good piece of statesmanship. I think they handled it quite well. We had the beginning of a contraction. I am sure that with the GNP falling in real terms in the first quarter of 1967, and long-term interest rates rising, very few people would really have advocated then that the increase in the money supply be kept to some 2- or 3-percent rate or even 4.

Senator PROXMIRE. In hindsight, you say it would have been wise, but that is another story.

My time is up. I yield to Senator Miller.

Senator MILLER. Thank you, Mr. Chairman.

Professor Wallich, in your statement evaluating the rule proposed by Dr. Friedman, you say that the rule rests upon a statistical and theoretical finding, that the rate of growth of money supply and the level of economic activity are closely related. What do we mean by level of economic activity? Are we talking about gross national product, for example? Are we talking about other factors in the economy? Could you elaborate on that?

Mr. WALLICH. Yes, Senator. I personally would take gross national product as the best indicator. I would want to shade that judgment possibly by looking at the production index. We have had periods where GNP rose and the production index remained constant. That has to do with the growth of services while there was stagnation in manufacturing. That means unemployment in manufacturing and that is a consideration of great seriousness.

Now, the standard way, as I am sure you know, of defining when activity in general is rising or falling is to take the National Bureau of Economic Research's turning points. This great body of experts, long after the event, tells us that indeed there was a turning point in August 1957, and I think there was a turning point in February 1961. These things can only be defined after all the series are in. So it is completely right that contemporaneously, we do not see what happens. We see only with a lag whether we are turning the corner on the upside or the downside.

Senator MILLER. But you can get about a 3-month indicator on the increase or the decrease in GNP?

Mr. WALLICH. Yes. In fact, you can do even better than that. The GNP being published quarterly, we usually have some data from the first 2 months and the major series that go into the GNP, like retail sales, are early available on a flash basis. The Federal Reserve production index is available monthly. Some series—steel, autos—are available every week or every 10 days so that we have a pretty good fix on which way things are going in a broad sense.

Senator MILLER. When we talk about GNP, I assume for this purpose that you are referring to real dollar GNP and not inflated dollar GNP?

Mr. WALLICH. That is an important question, because in an inflationary period such as we have had, dollar GNP may be rising and real GNP may be falling. By one test we may have had a minirecession in 1967; by another test, we may not. This distinction exists and it is easy and dangerous to fudge it.

Senator MILLER. You would be more inclined to look at the real dollar GNP rather than the inflated dollar GNP, would you not?

Mr. WALLICH. Yes, sir; and I also would look at the rate of unemployment and plant excess capacity. For instance, if for some reason,