inflation and during one point, the Federal Reserve pumped money into the economy at an annual rate of 10 or 11 percent.

In hindsight, it seems we would have been far better off to have followed the prescription the Joint Economic Committee, as a committee, recommended, that we fall within the band of 3 to 5 percent or so, or 2 to 4, depending on whether you are a Republican or Democrat, and try to have a fairly stable kind of monetary policy. This would not have put the handcuffs on in the sense that they could not vary; there is a considerable difference between 2 percent on the one hand, and 4 percent on the other, between 3 percent and 5 percent.

But it does suggest that we might have followed a more moderate monetary policy which, in hindsight, might have been better. What is your answer to that?

Mr. CHANDLER. I would like to speak about the—I do not remember the 1962 episode as well as I should, but I would like to speak about 1965 and 1967.

With the benefit of hindsight, the restrictive policy by the Federal Reserve was several months too late. That discount rate increase and some tightening up on unborrowed reserves should have been initiated some weeks earlier and should have been progressing more rapidly toward restriction. However, I think one needs to remember that until the latter part of 1965, there was an unemployment rate of around 5 percent, and there was a great deal of adverse reaction to the initiation of the tightened money policy when it was initiated.

My guess is that this was a mistake. They did not tighten it quickly enough. But my guess is that a major reason for that was that no one knew at the time how rapidly the defense expenditures were going to rise.

It is my impression that not only the Federal Reserve, but even this committee was not fully informed as to how quickly and how rapidly Government expenditures would rise, and that that made a great deal of difference.

With respect to 1967——

Chairman PROXMIRE. You see, what I am getting at is that this is part of the whole problem. We were able to predict that. We may be able to predict these things a little more in the future, but if the administration had been completely frank and given us the defense indicators, we would have been better informed. I am not sure we would have been well-enough informed to have made a different kind of policy judgment. But as Professor Wallich so well indicates, the problem is one of considerable lags. You initiate a money policy in which you think you are going to try to follow policies to increase money supply because you think the economy needs the stimulation this would warrant. This does not have an effect for several months. The paper of Dr. Wallich indicates from 3 to 22 months, but he says you can turn the economy around if you take drastic action in 6 months.

The Bureau of Economic Research has made what I think is a competent and objective study, that indicates forecasts for more than 6 months to the economy are poor, no matter who makes them. This seems to me the heart of it. If you gentlemen can convince us that you can forecast pretty accurately what is going to happen for a year or a year and a half or two years in advance, then I think there is no question that we should just leave it to the discretion of the Federal Reserve