interest rates should not rise any further if, in fact, the current pressure of demand would be relieved by an appropriate increase in taxes.

I should finally like to stress that the Federal Reserve is deeply concerned with continuously improving understanding of the connections and lags between the tools at its command and economic activity. As evidence of this concern I should like to mention that the Federal Reserve is currently participating in a sizable research focusing on these issues and which involves jointly its research department and a group of universities including MIT, the Wharton School of the University of Pennsylvania and the University of Chicago, and with some cooperation of Harvard, Princeton, and Yale. We are trying to work to the best of our ability to try to put numbers into this process.

I feel that the Congress should encourage the Federal Reserve in pursuing this line. The payoffs may not be immediate, but I think we are gradually learning. We are at least learning to ask the right questions. And I believe that the process can also be helped by the production of better data which, in some cases, are very much needed.

Thank you.

Chairman PROXMIRE. Thank you, Professor Modigliani.

Professor Wallich, you are next. You have a detailed statement, which is a fine statement. If you could abbreviate it, it would be appreciated. But go right ahead.

STATEMENT OF HENRY C. WALLICH, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. WALLICH. Thank you, Mr. Chairman. Let me first express my gratitude for the opportunity to appear here today.

I have a very long paper, which enables me to be brief.

I agree very largely with what the two previous speakers have said. That really implies that Professor Friedman, whose rule has been referred to here repeatedly, is under-represented today. I think that will be remedied tomorrow, but perhaps it would be only fair to say at the outset that there are some things that I think would be worse than the rule that he proposes. The rule that he proposes I have great doubts about. But if some other rule were proposed, such as to peg the interest rate at a fixed level or to peg the rate of unemployment at a fixed level, and if these levels to which we tie the rate of money creation should not be levels that permit the economy to remain in equilibrium, we would have progressively accelerating imbalance. The economy would go up in rapidly advancing inflation or, less likely, sink into rapidly rising deflation.

What would happen under Professor Friedman's rule and, to some extent—a lesser extent—under Representative Reuss' rule, is that we might go off the rail of stability to a certain extent. But we would not land very far from stability. We might have a moderate rate of inflation. We might have wider cyclical fluctuations. But worse things could happen to the economy than what would happen under the application of those rules.

I would like to simply go down the list that I have in my paper of problems raised by a fixed money supply rule. I realize this neglects