

for goods and services. This principle seems entirely valid; problems arise, however, in trying to determine just how much the target rate of monetary expansion should be allowed to vary in accordance with it.

The year just completed provides a good example of the difficulties involved. During 1967 the money stock rose by 6½ percent, the largest increase of any postwar year. Yet it seems clear that some part of this increase should be attributed to a shift in business demands for liquidity of the kind that could be classified as a relevant "qualification" under Mr. Reuss' suggested guidelines. Business long-term credit demands—especially during the last half—were huge. These credit demands apparently were not associated with current business expenditures, but were designed to effect a significant rebuilding in corporate liquidity.

Available information, however, is much too sketchy to indicate what portion of the \$11 billion increase in money holdings in 1967 can be attributed to this factor. Furthermore, it must be recognized that additions to money holdings to satisfy liquidity preference could at some future time be a source of funds to finance inflationary pressures, if these desires for more liquidity proved to be reversible. Thus, while it is clear that the end use of current financing activities must be considered in formulating policy, this principle is difficult to incorporate with precision in any guide to policy.

Similar kinds of difficulties are encountered when we consider how target rates of money should be adjusted to take into account the growth of time deposits at commercial banks and of deposits and shares at nonbank savings institutions. This question has been of particular importance in the past decade, as commercial banks have become more aggressive in bidding for time deposits and in offering new types of instruments for the public to hold, and as nonbank savings institutions have increasingly become caught up in monetary processes.

The difficulties in this area arise from the fact that we do not have empirical information that indicates the degree to which growth in these money substitutes, or "near-moneys" as they have often been called, provides a satisfactory alternate to growth in money balances in meeting the economy's needs for liquid assets and credit. It is for this reason that some monetary economists have tried to take into account these changing public preferences for financial assets by broadening the basis on which judgments on the course of monetary policy are made—to include not just the behavior of quantities of financial assets other than money, but also the prices and yields of financial assets. Thus, if shifts in public preferences between money and other financial assets alter the significance of a given growth rate of money, perhaps a better interpretation of policy can be gained by bringing into the analysis additional evidence that might help in judging whether the growth of money and credit is too rapid or too slow. Some of the considerations involved in this extension of monetary analysis were dealt with in the article in the May 1967 *Bulletin* mentioned earlier. Also, an article entitled "Time Deposits and Financial Flows" that appeared in the December 1966 Federal Reserve *Bulletin* dealt with the pronounced effects in financial markets that have resulted from the increased competition for time deposits in recent years.