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MONETARY POLICY AND BANK CREDIT FLOWS IN 1970

Remarks By

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Andrew F. Brimmer*

The Federal Reserve is being urged to adopt a much more vigorous policy of monetary expansion than it has followed so far this year. These urgings are being heard from economists inside the Federal Government as well as from some private observers. To a considerable extent, these recommendations follow from forecasts showing economic activity in the year ahead expanding at a moderate pace -- with unemployment and unused plant capacity remaining high. To alter this outlook, some economists are calling for markedly stimulative monetary and fiscal policies to accelerate the pace of economic growth. While recognizing that inflation is a serious problem, some of these observers believe that further moderation in the uptrend of prices can be achieved -- despite a shift of public policy from a primary emphasis on checking inflation to the principal goal of reducing unemployment.

The appropriateness of this policy prescription and the correctness of the assumptions on which it is based are vital matters. In the concluding section of these remarks, I will summarize my own, personal view of the proper course for monetary policy in the months ahead.

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* Member, Board of Governors of the Federal Reserve System.

I am grateful to Mr. Frederick M. Struble of the Board's staff for assistance in the preparation of these remarks. Mr. Peter J. Feddor did the computer programming to obtain the statistics on which the analysis is based.

In the meantime, it might be helpful to provide more information on the level and pattern of money and credit flows in the United States in 1970. A great deal of the current discussion of the role of monetary policy (not all of it confined to academic economists) strikes me as extremely arid -- concentrating as it does on the behavior of the "money supply", while little effort is made to keep abreast of what is actually occurring in the nation's banking and financial system. In my opinion, not only does this "monetarist" view afford little profit in broadening public understanding of economic policy -- it actually can be misleading. Too much emphasis on the "money supply" (an extremely fragile and frequently revised statistical series showing privately-owned checking accounts and currency) may mislead the public into believing that the Federal Reserve System can exert a far more precise control over the economy than is actually the case. To temper this narrow stress on a single economic indicator, I think it is highly desirable to stand aside (at least from time to time) to trace in broader outline the main contours of financial flows.

These remarks are devoted to that task. The first assignment is to provide a brief survey of the highlights of banking and monetary developments in 1970. Next, the main sources and uses of commercial bank funds in 1970 -- compared with 1969 -- are analyzed. It is especially instructive to examine credit flows in the last six months, in contrast to the first half of the year. Subsequently, it is shown that the behavior of credit flows in different parts of the banking structure has varied considerably.

On balance, the picture which emerges from these mixed trends is that of a banking system which has gone a long way toward restoring the liquidity that was drained away under the pressure of severe monetary restraint in 1969. In fact, on the basis of this analysis, one might ask just how much more rapidly the Federal Reserve can add to bank liquidity without planting the seeds for renewed inflation before reasonable success is achieved in the effort that has been under way for the last two years.

Banking and Monetary Developments in 1969-1970

In mid-December, 1968, the Federal Reserve took the first of a series of steps designed to tighten monetary and credit conditions in order to combat inflationary pressures generated by an overheated economy. The impact of this and subsequent policy measures coincided with the advent of expansion in credit demands. Commercial banks (which must necessarily be the fulcrum of monetary policy) were placed in an extremely difficult position. This was especially true of the large institutions at the forefront of the industry. As 1969 unfolded, interest rates on open market securities increased sharply, and a substantial volume of funds was drawn away from deposit accounts at commercial banks into the market for these securities. At the same time, banks were faced with exceptional loan demands from their customers -- with the demand for funds by business borrowers being particularly strong.

In the face of the sharp outflow of deposit funds, banks acted to meet the demands of their loan customers by liquidating large blocks of their security holdings. In addition, most comparatively large banks tapped nondeposit sources for a substantial volume of funds, borrowing heavily in the Euro-Dollar market (particularly from foreign branches), in the Federal Funds market, and from Federal Reserve Banks. These large banks also sold sizable portions of their loan portfolios, especially to their holding company affiliates, subsidiaries, and foreign branches.* Affiliates obtained the funds to purchase these loans primarily by selling commercial paper. Overall, after adjustment for loan sales, bank holdings of earning assets rose only moderately -- as a sharp growth in loans was offset in large part by a marked decrease in investment holdings.

During 1970, the course of developments has differed markedly. In mid-January of this year, the Federal Reserve, in recognition of the moderating pace of the economy, moved to reduce the degree of tightness in monetary and credit conditions. Subsequently, the System took a number of actions to promote moderate easing of credit conditions. And with the easing of monetary policy and the cooling off of the economy, interest rates on open market securities have trended down. A number of other factors have also improved the ability of banks to compete for deposit funds.

Ceiling interest rates that banks are allowed to pay on consumer-type time and savings deposits were raised by the Federal Reserve Board early in the year. At mid-year, several steps were

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* In the rest of these remarks, all three of these groups are referred to as "affiliates".

taken to help ease pressures in the money market which resulted from the bankruptcy of the Penn-Central Railroad. Rate ceilings on short-term certificates of deposit in denominations of $100,000 or more were suspended in late June, and member banks were allowed to borrow from Federal Reserve Banks under liberal terms if this were necessary to enable them to accommodate any of their customers who needed to refinance maturing commercial paper. In August, reserve requirements on the commercial paper indebtedness of bank affiliates were imposed; this induced banks to reduce these liabilities. At the same time, investors in this paper were encouraged to shift their funds into deposit accounts. In November, the discount rate at Federal Reserve Banks was cut in two 1/4 point moves from 6 to 5-1/2 per cent.

