

Mr. CULBERTSON. As you know, economists have been talking about monetary theory for hundreds of years and have not been able to arrive at a definition of what they ought to mean by "money," which is not a very creditable performance. There are several strands to the argument. The position I take in general is that time deposits are most closely similar to other liquid assets in the economy. They are like money chiefly in the quite unimportant fact that they are housed in commercial banks. The dimensions of the analysis that call for this sort of characterization, I think, are, first, that time deposits are not means of payment but are an interest-bearing debt, and, therefore, have a close similarity to other interest-bearing liquid assets, such as Treasury bills. Second, time deposits arise out of the demands of holders for them and do not arise at the volition of banks or the Federal Reserve System, but are a part of the endogenous working of the economy, as it were. The meaning of a change time deposits, thus, is ambiguous. An increase in time deposits can, under some circumstances, even be deflationary, as when it arises out of an increased disposition to save, and to save by putting funds in time deposits.

I would say, in a broader sense, that money's peculiar role in the market economy is such that with a paper-money system, the creator of paper money is in a position to exert a powerful force on the economy. The price system exercises some control over the behavior of ordinary debt, but it has no means of exercising discipline over the behavior of a virtually costless token money. Thus, the behavior of money is entirely dependent upon our institutional arrangements in this area.

Our money creation occurs through the banking system, which is unfortunate in that it muddles the water very considerably. But it still should be clear that money creation is a powerful exogenous force. The Federal Reserve could not, in any direct way, increase the volume of time deposits. But it can increase or decrease the volume of demand deposits.

Senator PROXMIRE. Chairman Martin is constantly defending his policy by saying you have to take into consideration the increase in time deposits and to some degree they are a substitute for demand deposits.

You are absolutely right about the expansion of currency and demand deposits; they have not kept pace with the gross national product, whereas time deposits have expanded fantastically.

Since December 1953 they have more than doubled. They have gone from \$44 billion to \$91 billion.

Mr. CULBERTSON. That is true. I should take it that the fact that a time-deposit increase at something like a 25-percent annual rate had so little apparent effect on the economy is evidence that this criterion is wrong. I am quite sure that if the money supply had gone up at a 25-percent rate the effects would not be insignificant.

Mr. SPRINKEL. May I elaborate on that point?

Senator PROXMIRE. I wish you would. Before you speak, from what you said so far, you are my banker. I think I will put all my money in the Harris Bank.

Mr. SPRINKEL. Thank you.