

were inaccurate. The growth of time deposits in 1962—and more generally, throughout the early years of the 1960's—reflected partly a reduction in the public's demand for demand deposits. This reduced demand for money was a response to both the higher rates banks paid on time deposits, and the spread in the use of negotiable CD's by large corporations as a liquid investment medium. Slow growth of the money stock was thus reflecting predominantly a reduction in the public's desired money holdings relative to income. But, in part, time deposit growth also reflected an increase in the banking system's role as an intermediary in the savings-investment process. Banks were bidding for funds that would otherwise have been channeled directly by savers to market securities, or indirectly through nonbank thrift institutions to the mortgage market. High growth rates of bank credit were in large measure a reflection of the increased intermediary role of the banks. On balance, I have always thought that the posture of monetary policy in 1962 was properly described as essentially accommodative, or perhaps moderately expansionary, rather than unusually stimulative or unusually restrictive.

The best evidence that this interpretation is the proper one stems from what was happening at that time to interest rates, and what happened subsequently to economic activity. If policy had been unusually restrictive, as the slowdown in money growth suggested, we should have expected to see a sharp rise in interest rates—followed by a subsequent marked slowing in GNP growth, or at least in those sectors of the economy most sensitive to monetary policy, such as residential construction. If policy had turned exceptionally expansive as suggested by the marked increase in bank credit growth, we should have expected to see a marked decline in interest rates, and a subsequent surge of spending, particularly in those areas most responsive to policy.

What in fact happened was neither of these. Long-term interest rates were gently declining through most of 1962, while short-term interest rates remained relatively stable throughout the year. GNP growth did slow down temporarily in late 1962 and early 1963, but this moderation in the rate of expansion could scarcely be attributed to tight money. The homebuilding industry—a good barometer of the effects of policy on spending—experienced a generally rising level of activity during the year, made possible by relatively ample supplies of mortgage money.

Interest rates, therefore, provide potentially useful information as to the course and intensity of policy, and can never be ignored in setting the targets of policy. Observing interest rate changes can help immeasurably in assessing the meaning of changes in money and other liquid asset holdings. Of course, given sufficient time, the impact of monetary policy on interest rates tends to disappear. Expansive monetary policies which initially lower interest rates will eventually increase spending, and the resulting rise in credit demands and income will tend to push interest rates back up again. Nonetheless, there are lags between monetary policies and their final effects on spending and incomes—and in the interim, the impact of monetary policies will be recorded in interest rates. Interest rate changes, consequently, are often of substantial value as indicators of the posture of monetary policy.