In addition to these changes in regulations and the downtrend in interest rates, it appears that the public has become more cautious in the management of its asset positions. While all of these factors have combined to promote exceptionally strong advances in deposit funds, customer loan demands (particularly the demands of business customers) have been relatively weak. This has been true especially since the spring of this year, when corporations began floating large amounts of long-term issues partly to replace short-term debt.

The general response of the banking system to these developments can be traced in Table 1, attached. During the first 11 months of this year, total commercial bank credit (after adjustment for loan sales to bank affiliates) rose at a seasonally adjusted annual rate of 6.9 per cent, compared with 4.0 per cent in 1969 and 11.0 per cent in 1968. The rate of expansion in the third quarter (about 14 per cent) was particularly sharp compared to that (4-1/2 per cent) recorded in the first six months of the year. After a decline of about 2 per cent in October, bank credit rose by close to 8 per cent in November. Based on deposit inflows and bank investment patterns during the first two weeks of this month, it appears that bank credit might rise at a fairly rapid rate in December. If this does develop, the rate for the final quarter (while below that in the third quarter) would be well above that registered in the first half. But, in any case, the rate of bank credit expansion in 1970 will greatly exceed that registered last year.

A substantial rise in bank investments has been the main source of expansion in bank credit in 1970. In the first 11 months of this year, bank holdings of U. S. Treasury securities expanded at a seasonally adjusted annual rate of almost 10 per cent. In the same period, their holdings of other securities (mainly issues of Federal agencies and State and local governments) climbed at an 18 per cent annual rate. In contrast, in 1969, their investments in direct U. S. Government securities declined by 16 per cent, and there was no net change in their holdings of other securities. By comparison, loans outstanding at commercial banks rose at an annual rate of 3.6 per cent (after adjustment for loan sales to bank affiliates) during the first 11 months of this year. The increase in business loans was even slower, 2.8 per cent in the same period. In 1969, total loans (after allowing for loan sales) advanced by 9.9 per cent and business loans by 13.1 per cent.

The rise in total bank credit this year has rested primarily on a sharp increase in the banks' time deposits. In the January-November months, these deposits expanded at a seasonally adjusted annual rate of 17 per cent. The growth was especially rapid in the third quarter when it hit an annual rate of 32 per cent. In 1969, such deposits shrank by 5 per cent (reflecting the sizable attrition in large denomination certificates of deposit), following a rise of 11 per cent the previous year.

The money supply expanded at a seasonally adjusted annual rate of 5.3 per cent in the first 11 months of this year, compared with 3.1 per cent in 1969 and 7.8 per cent in 1968. The annual rate of growth was 5.9 per cent in the first half and 6.1 per cent in the third quarter of this year. After showing little gain in October, the money supply advanced at an annual rate of about 3 per cent in November. Based on the pattern in the first three weeks of December, a particularly sharp rate of expansion may be recorded for the month as a whole. If such a pattern does materialize, for the full year 1970, the money supply might advance by roughly 5-1/2 per cent. Again, however, because the money supply statistics are so volatile, this estimate should be viewed with considerable caution.

Against this brief background, developments in bank credit during 1970 can be examined more closely.

Sources of Bank Funds: 1970 vs. 1969

The level and contours of commercial bank credit expansion in 1970 and 1969 can be seen clearly in the data for large weekly reporting banks presented in Tables 2 and 3.* As indicated, these large banks recorded an increase of nearly $14 billion in total deposits in the first 11 months of this year. While their demand deposits declined by $4 billion, total time and savings deposits rose by almost $18 billion. The growth of $12-1/2 billion in large denomination certificates of deposit (CD's) was particularly striking. In the comparable period of 1969, these banks experienced a net drain of almost $19 billion in total deposits. All principal deposit categories shared in the decline. However, the most dramatic shrinkage was in CD's, which dropped by $12 billion. Time and savings deposits other than CD's declined by $3.7 billion, so total time and savings accounts fell by $15.7 billion. Demand deposits decreased by $3 billion.

As mentioned above, the banks were under pressure to meet an enormous increase in credit demands in 1969, so they had to search vigorously for additional sources of funds. In the process, they made net liquidations of $9.6 billion of securities. Of these,

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* About 330 of these banks report to the Federal Reserve System each week. They include nonmember as well as Federal Reserve member banks, and they generally have total deposits of at least $100 million. They hold about three-fifths of total assets, total loans and investments, and demand deposits. They hold three-quarters of total business loans, about the same proportion of total time and savings deposits, and they account for roughly 90 per cent of large denomination certificates of deposit (CD's) outstanding.

U. S. Treasury issues amounted to $6.2 billion, and other securities accounted for $3.4 billion. The banks also expanded their borrowings from major domestic sources by $8.8 billion. These borrowings centered mainly in the Federal funds market and at Federal Reserve Banks. However, the banks also drew heavily on other sources -- particularly on the Euro-dollar market, where a dozen or so of the biggest banks increased the liabilities to their foreign branches by $7.5 billion. About $2 billion of funds were obtained through additions to capital. About $4-1/2 billion were channeled into the banks through sales of loans, a sizable part of which was financed by the issuance of commercial paper primarily by the banks' holding company affiliates.

