

price stability. That was one of the periods of greatest stability in our recent history. During that period, if you will look at the figures, you will find that the debt grew at about that pace, if not faster.

Senator MILLER. You do not think that may have laid a foundation for the hardship we are in now?

Mr. MODIGLIANI. No; I believe the inflation that followed after came when we were approaching full employment and we kept pressing the throttle when we were already at the speed limit.

Senator MILLER. Thank you again for your very fine testimony. I am sure we all derived benefit from it.

Chairman PROXMIRE. I just have one more question of Professor Chandler. One of the members of the staff asked me to ask this.

If the major drops in velocity are avoided or mitigated at least by a gradual expansion of the money, is this not a desirable goal? Because arithmetically that would tend to minimize the recession and tend to minimize inflation. Certainly that is a proper and appropriate, desirable economic objective.

This comes back to the argument you were making, Mr. Chandler, that the drop in velocity to which you referred in your postcyclical discussion seems to be generally preceded by increases of money of less than 3 percent.

We seem to be getting at a notion that there is a connection and a favorable connection between velocity and a gradual change in the money supply rather than abrupt changes in the money supply.

If we could favorably affect velocity in this particular way, it seems to me that this might be a desirable argument for the Friedman thesis.

Mr. CHANDLER. There is no question that the behavior of the money supply has some effect upon velocity. I would say that, for example, an increase in the money supply that shows up in a fall of interest rates will probably mean somewhat lower velocity than you would have had otherwise. But my point would be, and here is where I would depart very markedly from Mr. Friedman, that there are a lot of other things that would affect velocity as well, emanating not from the behavior of the money supply.

Chairman PROXMIRE. Yes, he could agree to that. I do not know whether he would, but I would agree that there are many other things that affect it. But if you have a factor, to wit, the change in the supply of money that would seem to affect it favorably, why should we not encourage that kind of policy?

Mr. CHANDLER. The important thing here is not the level of velocity but the variability of it. The point I was trying to make was that it is the variability that is important and also that if you move from a boom period to a depression period you will probably have unfavorable expectational effects if you do not increase the money supply.

I do not really see much point in lowering the average velocity of money.

Chairman PROXMIRE. Frankly, what I get back to is that the Friedman thesis, to the extent that we have modified it, depends on the assumption that the economic future, more than 6 months or so, is very, very hard, impossible to forecast, no matter how competent the people are that you have forecasting for you.

You subscribe to that, that you cannot tell, that you do not know, that you have no knowledge of what economic conditions will be a