman doesn't have too many objections to Federal Reserve policy since 1951. At least not nearly as many as before 1951.

Senator PROXMIRE. There is an apparent built-in automatic conflict today between interest rates for domestic and for balance-of-payments purposes.

I do not mean the situation we find ourselves in now. But what we are likely to find in the future indefinitely. Germany is a good example of the contrary situation. They have every reason to have high interest rates for domestic purposes because they have a shortage of labor, terrific pressure on resources, real inflation, but for foreign reasons they want to discourage the inflow of capital, they have too much. For that reason they should lower their interest rates.