The net results of these year-to-year differences in the sources of bank funds added up to a dramatic change in the banks' experience: in the first 11 months of 1969, they lost almost $19 billion in deposits and were forced to borrow heavily both at home and abroad. In the same period of 1970, they gained nearly $14 billion and were able to repay a substantial part of the debts incurred last year.

Uses of Bank Funds: 1970 vs. 1969

Part of the impact of these markedly different patterns of deposit flows can be observed in the contrasting changes in total earning assets of the weekly reporting banks in the two years. Holdings of earning assets by these banks rose by $9.6 billion in the first 11 months of 1970. In the same period of last year, their earning assets declined by $2.3 billion. Even after adjustment for loan sales to affiliates (about $4.5 billion of loans were sold to affiliates in 1969 while about $0.5 billion of loans previously sold were reacquired or matured in 1970), the increment of advance in 1970 remains more than four times as large as that which occurred in 1969. (The loan sale developments are, of course, also reflected in the data indicating commercial paper sales by affiliates. It will be noted that affiliates issued about $3.6 billion in paper during the first 11 months of 1969. They had retired nearly $0.5 billion by the middle of November of this year.)

The results of the weakening in loan demand which coincided with the substantially increased availability of deposit funds can also be observed by the restructuring of the asset positions of these banks. Total loans outstanding at the banks (after adjustment for loan sales) rose by $2.1 billion in the January-November months of 1970, in comparison to an advance of $11.8 billion in 1969 when lendable funds were substantially less available but loan demands decidely stronger. The contrast in loan developments is most acutely observable in the comparative changes in business loans over the two periods. These loans, after adjustment for loan sales, dropped by $1.3 billion in 1970; they rose by $8.1 billion in 1969.

Finally, the banks channeled about $7.4 billion of funds into the purchase of investments in 1970. U. S. Treasury issues absorbed $2.1 billion and other securities $5.3 billion. Consequently, the sharp deterioration in bank liquidity positions which occurred during the extremely tight credit situation of 1969 was nearly offset by a marked refurbishing in 1970.

Intra-Year Developments: A Sharpening of Contrasts

Although the data for the first 11 months of 1969 and 1970 provide a good indication of the contrasting trends affecting bank credit flows in these two years, an even sharper picture is obtained if these periods are broken at mid-year. Such a break gives emphasis to the impact of 1970 developments such as the mid-year suspension of rate ceilings on short-term CD's and the mid-August imposition of reserve requirements on commercial paper indebtedness of affiliates. In addition, after mid-year, the downtrend in interest rates steepened, and loan demands at banks tended to weaken further, particularly demands for business loans. However, while the contrasts between 1969 and 1970 became most acute after the middle of these years, conditions during the first half of each year were sufficiently different to yield clearly perceptible contrasts. It will be helpful to examine the first half data briefly before looking at the more dramatic last half comparison. The statistics are shown in Tables 4 and 5.

As may be observed in Table 4, deposit flows were much more favorable during the first half of 1970 than in the similar months of 1969. In part, this was the result of a significantly smaller decline in demand deposits. But the main source of improvement can be seen clearly in the decided shift in time deposit flows.

The marketing of large CD's in a moderately successful manner accounts for a major part of this improvement, but the direction of other time deposit flows can also be seen to have shifted from an outflow to an inflow.

Despite this improvement in the deposit picture, growth in earning assets during 1970, before adjustment for loan sales, was slightly weaker than in 1969 and only moderately stronger after adjustment for these sales. The evidence suggests that this can be attributed primarily to two factors. First, loan demands during the period in 1970 have been decidedly weaker than in 1969, particularly business loan demands. Second, banks have been given the option of replacing high cost Euro-dollar liabilities with lower cost deposit funds, and they have been exercising this option. However, banks did add moderately to their investment holdings during the first half of this year -- rather than reducing them sharply as in 1969. This suggests that they may have been somewhat uncomfortable with their liquidity position.

The contrast between bank credit flows during the last five months and those recorded during the same period of last year is even more striking than that for the first half of the year. As may be seen in Table 6, banks recorded substantially larger gains in total deposits this year, although demand deposit flows were much less favorable. Growth in large CD's accounted for this year's major source of relative strength, but inflows of other time deposits over the latest period also were decidedly stronger.

The abundant inflows of deposits resulted in noticeably different uses of funds compared with those which occurred during the same period last year. One of the most prominent differences was the substantial paydown in commercial paper indebtedness of affiliates. This was accompanied by a roughly parallel decline in the volume of loans held by bank affiliates and the simultaneous reacquisition of these loans by banks that transferred such loans originally. A second readily apparent contrast can be seen in the changes which took place in other nondeposit sources of funds: borrowings from domestic nondeposit sources rose much less in 1970 than in 1969 while Euro-dollar borrowings dropped substantially further -- rather than increasing moderately as they did in 1969. Banks also channeled a considerable volume of funds into the securities market, thus further restoring their liquidity positions which had been badly depleted by security liquidation throughout 1969.

