significant effects may result from alterations in the equal but opposite side of the balance sheet--loans and investments. There are many cases where the person to whom bank credit is loaned will influence the total amount of spending. To find these effects, we must look at bank loans and assets as well as the money supply.

A policy that recommends strict control of a particular monetary total must properly define the total to be controlled. The recommendation could apply to anything from free reserves to all financial assets. To be operational, two characteristics must prevail. First, the target total must be under the control of the Federal Reserve. Second, the relationship between the targeted variable and spending must be clearly defined. A choice then depends on both practice and theory.

The one thing that the Federal Reserve can control precisely is the volume of bonds in its portfolio. Although total non-borrowed reserves --those made available through purchases of government securities in the open market--are also within the reach of the Federal Reserve fairly constantly, the money supply, in contrast, is the result of interactions of the banks, the public, and the Federal Reserve. In general, the further you get from a definition of the targeted variable in terms of open market operations the more difficult it becomes to determine how Federal Reserve policy will affect it. Depending on the definition of money used, the total supply of it may be affected by public substitution between demand and time deposits, by shifts from public to private deposits, and by switches to bank deposits from other financial assets.