

year from now. Then I think you can make an argument for the policy this committee subscribes to.

On the other hand, if you contend that you can make a pretty good, pretty wise, prediction as to what the economic situation is going to be when your policy takes effect, then I think you can argue that you should rearrange, cut the money supply, increase it, increase it by 20 percent if that seems to be the thing at the time—do what you wish without any restraint or any guidance whatsoever.

Perhaps you assume that the Federal Reserve can forecast economic conditions—I do not think they can and that is why I subscribe to this position.

Mr. CHANDLER. I guess at some stage you come back to a certain amount of faith and hunches.

Chairman PROXMIRE. That is just what I do not have, faith in hunches.

Mr. CHANDLER. In the first place, much of Professor Friedman's material is based on a study of monetary phenomena from 1867 to the present.

Chairman PROXMIRE. Do you criticize that because he did not go back far enough?

Mr. CHANDLER. On the contrary.

Chairman PROXMIRE. Well, he went up to the present.

Mr. MODIGLIANI. But you mix two periods which have no relation to each other and what you get is garbage.

Mr. CHANDLER. I would say the history of the Federal Reserve and much of his monetary statistics before 1951 are just irrelevant to the new situation.

Chairman PROXMIRE. We tried to go back to 1962 and not before that in our discussion here.

Mr. CHANDLER. So many of his findings simply do not hold for the period since 1951. His forecast of a declining velocity of money has proved to be absolutely wrong, and I think that his comments about the ability of the Federal Reserve to forecast do not apply to the present situation. I admit they made virtually every mistake in the book before World War II. Then they made another big mistake after World War II.

Chairman PROXMIRE. From now on, they are going to be right.

Mr. CHANDLER. They have adopted stabilization objectives, too many of them, in fact. And their whole set of objectives has changed.

Chairman PROXMIRE. I certainly agree that the competence of the board is enormously improved. Now you have economists on the board and that is what we should have had. We have not had them before. Economists have their weaknesses, as we all know. But at least this is their life, their job, their training. That makes a difference.

Tomorrow we will have three gentlemen who will disagree with you gentlemen. I think that should be stimulating. We all agree you have done a marvelous job today, most impressive.

We recess, to reconvene tomorrow at 10 o'clock in this room.

(Whereupon, at 12:50 p.m., the Joint Economic Committee recessed, to reconvene Thursday, May 9, 1968, at 10 a.m.)