The pattern of bank lending also differed somewhat during the two years. After adjustment for loan sales, growth in total loans during the last five months fell somewhat short of the advance which occurred in 1969. The major contrast, however, is observable in business loans which declined during the latest period while they rose moderately in 1969. Yet, the degree of contrast between the changes for these years does not reflect the underlying loan conditions during these periods. Loan demands were substantially stronger in 1969 than in recent months, and growth in loans was held down by a lack of funds, whereas lendable funds were available in abundance during the recent period.

Banking Structure and the Behavior of Credit Flows

Last spring, I presented an analysis of bank credit developments within a framework created by recasting data for selected groups of weekly reporting banks based on the character of their business.* This regrouping provided useful insight into the relative impact that changes in monetary and credit conditions have had on different categories of banks and into the ways in which these different groups of institutions have adjusted to the shifting deposit and loan circumstances. Information of this kind is of great help in assessing how shifts in monetary policy or other exogenous developments work their way through the banking system and how the results of these developments alter the course of general economic conditions.

In view of these considerations, it seems appropriate to focus again on the relative developments at these groups of banks. The results of the regrouping are shown in Tables 2 and 7. In this scheme, I identified 20 banks as "Multi-National Banks" and another 60 banks as "Major Regional Banks." Those banks classed as

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* See "The Banking Structure and Monetary Management," presented before the San Francisco Bond Club, April 1, 1970.

multi-national banks were picked on the basis of their size, volume of business loans, importance in the Federal Funds market in particular and the money market in general, the volume of their foreign lending, and the extent of their participation in the Euro-dollar market. Similar criteria were used to classify major regional banks, but greater stress was given to domestic activities and the relative importance of these banks in their own area of the country. The remaining weekly reporting banks were designated "Large Local Banks."*

The experience of these groups of banks with deposit flows differed considerably during 1969. As may be observed in Tables 2 and 3, from the beginning of the year through mid-November, both the multi-national banks and major regional banks experienced deposit outflows that were relatively much more severe than those recorded by the large local banks. However, similar relative changes were recorded in earning asset holdings, both unadjusted and adjusted for loan sales, at all groups of banks. This similarity in total asset performance in the face of markedly different deposit flows reflected greater flexibility in developing (and/or the willingness and ability to develop) alternative sources of lendable funds. The two larger groups of banks acquired about $1 billion to $1-1/2 billion more funds from domestic nondeposit sources and siphoned substantially larger volumes of funds from the Euro-dollar market.

* It should be remembered that the smallest banks in this group have total deposits of at least $100 million.

The multi-national banks were particularly heavy borrowers in the Euro-dollar market. The affiliates of multi-national and major regional banks also sold a considerably larger volume of commercial paper -- and in turn purchased larger quantities of loans -- than did the large local banks.

General changes in the composition of asset portfolios were somewhat more similar at these three groups of banks. However, data in Table 3 do indicate that the multi-national banks made relatively larger reductions in their security holdings than did the other two bank groups. At the same time, after adjustment for loan sales, growth in total loans and in business loans was considerably stronger at the multi-national banks than at either the major regional or large local banks in 1969.

The pattern of deposit and credit flows at these three groups of banks during this year has differed considerably from that recorded in 1969. Referring again to Tables 2 and 3, it will be noted that the multi-national banks gained a substantial volume of new deposits during the first 11 months of 1970. This growth, measured in both absolute and relative terms, was considerably stronger than that which occurred at the major regional banks, and it was somewhat stronger than that recorded by the large local banks.

Yet, growth in earning assets at the multi-national banks was only slightly above that recorded by the major regional banks and was considerably less than that which occurred at the large local banks. The explanation for the failure of earning asset developments at the three groups of banks to match more closely changes in deposits at these banks is that the multi-national banks decided to use a large portion of their incoming deposit funds to reduce nondeposit liabilities. The large local banks, on the other hand, channeled only a small portion of their relatively large inflow of deposits to the repayment of nondeposit liabilities while the inflow of deposits at major regional banks was not sufficient to enable them to make substantial reductions.

A fairly diverse pattern of change in credit expansion can also be seen in the statistical data for the three groups of banks. It appears that loan demands, particularly business loan demands, eased markedly at both the multi-national and major regional banks during 1970. Both groups recorded slight drops in their total loans, adjusted for loan sales, and comparatively sharp decreases in their business loans. In contrast, growth in total loans at the large local banks was somewhat stronger in 1970 than in 1969. In fact, the 1970 advance in their business loans was nearly as large as the relatively sharp advance recorded in 1969. All three groups of banks made net additions to their investment portfolios during 1970. However, growth at the multi-national banks was substantially stronger than at the other groups of banks.

An examination of banking developments which occurred during the first six months (Tables 4 and 5) and in the June-November months (Tables 6 and 7) of the years 1969 and 1970 indicates that deposit flows in both time periods of this year have been relatively much stronger than they were in the corresponding periods of last year at all three groups of banks. However, the period since June of this year does appear to have been relatively more favorable for all groups of institutions.

Other balance sheet adjustments recorded during the first and second halves of this year have differed in some degree, however. As may be seen in Tables 5 and 6, all three groups of banks have made substantially larger relative reductions in Euro-dollar liabilities since the middle of 1970. An even more dramatic contrast is to be found in the relation between loan sales and commercial paper sales during these two periods. During the first half of the year, all these groups of banks (particularly multi-national banks) sold substantial volumes of loans to their affiliates, and the affiliates in turn acquired the funds to make these purchases by issuing commercial paper. With the imposition of reserve requirements on commercial paper, this process was reversed and commercial paper indebtedness and loans held by affiliates dropped markedly -- again, especially at multi-national banks -- over the five months ending in November of this year.

