

Board completely and let them do what they wish to with the money supply. But if this cannot be forecast accurately, it would seem to me to make sense to have a policy which would provide for a fairly regular and moderate expansion of money supply.

Mr. CHANDLER. It should be noted that the problem of lags also exists in the case of a steadily increasing money supply. For example, suppose that a boom ends, investment demand falls off. If one does not use fiscal policy at that point for a stimulus, note the length of time before there is any significant stimulus from the monetary section. You have to wait for the very slow rate of increase of the money supply, plus a fall in the level of the income, to buying a decrease of interest rates and greater availability of money. And the lag also applies in this case, except that it starts at a later time than it presumably would under a discretionary policy.

Chairman PROXMIRE. This is on the assumption that we say you should have a fixed 3 or 4 percent of the increased money supply. I would not argue, certainly, with widening the band. But I think the thrust of our position has been that there should be an increase. It is hard to argue that in the kind of economy that we expect in the future you should at any time have a decrease, but that you can have a rather large increase in the money supply, or a rather mild one.

After all, a 6 percent increase in the money supply over a year's period has not happened very often in our history. It happened last year at the time it should not have happened, in the view of many people. But it is not very often that you can go back and find a money increase of this size.

Professor WALLICH?

Mr. WALLICH. I think it is fair to say that what today loom as the obvious mistakes of the Federal Reserve are not as obvious as they seem. In other words, the type of mistake that the Fed makes is not the sort of mistake that I would be making if I came to this hearing on the wrong day, an obvious error. It is more nearly like an investment adviser guessing wrong on the way the market moves or failing to pick Xerox or IBM. It is a high-grade mistake that is almost certain to happen to some extent. Perfection such as we demand in the light of hindsight is simply impossible. The question is how badly will the results of a fiscal rule depart from perfection? In my judgment, more.

In terms of the particular example you cited, Mr. Chairman, 1962 called for expansive policy. The reason it was not done was the balance of payments. We would have had to be prepared to pay our large amounts of gold or go off gold had we been trying to expand monetarily very sharply. We have certain principles about the mix of fiscal and monetary policy. When there is unemployment and a payments deficit simultaneously, the proper mix—I know this committee has heard this many times—is tight money and easy budgets. It was as much a failure of fiscal policy as of monetary policy to do the right thing at that time, although I think basically, our fiscal policies were not bad at that time, either.

In 1965, it is evident the Fed acted too late, with the long lag to which monetary policy is subject. But recall, this does not excuse discretion, but it excuses the Fed—their first step in raising the discount