

Can you document this except by saying some economists have said it is so?

Mr. SELDEN. In the January issue of the Federal Reserve Bulletin there is an account of the new Federal Reserve-MIT Quarterly Econometric Model, and for whatever they are worth it is very interesting to look at the simulations which have been conducted on the basis of the model. They indicate very substantial monetary lags, so this is evidence that is developed within the system itself, in addition to the other evidence that can be cited.

I really do not think that there is any disagreement on the existence of lags. The Federal Reserve Board itself stands out, I think, as an exception to this statement. They seem to talk as if there are no lags.

Academic economists, on the other hand, have come rather close to an agreement on this point. They have different ways of measuring lags, they have different estimates of the lags, but I think there is something close to—

Chairman PROXMIRE. How long are the lags, by and large? More than 6 months, more than a year?

Mr. SELDEN. Oh, yes; probably a year or more, on the average.

Chairman PROXMIRE. And you feel that this is pretty universal in the profession, recognition?

Mr. SELDEN. I would like to get the opinion of my fellow panelists.

Chairman PROXMIRE. Do you agree with that?

Mr. DEWALD. I think the existence of lags is certainly recognized in the profession. Whether it is a year or not is a difficult estimation problem. However, most economists would argue there is a lag in the effect of policy actions that is distributed over time. There is some effect of monetary policy actions or any other kind of policy action that occurs instantaneously. In fact, if you could detect what is going to happen there might even be a lead. But on the basis of the kind of empirical work that has been done, one could say there are reasonably substantial effects to changes in interest rates within 6 months, although the average lag—looking at the lag over the entire period of its effect—the average lag would typically be much longer.

There has been some important work of a theoretical nature in recent years that would suggest a more rapid response of the economy to monetary policy. If the monetary authority really did use the money supply to take a countercyclical stance, that is, if money became independent indeed instead of just in terms of assumptions in economic models, there might be a much faster response to independent monetary policy actions than you would estimate on the basis of the responsiveness of the level of expenditures to interest rates.

That argument goes in this form: if you take account of the interaction of the various elements of the economy and if monetary policy took an independent stance, changing the rate of growth of the money supply would have a prompt effect and a large effect on interest rates that would speed up the lag in response of the economy to the policy action.

I think this is a very important argument. It is a new idea that has practical importance. Economists are starting to test it empirically. These results indeed suggest that the length of lag in response of the economy to monetary policy actions is not as long as we might have thought earlier.