So far in 1970, the expansion of earning assets in the second half, compared with the first six months of the year, has been much stronger at all three groups of banks than was the case a year ago. The multi-national and major regional banks appear to have fared somewhat better than the large, local banks during this latter period. To a considerable extent, the relative strength in the earning asset picture since June at all three groups of banks centered in the substantial acquisitions of securities. This appears to have offset some weakening in loan demand, particularly at the multi-national banks. However, the data suggest that business loan demand deteriorated markedly at all three groups of banks during the last five months.

Restoration of Bank Liquidity

The sharp improvement in deposit flows during 1970, coupled with noticeable easing in loan demands, has brought about a substantial improvement in bank liquidity. This may be seen in Table 8 where the ratios of loans to deposits and loans to total liabilities (ratios customarily used to gauge liquidity developments) are presented. Both these ratios have declined since the end of last year, particularly the loan to deposit ratio. However, it will be noted that both ratios still are at levels considerably higher than prevailed at the close of 1968.

It will also be noted that liquidity developments at the multi-national and major regional banks conform generally to those shown by data for all weekly reporting banks. This is not true, however, for the group of large local banks: both liquidity ratios for this group of banks are presently at about the same elevated level which was reached at the end of last year. The stability in these ratios for this group of banks, of course, is the result of the continued relatively strong pace of advance in loans which has taken place at these institutions during 1970.

Thus, while banks apparently remain in a somewhat less liquid condition than they were two years ago, they have restored most of the liquidity drained away during the extremely tight credit conditions of 1969.

Concluding Observations

I stated above that in this section I would summarize my own views on the appropriate course of monetary policy in the months ahead. Before doing so, however, I must remind everyone that -- in remarks such as these -- Federal Reserve Board members must necessarily speak for themselves -- and not for their colleagues.

At the beginning of these remarks, I took note of the fact that some economists (in the Federal Government as well as in private life) are suggesting that monetary and fiscal policy move vigorously to accelerate the pace of economic growth in an attempt to drive unemployment below the 5.8 per cent recorded in November and to cut down on the backlog of unused capacity in manufacturing. In fact, some economists have urged that public policy be aimed at an expansion in real output in the neighborhood of 8 per cent from the fourth quarter of 1970 to the fourth quarter of 1971. This would be more than double the 3 to 3-1/2 per cent rate that some forecasters believe might occur in the absence of an especially strong policy of stimulation. Even after allowing for the fact that real output in the closing months of this year was held down by the strike in the automobile industry, an 8 per cent target would still represent a rate of expansion seldom achieved. It will be recalled that the long-run rate of increase in real output has averaged just under 4-1/2 per cent.

To me, it appears most unlikely that economic activity in the United States could be forced to such a pace without seriously undercutting the progress we have made in the last year in the campaign against inflation. I agree with those who point out that the inflationary pressures generated by the excess demand that plagued the economy from mid-1965 through much of last year have subsided. The erosion in employment, the sharp rise in unemployment, and the low operating rates in manufacturing all testify to the passing of excess demand for goods and services.

However, the persistent rise in prices also testifies to the fact that the economy is still plagued by inflation. In the third quarter, the gross national product (GNP) deflator (the most broadly based of the price indexes) rose at a seasonally adjusted annual rate of 4.6 per cent, and the advance in the final three months may be only slightly less. Thus, for 1970 as a whole, the pace of inflation may exceed 5 per cent -- in contrast to 4.7 per cent in 1969. On the other hand, despite the continued high rates of wage increases being embodied in trade union contracts -- and the corresponding push these give to the costs of production -- it does appear that the overall pace of inflation may moderate somewhat in the year ahead. Nevertheless, most forecasters apparently expect the GNP deflator to be advancing at an annual rate well in excess of 3 per cent a year from now.

Given this general economic outlook -- and while I am by no means unmindful of the wastage and human suffering caused by unemployment -- I am personally convinced that monetary policy should continue to be moderately expansive in the months ahead. I believe the Federal Reserve must remain alert to assure that the growth of bank reserves and bank credit will contribute to strengthening of expansion in real output. However, I also believe that the rise in both bank credit and the economy should not be so rapid as to stimulate a new burst of inflation as we pass through 1971 and into the following year.

In my opinion, we need to avoid such a situation because of the weakness in our international financial position -- as well as for domestic reasons. No matter how hard we look, no substantial improvement can be foreseen in our balance of payments over the coming year.

Finally, we should not forget that just over two years ago -- in the summer of 1968 -- the Federal Reserve System seriously overestimated the dampening effects of the income tax surcharge and was misled into greatly expanding bank credit and the money supply. (I shared that decision, so I have no intention of trying to escape sharing responsibility for it.) Once the mistake was recognized late in the year, it took the System until the middle of 1969 to squeeze out the excessive liquidity provided the banking system the previous year. This obviously did not further the campaign to check inflation.

So, on balance, I cannot join the advocates of a much more stimulative course for monetary policy. Instead, I think it is far preferable to remain on a moderately expansive path, while improved jobless benefits and other measures are used to cushion the adverse effects of unemployment -- and some variety of an incomes policy is pursued vigorously to check the cost-push inflation that is still eroding the purchasing power and welfare of the public.

