

## **A NOTE ON STABLE VELOCITY**

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A common complaint against monetary targets is that monetary velocity is “unstable.” The two charts that follow plot base velocity against the 10-year Treasury bond yield. Base velocity is computed as the ratio of GDP to the St. Louis measure of the monetary base. The data are quarterly observations since 1959. (A similar chart using the data in Friedman and Schwartz’s Monetary History goes back to 1919 quarterly. This chart shows a similar picture.)

The first chart that follows shows dates for points in the scatter. Noteworthy is the fact that the points for the 1990s lie atop the points for the early 1970s. When ten year Treasury yields returned to the levels of the 1970s, base velocity returned to its earlier level also.

Despite many claims to the contrary, there is no evidence of any permanent shift in base velocity. I doubt that many economic relations show greater stability.

The second chart repeats the data in the first chart. This chart uses large diamonds to highlight recent quarterly data.

The apparent stability of the relation of base velocity to interest rates shows the robustness of the relation. There is sufficient variability, however, to preclude the use of the relation for forecasting quarterly movements. The same statement is true more generally; no economic relation, or set of relations, permits accurate or reliable quarterly forecasts.