

of uses more likely to stimulate economic activity. For some time, therefore, we have taken into account the growth rate of commercial bank time deposits, as well as the money stock, in trying to steer the course of monetary policy.

But the meaning to be assigned to any given growth of time deposits is not easily determined. It means one thing if rapid growth in time deposits reflects aggressive bidding for these deposits by the banking system, with the public responding to banks' efforts to obtain loanable funds through this route by reducing money balances. The meaning would be very different if the funds attracted to time deposits at commercial banks represented funds diverted from the close competitors of banks in the savings field—the mutual savings banks and savings and loan associations. Still a third meaning would be suggested if an increase in time deposits represented funds that someone would otherwise have invested in Treasury bills, while the banking system puts the funds into mortgage loans.

Thus, interpretation of the economic impact of changes in commercial bank deposits involves understanding the sources from which funds flow into these assets, and the reasons for these flows. And increasingly, it has become evidence that the posture of monetary policy—as it affects yields on market securities and the desire and ability of banks to bid for funds—influences also the flows of funds to nonbank thrift institutions, and through them the supply of funds seeking long-term investment, especially in mortgages. When the effects of policy spread this pervasively through the financial structure, efforts at setting the course of policy by specifying a relatively inflexible pattern of behavior for a single financial variable, such as the money stock, could produce seriously disequilibrating changes in economic activity.

The problems we face are not likely to be solved by concocting alternate definitions of money, in hopes that by doing so we will find the magic statistical series whose behavior tells us just what we need to know to establish the posture of monetary policy. Undoubtedly, our understanding of monetary processes is improved by expanding our vision beyond the narrowly defined money stock and its immediate determinants, but we should not expect to find a magic divining rod for monetary management. What we need is a better understanding of the meaning of changes in money and in other liquid assets, not new definitions of what money is.

This point can perhaps be illustrated briefly by reference to the debate in the course of policy during the early 1960's, when growth in the money stock was quite moderate, but growth rates in total bank credit were relatively high. In 1962, particularly, growth of the money stock receded to only about 1½ percent, while the growth of bank credit—under the impetus of an 18 percent rise in commercial bank time deposits—increased to almost a 9 percent rate. Earlier in the postwar period, that high a growth rate of bank credit had been associated with strongly expansive monetary policies. The result was a critic's paradise; Federal Reserve policy could alternatively be criticized as exceptionally expansive, or unusually restrictive, depending on the monetary variable used by the critic.

I argued at that time—and I would still argue now, given the benefit of hindsight—that both of these interpretations of monetary policy