Table 1

Changes in Commercial Bank Credit, Money Supply, and Time Deposits [1/]

	Seasonally adjusted annual rates (per cent)						
	1968	1969		1970			
	Year	Year	Second Half	First Half	Third Qtr.	Jan.-Nov.	Oct.-Nov. Average
Total bank credit	11.0	3.1	2.0	2.5	17.0	7.1	5.1
U.S. Govt. sec.	3.0	-15.7	-15.6	8.5	25.9	9.7	-11.4
Other securities	16.4	--	-1.4	10.4	20.3	18.2	33.1
Loans	11.6	8.4	6.6	-0.5	14.3	3.8	0.8
Business loans	11.1	10.6	7.4	0.9	12.4	2.8	- 6.0
	Adjusted for loan sales to bank affiliates						
Total bank credit	11.0	4.0	2.9	4.5	13.9	6.9	3.1
Loans	11.6	9.9	7.8	2.4	9.8	3.6	- 2.1
Business loans	11.1	13.1	9.5	8.1	1.8	2.8	-11.0
Money supply	7.8	3.1	1.2	5.9	6.1	5.3	2.0
Time deposits	11.1	-5.0	-6.6	7.8	32.2	17.0	17.7

1/ It should be noted that the money supply figures are based on the revised series published on November 27, 1970.

Table 2

CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS
First 11 months, 1969 and 1970 1/
(In billions of dollars, not seasonally adjusted)

	Total		20 Multi-Nat'l Banks 7/		60 Major Regional Banks 8/		250 Large Local Banks	
	1970	1969	1970	1969	1970	1969	1970	1969
Total loans and investments, gross	9.6	-2.3	2.8	-1.7	1.2	-1.2	5.6	0.6
Total loan sales	-0.1	4.5	0.1	3.1	-0.1	0.9	0.1	0.6
Total loans and investments, adjusted for loan sales	9.5	2.2	2.9	1.3	1.1	-0.3	5.7	1.1
U.S. Treasury	2.1	-6.2	1.7	-2.6	0.2	-1.7	.1	-1.9
Other securities	5.3	-3.4	2.6	-2.8	0.9	-0.7	1.8	--
Total loans, gross	2.2	7.3	-1.5	3.7	--	1.2	3.7	2.4
Total loans, adjusted for.loan sales	2.1	11.8	-1.4	6.8	-0.1	2.0	3.6	3.0
Business loans	-1.3	5.0	-1.5	2.8	- .7	1.1	.9	1.1
Business loan sales	--	3.1	0.2	2.2	-0.1	0.5	0.1	0.4
Business loans, adjusted for loan sales	-1.3	8.1	-1.3	5.0	-0.8	1.6	0.7	1.5
Real estate	-0.3	1.9	- .4	1.0	- .2	0.4	0.4	0.6
Consumer installment	1.0	1.5	.4	0.2	--	0.4	0.6	0.9
Total deposits 2/	13.8	-18.7	7.9	-10.6	.9	-5.5	4.9	-2.7
Total demand deposits 2/	-4.1	-3.0	-1.4	- .3	-2.5	-1.7	- .2	-1.0
Total time and savings deposits	17.9	-15.7	9.3	-10.2	3.4	-3.8	5.2	-1.7
Large CD's 3/	12.6	-12.0	6.9	-7.1	3.0	-3.3	2.7	-1.6
Borrowings from major domestic sources 4/	- .2	8.8	--	3.5	- .1	3.0	- .1	2.2
Other liabilities	-4.3	8.7	-4.2	7.0	- .3	1.0	.1	- .6
Euro-dollar liabilities 5/	-5.4	7.5	-4.5	6.7	-0.5	0.7	- .4	--
Loan and security reserves & total capital account	1.2	1.9	.6	.7	.1	.5	.7	.5
MEMO:								
Commercial paper 6/	-0.4	3.6	0.1	2.0	-0.3	1.3	-0.3	0.4

1/ Changes for 1970 are from December 24, 1969, to November 11, 1970. Comparable dates were used to compute 1969 changes.
2/ Less cash items in the process of collection.
3/ Negotiable time certificates of deposit in denomination of $100,000 or more.
4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.
5/ Bank liabilities to foreign branches.
6/ Issued by a bank holding company or other bank affiliate.
7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.
8/ The same criteria as those listed in footnote 8 were used to select these 60 banks. However, these banks, in general, are smaller and each region of the country was given representation.
NOTE: Figures may not sum exactly due to rounding.

