Economic analysis during the past two or three decades has generally indicated that fiscal policy is the major public policy influence on total demand. Judged by this view, public policy has been extremely stimulative during the past 18 months. Recent economic analysis has put increasing emphasis on monetary policy as a major determinant of total demand.

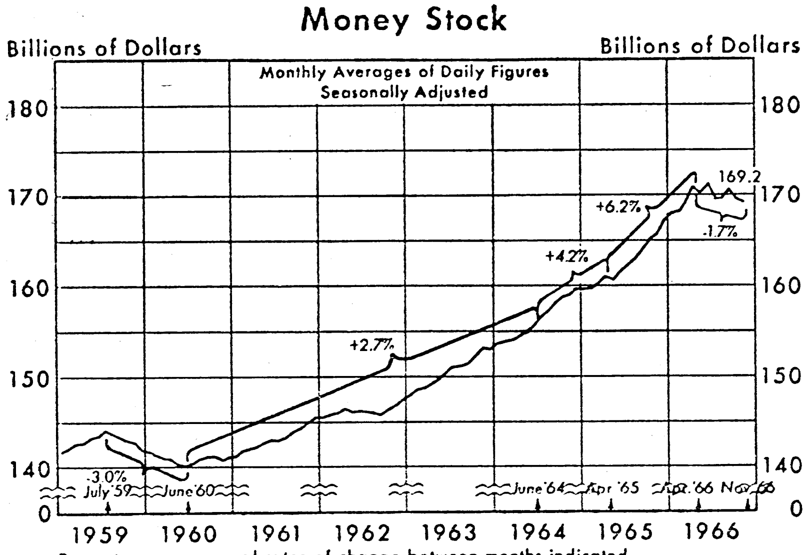
MONETARY DEVELOPMENTS

Monetary expansion was rapid from mid-1964 to the spring of 1966 and then came to an end. Both member bank reserves and the money stock, which had been rising sharply, showed net declines from April to November. Typically, changes in these monetary variables have had their greatest impact on economic activity after a brief timelag.

Monetary developments are measured variously by changes in the stock of money, interest rates, bank credit, and other measures. For the sake of simplicity and because it is a widely used policy indicator, particular attention is given here to changes in the stock of money.

The money stock (demand deposits and currency) has decreased at an annual rate of 1.5 percent since last spring after increasing 6 percent in the preceding year and at a 4-percent rate from mid-1964 to April 1965. From mid-1960 to mid-1964 money rose at a 3-percent rate, and in the 1950's, at a 2-percent rate.

Money Stock



Percentages are annual rates of change between months indicated.
Latest data plotted: November preliminary

"A Note on Interpreting Monetary Variables"

As the Nation's central bank, the Federal Reserve System has responsibility for managing the monetary system in a way that helps achieve the broad goals of economic policy. While the general nature of the role of the Federal Reserve in monetary management is not difficult to explain, it is difficult to explain the specifics of how that role should be performed: for example, how monetary policy should be designed, how the variables to be influenced should be selected, and how the results should be measured. One fundamental and practical problem involved is the presentation, use, and measurement of basic statistical information.

The sharp expansion in the money stock from mid-1964 to early 1966 was probably a significant factor in the rapid rise of spending