

What Is Meant by the Supply of Money?

The concept of the money supply is far more complex than it sometimes appears. Major differences in policy suggestions may follow from how the "money supply" is defined.

There are at least four different versions of what the money supply is. While the movements of the money supply in all four versions are related, the growth rates of the respective "supplies" may differ greatly over periods of a quarter or even a year. Whether or not these differences are significant and which versions of the money supply should be considered as a primary index for policy depends upon one's complete theory.

Sometimes money supply theorists talk as if currency in circulation and private demand deposits were all that mattered. At other times, they add private time deposits to get a larger version of the money supply. Movements of these two "money supplies" differ considerably. Because the government's cash balance is large and it rises and falls rapidly as the government takes in receipts and pays its bills, time and demand deposits also grow at a rate different from total commercial bank deposits. The behavior of total deposits of commercial banks in turn may differ considerably from those of savings banks and savings and loan associations.

Although some slippage exists, the total most directly affected by Federal Reserve operations is that of commercial bank deposits. Yet the total that seems to fit most theories best is total deposits of all institutions. Moreover, even with a constant level of deposits,