Table 3

CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS
First 11 months, 1969 and 1970 1/
(In per cent, not seasonally adjusted)

	Total		20 Multi-Nat'l Banks 7/		60 Major Regional Banks 8/		250 Large Local Banks	
	1970	1969	1970	1969	1970	1969	1970	1969
Total loans and investments, gross	4.1	-1.0	2.6	- .2	2.1	-2.0	8.0	.8
Total loan sales	-9.4	*	2.4	*	-9.5	*	*	*
Total loans and investments, adjusted for loan sales	3.9	0.9	2.6	1.2	1.9	-0.5	8.2	1.7
U.S. Treasury	8.9	-21.2	17.8	-21.8	3.8	-23.6	1.4	-18.8
Other securities	14.9	-8.9	18.4	-16.6	10.3	-6.9	14.3	0.2
Total loans, gross	1.2	4.4	-1.8	4.6	.1	3.0	7.5	5.3
Total loans, adjusted for loan sales	1.1	7.1	-1.6	8.4	-2.0	5.1	7.6	6.5
Business loans	-1.6	6.8	-3.2	6.6	-3.8	6.7	5.4	7.4
Business loan sales	-1.7	*	8.4	*	-20.9	*	-67.2	*
Business loans, adjusted for loan sales	-1.7	10.9	-2.7	11.9	-4.2	9.9	9.4	9.9
Real estate	-0.8	6.1	-3.0	7.7	-3.7	5.7	3.2	4.6
Consumer installment	4.9	8.1	7.1	4.4	-0.6	7.2	6.8	11.0
Total deposits 2/	6.9	-8.7	9.3	-11.2	1.9	-10.1	7.5	-4.0
Total demand deposits 2/	-3.9	-2.9	-3.1	-0.8	-9.3	-6.2	-0.8	-3.2
Total time and savings deposits	18.6	-14.0	23.5	-20.6	14.6	-14.1	15.6	-4.7
Large CD's 3/	115.1	-51.4	139.4	-58.7	100.2	-50.6	90.0	-34.0
Borrowings from major domestic sources 4/	-1.0	77.0	-0.2	56.1	-2.1	85.0	-1.3	142.0
Other liabilities	-16.1	49.0	-20.5	53.5	-8.3	48.6	4.8	24.9
Euro-dollar liabilities 5/	-37.1	106.9	-34.2	97.3	-62.4	569.2	-73.7	-59.2
Loan and security reserves & total capital account	4.5	7.6	4.4	5.8	1.7	9.0	7.0	9.4
MEMO:								
Commercial paper 6/	-9.8	*	5.0	*	-26.8	*	28.7	*

1/ Changes for 1970 are from December 24, 1969, to November 11, 1970. Comparable dates were used to compute 1969 changes.
2/ Less cash items in the process of collection.
3/ Negotiable time certificates of deposit in denomination of $100,000 or more.
4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.
5/ Bank liabilities to foreign branches.
6/ Issued by a bank holding company or other bank affiliate.
7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.
8/ For definition see Table 1.

NOTE: Figures may not sum exactly due to rounding.

Table 4

CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS
First Half, 1969 and 1970 1/
(In billions of dollars, not seasonally adjusted)

	Total		20 Multi-Nat'l Banks 7/		60 Major Regional Banks 8/		250 Large Local Banks	
	1970	1969	1970	1969	1970	1969	1970	1969
Total loans and investments, gross	-1.6	--	-2.7	-0.1	-1.3	-0.3	2.5	0.3
Total loan sales	4.1	1.9	3.4	1.4	0.2	0.2	0.6	0.4
Total loans and investments, adjusted for loan sales	2.5	1.9	0.7	1.3	-1.1	-0.1	3.1	0.7
U.S. Treasury	-1.6	-6.6	-1.1	-0.3	-0.3	-1.6	-0.3	-1.6
Other securities	2.2	-1.4	1.5	-1.4	--	-0.3	0.7	0.3
Total loans, gross	-2.3	8.0	-3.2	4.7	-1.0	1.6	2.0	1.7
Total loans, adjusted for loan sales	1.8	9.9	0.2	6.1	0.8	1.8	2.5	2.0
Business loans	-0.9	5.2	-1.7	2.6	-0.2	1.5	1.1	1.1
Business loan sales	3.4	1.0	3.2	0.9	0.1	--	0.3	0.1
Business loans, adjusted for loan sales	2.5	6.3	1.5	3.5	--	1.5	1.4	1.4
Real estate	-0.6	1.2	-0.5	0.6	-0.3	0.3	0.2	0.4
Consumer installment	0.4	1.1	--	0.3	-0.1	0.2	0.5	0.5
Total deposits 2/	-0.4	-14.7	-0.3	-9.5	-1.7	-3.3	1.6	-1.9
Total demand deposits 2/	-3.9	-6.2	-1.7	-2.7	-1.8	-1.6	-0.5	-1.9
Total time and savings deposits	3.6	-8.5	1.4	-6.8	--	-1.7	2.1	-0.1
Large CD's 3/	1.9	-8.2	1.0	-6.0	0.3	-1.8	0.6	-0.5
Borrowings from major domestic sources 4/	-1.3	4.9	-1.1	1.1	-0.5	2.1	0.2	1.7
Other liabilities	-1.1	9.3	-1.2	8.7	--	0.3	0.1	0.3
Euro-dollar liabilities 5/	-2.2	6.8	-2.0	6.6	-0.1	0.2	-0.1	- .1
Loan and security reserves & total capital account	1.0	1.2	0.4	0.5	0.2	0.3	0.5	1.4
MEMO:								
Commercial paper 6/	3.5	0.4	3.1	0.3	0.4	0.1	*	*

1/ Changes for 1970 are from December 24, 1969, to June 24, 1970. Comparable dates were used to compute 1969 changes.
2/ Less cash items in the process of collection.
3/ Negotiable time certificates of deposit in denomination of $100,000 or more.
4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.
5/ Bank liabilities to foreign branches.
6/ Issued by a bank holding company or other bank affiliate.
7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.
8/ For definition see Table 1.

