

Whenever we could detect a downward trend in economic activities, we have acted promptly to increase the supply of bank reserves and thus to permit banks to seek loans and investments and, in turn, to increase the money supply.

By the same token, when we have detected the economy operating in conditions of boom, we have allowed borrowing demands to press against bank reserves and interest rates to call up a greater supply of real savings.

The pattern has been as simple as that. Our countercyclical actions, whether by luck or sophistication I do not know, seem to me to have had an excellent result. We have avoided in postwar America a long or severe depression of the sort that has characterized other postwar periods, and the economy has responded when we have tried to stimulate it by monetary means.

Now, let me go back to a point made a short while ago. In endeavoring to stimulate the economy we have increased bank reserves, after adjusting for changes in reserve requirements, from the low point in April 1960, of \$18.2 billion, to \$20 billion (daily average basis) in July 1962.

This has amounted to a 10 percent increase. Note that the figure for total reserves, both on a seasonally adjusted and unadjusted basis, stands comfortably above the long-run 3 percent growth rate in bank reserves. In short, we have had an easy money policy. The commercial banks of this country have responded to this easy money policy by expanding their loans and investments \$31.2 billion, seasonally adjusted, or 16.8 percent, between April 1960, and July 1962.

Still, we must all agree that the economy, while it has responded to monetary ease, has not recently been responding altogether to the heart's desire. Although the figures, I believe, give an exaggerated impression, we have an uncomfortable overcapacity in many lines. True, the figures for July were somewhat heartening, but unemployment remains higher than it should be.

This leads me to an uneasy suspicion that something is happening in the economic system that we do not quite understand. Since I must frankly say that I do not believe it to be a lack of money availability, I believe a search for what is happening to our economy must take other directions; we need an agonizing reappraisal for some of the other elements of our total national policy. Meanwhile, with so many doctors disagreeing, I think we would be smart to postpone any exploratory operations or massive medications.

It seems to me that the economy is like a man slightly afflicted with hypochondria who goes to his physician for a regular checkup and mentions that he has not been feeling as peppy of recent weeks as he had been. I think the physician in such a case would be wise and prudent to keep the patient under observation for a time before he begins dosing him either with tranquilizers or stimulants. Neither may be needed. With the art of economic diagnosis what it is, I feel that we should all be wise to pause a while and to find out, as best we can, what is actually happening in the economy before we begin dosing it. Such a suggestion may have the defect of being a little behindhand in the beginning of treatment, if treatment is needed; it has the enormous advantage of assuring that the patient is not treated with a medicine that aggravates, rather than remedies, his condition.