

securities they hold produce a less ebullient market atmosphere and a general decline in their liquidity. The size and wide distribution of the public debt are important in this process. Thus financial institutions "become less willing to sell prime securities to acquire higher yielding but more risky assets, partly because they can sell the prime securities only at a loss, which they hesitate to accept. They also become more interested in retaining in or adding to their portfolios the more liquid types of assets, because of concern about the decline in the market value of their entire investment portfolio and the general uncertainty about future developments" (1954, p. 129). As a result, they "become less willing to make any but the best grade loans and investments, and they generally exercise greater caution in accepting credit applications from marginal risks" (1954, p. 128).

1961: It is clear that in the 1954 edition the reaction of non-bank financial institutions to monetary policy was seen as a significant aspect of the mechanism of restraint. Indeed, it was largely on this base that the availability doctrine was initially constructed. In the 1961 edition, however, the lending behavior of non-banks is not viewed as nearly so susceptible to System control as in 1954. As elsewhere, the uncertainty effect has been discarded and the lock-in effect qualified. In addition, the large and widely distributed federal debt, and the highly developed financial structure it serves to interconnect, are no longer viewed as unmixed blessings: "Because market sectors are related . . . the effect of reserve banking policy . . . is transmitted throughout the national credit market and has an influence generally . . . on the willingness and ability of non-bank financial institutions to lend. At the

same time, the broadening of the credit market and the growth of financial intermediaries *enlarge the sources of credit available to borrowers, intensify competition on the side of supply, and increase the potentiality for accelerated credit expansion*" (1961, p. 104). Similarly, it is now noted that rising interest rates may *attract* funds to some financial institutions: The size of the cash balances that businesses and individuals find it desirable to hold depends in part on the level of interest rates. The form in which contingency or speculative balances are held—whether as demand deposits that bear no interest or as interest-earning assets—is highly sensitive to the interest return. Insofar as rising interest rates . . . lead to a greater preference for interest-earning assets, some additional flow of credit may become available out of what would otherwise be idle balances. Such an addition to the flow of available credit tends to offset somewhat the credit-restraining effects of anti-inflationary monetary policy" (1961, pp. 130, 133).<sup>16</sup> Elsewhere, however, it is alleged that the attraction of funds to non-bank financial institutions under the stimulus of rising interest rates "helps to correct forces making for inflationary tendencies" because it enables a larger proportion of borrowing to

<sup>16</sup> Considerably more attention is devoted to the topic of monetary velocity in the 1961 edition than in any previous edition. See especially pp. 127-33. The 1961 edition concludes: "In assessing the effect on economic activity of changes in the money supply, it is important to recognize that there is no simple automatic measure of the appropriate relationship between the amount of money outstanding and the level of economic activity. A given volume of money, for example, can be associated with either higher or lower levels of total spending depending on how often it is used. With the changing use of cash balances a potential countervailing force to restrictive or expansive monetary policy, it is necessarily incumbent on the monetary authorities to pay close attention to monetary velocity and to weigh its strength carefully in determining possible actions" (1961, pp. 129, 132).