So I think there might be a case for saying such a situation should not be allowed to develop. But even here, I favor a general recommendation that this should not be allowed to happen, accompanied by an obligation for the Federal Reserve to provide an explicit explanation of why it happened, should it happen.

In other words, we might simply say there is a prima facie case that this should not happen but allow for the possibility that this might be desirable, except that an explanation should be provided.

Of course, there is much to be said for an economic environment in which it would be proper for the money supply to change at a constant rate, possibly a very stable rate. But, as Professor Chandler has pointed out, this is a matter of the economic environment in which we live. In particular, much could be done to bring about such a world by a more rational fiscal policy, by a fiscal policy in which expenditures and revenues are tied together in the appropriate way, with a view about their effect on aggregate demand.

Let me finally say that when I suggest that we should therefore allow ample freedom to the Federal Reserve in choosing its policy, I am certainly not asserting that the Central Bank will be able, continuously, to choose the optimal policy, the optimal money supply, or the optimal interest rates. Mistakes have been made, and mistakes will continue to be made. All I am saying is that the mistakes which are being made, particularly in the recent experience, are smaller than those that would result from any other mechanical rule.

I also believe that we should stop taking refuge in the propositions which Professor Friedman and others frequently make, that we cannot use monetary discretionary policy because the problem of using it is too hard, because there are lags and variable lags. I think we must try to understand the nature of these lags. We should devote our effort to improving our understanding of how the monetary and fiscal policy works, what are the lags involved, and if they are variable, why they are variable. The fact that lags are different at different times does not mean they are unpredictable.

For example, the lags between change in monetary conditions and expenditure for equipment tends to vary with rate of utilization of capacity in the equipment industry. If it is heavily utilized, there may be a longer lag. If the capacity is not utilized, the lags will be shorter. But this is within the realm of the things we can study, analyze, and predict.

Now, I would like to stress the fact that the central bank is very much aware of the necessity of this study. I think anybody who has followed the kind of research that is being done at the Federal Reserve cannot fail to be impressed with the tremendous improvement we have had in recent years in the quality of the research and the way this research is being applied to decisions. As a matter of fact, I feel that the very recent record of the Federal Reserve is, on the whole, a very creditable one. I believe that the way in which the Federal Reserve handled the situation in 1966 and 1967 has been quite good. One might feel that through a part of 1967, the money supply was rising too fast, that perhaps conditions were too loose. But I think one has to take into account the fact that the central bank was entitled to suppose that the Congress would pass legislation to increase taxes and, given the long lags there are in monetary policy, it was appropriate under those conditions to see to it that