

superseded by emphasis on regulation of the money supply alone. However, this turned out to be at least partly a change in terminology. It rested on the confusing view that "because deposits and currency are closely related to loans and investments of banks, the phrases 'money supply' and 'volume of bank credit' as used in this study generally mean the same thing, namely the means of payment owned by the people of the county" (1947, p. 6). Confusion was compounded by a definition of money that included savings deposits in commercial and mutual savings banks.

In the 1954 edition the emphasis on regulation of the money supply alone was jettisoned. The System instead described its intent as to regulate "*the flow of credit and money*," and throughout the volume the phrase "flow of credit and money" systematically replaced what was formerly only "money." It is not clear to what extent the System believed itself to be regulating total credit, or bank credit, or total credit by the practically convenient method of regulating its bank credit component. "Federal Reserve actions affecting the credit market are directed *for the most part* to the functioning of banks. Such actions influence the market as a whole, however, since they affect the availability of funds to other lending institutions, their attitude toward prospective borrowers, and their appraisal of investments" (1954, p. 13). "Money" was also re-defined to consist of only currency plus demand deposits. (Unfortunately, a prominently featured chart, new to this edition, listed currency and demand deposits under the head of "money" and demand and time deposits under the heading "bank credit." This has been corrected in the 1961 edition.)

If regulating "the flow of credit and

money" is indeed the way the Federal Reserve views its function, then one would be hard put to distinguish its position from the views of Gurley-Shaw and the Racliffe Report. The 1961 edition hastens to rectify this: "regulating the flow of credit and money" has been systematically replaced throughout the volume by "regulating the flow of *bank* credit and money." It is still not altogether clear, however, whether the System wishes to regulate only bank credit because it believes it to be unique, resulting as it does in the creation of money, or because it simply believes it to be the most convenient and practicable way to go about altering the total credit flow. In any case, the 1961 edition affords some measure of clarification of the System's intent and reduces terminological confusion. Whether this resolution of the matter will prove to be compatible with the stabilization objective of the System remains to be seen.

II. THE INSTRUMENTS OF MONETARY POLICY

The discount rate and administration of the discount window.—The volume of member bank rediscounting had been negligible for about five years when the first edition was published in 1939. It contained traces of nostalgia for the good old days, before the Great Depression and the gold inflow, when discount rate changes "were the principal instrument by which the Federal Reserve gave effect to credit policy" (1939, pp. 49–50). Discount-rate theory was confined to a few statements to the effect that the rate is lowered to encourage credit expansion and raised to discourage it. The discussion of discount-window administration was, as might be expected in view of the circumstances, permeated by a tone of ease and accommodation. Thus "addi-