

be met through the facilities of these institutions and thereby "reduces pressures leading to bank credit and monetary expansion" (1961, p. 140).

7. 1954: All that remains is to identify the particular categories of final expenditure affected. Restraint is exerted on borrowing and thereby on spending by *three* main channels: (a) the higher interest cost, (b) the greater difficulty of obtaining a loan from almost any lender, even if one is willing to pay the going rate, and (c) the clouding of business prospects in general, due to the monetary uncertainties that stem from rising interest rates, lower capital values, and the declared intent of the central bank to maintain price stability. It is emphasized that it is marginal borrowing and spending decisions that will be affected. The particular spending categories likely to be most influenced are long-term investment in plant and equipment, inventory accumulation, residential construction, and consumer spending. These direct effects are likely to set in motion a sequence of secondary multiplier and accelerator repercussions that will magnify the initial impact.

1961: Restraint is exerted on borrowing and thereby on spending through *two* main channels: (a) the higher interest cost, and (b) the greater difficulty of obtaining a loan, especially from commercial banks, even if one is willing to pay the going rate. It is still emphasized that it is marginal borrowing and spending decisions that will be affected; "The result usually is a smaller increase in spending than transactors desired rather than an actual contraction in spending. For this reason, the curtailment in spending is difficult to observe" (1961, p. 135). The particular spending categories likely to be most influenced are much the same as above. However, in the absence of the

uncertainty effect and with the grading of both the lock-in effect and the responsiveness of non-bank financial institutions, it is implied, although not explicitly stated, that somewhat more reliance must now be placed on the reactions of borrowers to interest costs relative to former emphasis on the behavior of lenders in restricting the availability of credit. As before, the direct effects are seen as likely to set in motion a sequence of secondary multiplier and accelerator repercussions that will magnify the initial impact.

In summary, the major changes between 1954 and 1961 in the process of monetary restraint, as seen by the Board, are the following: (1) The large and widely distributed Federal debt, and a highly developed financial system, are no longer viewed as unmixed blessings since they facilitate the mobilization of idle balances and the creation of credit despite the actions of the central bank. (2) The lending behavior of non-bank financial institutions is no longer viewed as highly susceptible to System control. (3) It is now recognized that stability in bank reserves and the money supply, and in total bank loans and investments, may still permit an expansion in total credit and in total spending, due to higher monetary velocity resulting from dishoarding and economizing on cash balances induced by higher interest rates. (4) The lock-in effect with respect to sales of securities, particularly by banks, has been sharply downgraded. (5) The uncertainty effect, the thesis that central-bank policies introduce an element of caution and restraint into the short-term business outlook, and thereby curtail the desire to borrow and the willingness to lend, has been discarded. (6) In addition to the renewed attention men-