

stantially slower pace than the rates of accumulation of many other financial assets. Excess liquid asset holdings carried forward from the end of World War II were only partly responsible for the economization of money balances that occurred. To a larger extent, the slow growth of the public's demand for money reflected the development of new techniques of cash management by corporations that permitted economies in transactions balances. Additionally, the increasing attractiveness of such liquid assets as time and savings deposits also moderated the public's desired additions to money holdings, especially during the past decade. A fuller discussion of how such factors as these influenced the monetary needs of the economy during the postwar years was contained in an article prepared by the Staff entitled "Monetary Policy and Economic Activity: A Postwar Review," published in the May 1967 issue of the *Federal Reserve Bulletin*.

Because these factors reduced the public's demand for money, growth in the money stock over the past twenty years at an average annual rate of less than 2½ per cent has financed an average annual increase of over 6 per cent in GNP in current dollars, and an average annual increase of almost 4 per cent in real GNP. Growth in the money stock over this period at a 4 per cent rate—the middle of the target range cited in Mr. Reuss' guidelines—would have produced a money stock at the end of 1967 more than 35 per cent above the actual figure. Surely, the amount of price inflation we would have suffered over these past two decades would have been much greater if monetary policy had been guided by the view that approximately a 4 per cent growth rate constitutes a reasonable longer-run target.

The postwar period is not, in this respect, an isolated case. We can look forward at the present time to the prospect of major changes in the public's use of money growing out of technological advances in banking that could greatly reduce the use of checks within the next decade or two. Just how these developments might alter the growth rate of money consistent with full employment and stable prices we cannot be sure. It does seem, however, that fixing any specific long-run growth target for the money supply might require suppressing technological advance in our payments system, or alternatively of running the risk of supplying excessive or inadequate amounts of money to accommodate the needs of a growing economy. Flexibility in monetary policy decisions is essential not only to problems of short-run economic stabilization, but also to permit adaptation to the evolving structure of financial markets and to changes in public demands for money.

As noted earlier, the guidelines proposed by Mr. Reuss do suggest that short-run deviations in the rate of monetary expansion would be desirable. One of the specific factors mentioned in this regard is the desirability of increasing the rate of monetary expansion to the extent necessary to reflect the increase in GNP attributable to cost-push inflation.

Acceptance of such a principle would be very likely to convert monetary policy from a tool for stabilizing the economy into a vehicle of inflation. Increases in costs are not unrelated to aggregate demands for goods and services, as these demands are reflected in markets for labor, for raw materials, for intermediate products, and for capital instruments. Price increases for these resources—which constitute cost increases for their users—are thus not independent of monetary policy,