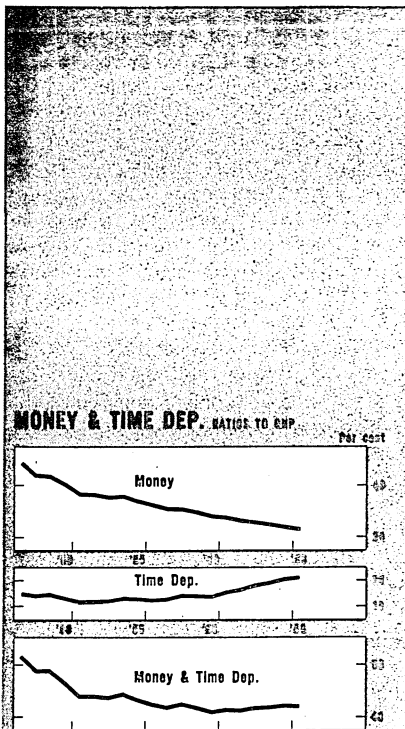




are heavily financed by credit, sharp surges in investment are typically accompanied by still larger increases in borrowing.

Monetary policy works largely—though certainly not exclusively—through its impact on these types of investment expenditures. Its task is to promote monetary and credit conditions that help sustain high use of resources and the maximum noninflationary rate of expansion in investment and in economic activity.

Accomplishing these objectives has called for recognition that the amount of money—that is, currency and demand deposits—needed to support a given level of GNP has been changing. Over the postwar period the ratio of money to GNP has declined—rather rapidly until 1951, and then more slowly. It could well decline further, given sufficient interest rate incentives and further development of techniques for economizing on cash. But this ratio is already at a record low, and forecasting an indefinite continuance of the trend would be hazardous, even on the eve of the checkless society.

Broadening the analysis to include time deposits of commercial banks does not clarify the economy's monetary needs. Postwar growth in time deposits has not followed the course of expansion in money. The ratio of time deposits to GNP first declined and then remained level through most of the 1950's. More recently, the ratio has increased substantially as banks have bid more aggressively for these deposits.

The ratio to GNP of money and time deposits taken together reflects the results of these divergent trends. This ratio declined through most of the postwar period, but then began to rise gradually during the 1960's, when time deposits were increasing rapidly.

Changes in the amounts of money and time deposits held by the public, relative to