NOTE: Figures may not sum exactly due to rounding.

Table 5

CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS
First Half, 1969 and 1970 1/
(In per cent, not seasonally adjusted)

	Total		20 Multi-Nat'l Banks 7/		60 Major Regional Banks 8/		250 Large Local Banks	
	1970	1969	1970	1969	1970	1969	1970	1969
Total loans and investments, gross	-0.7	--	-2.5	-0.1	-2.3	-0.6	3.5	0.[illegible]
Total loan sales	91.8	*	102.3	*	30.7	*	--	*
Total loans and investments, adjusted for loan sales	-2.9	0.4	1.9	0.1	-3.9	-0.8	3.5	1.0
U.S. Treasury	-6.8	-22.7	-10.2	28.0	-6.1	-22.8	-3.1	-16.3
Other securities	6.3	-3.6	10.3	-8.5	0.4	-2.9	6.1	2.6
Total loans, gross	-1.3	4.8	-3.7	5.8	-2.5	3.9	4.0	3.6
Total loans, adjusted for loan sales	1.0	1.0	-1.9	0.6	0.3	--	2.2	2.6
Business loans	-1.1	7.1	-3.7	6.2	-1.1	8.9	6.5	7.5
Business loan sales	116.6	*	154.3	*	45.3	*	*	*
Business loans, adjusted for loan sales	3.4	7.1	3.1	8.3	0.1	8.9	8.9	9.4
Real estate	-1.9	3.8	-4.0	4.6	-4.3	3.5	1.8	3.8
Consumer installment	1.7	5.9	0.5	6.5	-2.4	4.1	5.0	6.7
Total deposits 2/	-0.2	-6.8	-0.3	-10.1	-3.5	-6.1	2.5	-2.8
Total demand deposits 2/	-3.8	-6.0	-3.7	-6.1	-6.7	-6.0	-1.5	-5.9
Total time and savings deposits	3.7	-7.6	3.6	-13.7	0.2	-6.2	6.3	--
Large CD's 3/	17.6	-35.1	20.5	-49.4	11.2	-27.5	19.1	-9.6
Borrowings from major domestic sources 4/	-5.8	42.7	-10.2	19.1	-5.9	58.1	0.6	102.4
Other liabilities	-4.1	52.5	-5.8	66.0	-0.1	15.3	2.9	11.5
Euro-dollar liabilities 5/	-15.4	96.6	-15.2	95.2	-14.3	159.0	-41.7	-80.0
Loan and security reserves & total capital account	3.8	2.7	41.4	1.9	-0.8	3.2	0.8	3.7
MEMO:								
Commercial paper 6/	92.9	*	149.0	*	29.5	*	--	*

1/ Changes for 1970 are from December 24, 1969, to June 24, 1970. Comparable dates were used to compute 1969 changes.

2/ Less cash items in the process of collection.

3/ Negotiable time certificates of deposit in denomination of $100,000 or more.

4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.

5/ Bank liabilities to foreign branches.

6/ Issued by a bank holding company or other bank affiliate.

7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.

8/ For definition see Table 1.

NOTE: Figures may not sum exactly due to rounding.

Table 6

CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS

End-of-June to Mid-November, 1969 and 1970 1/

(In billions of dollars, not seasonally adjusted)

	Total		20 Multi-Nat'l Banks 7/		60 Major Regional Banks 8/		250 Large Local Banks	
	1970	1969	1970	1969	1970	1969	1970	1969
Total loans and investments, gross	11.2	-2.3	5.6	-1.6	2.5	-.8	3.1	.2
Total loan sales	-3.9	2.6	-3.4	1.5	-0.3	0.6	- 0.2	0.3
Total loans and investments, adjusted for loan sales	7.0	0.1	2.2	0.2	2.2	-0.3	2.5	0.4
U.S. Treasury	3.7	0.4	2.7	0.7	0.5	-0.1	0.4	-0.3
Other securities	3.1	-2.0	1.2	-1.4	1.0	-0.4	1.0	-0.3
Total loans, gross	4.5	-.7	1.7	-1.0	1.1	-.4	1.7	.7
Total loans, adjusted for loan sales	0.6	2.0	-1.7	0.6	0.8	0.2	1.4	1.0
Business loans	-.4	-0.2	.2	0.2	-0.5	-.3	-.2	0.1
Business loan sales	-3.7	1.9	-3.0	1.5	-.3	0.5	--	9.1
Business loans, adjusted for loan sales	-4.1	1.7	-2.8	1.3	-0.9	0.1	-0.6	0.1
Real estate	0.4	0.7	0.1	0.4	--	0.2	0.2	0.2
Consumer installment	0.6	0.4	0.4	-0.1	0.1	0.2	0.2	0.3
Total deposits 2/	14.1	- 4.0	8.2	-1.1	2.7	-2.2	3.3	-0.8
Total demand deposits 2/	-0.2	3.2	0.3	2.4	-0.7	-0.1	0.2	0.9
Total time and savings deposits	14.3	- 7.2	7.9	-3.4	3.4	-2.1	3.1	-1.7
Large CD's 3/	10.7	- 3.8	5.9	-1.1	2.7	-1.5	2.1	-1.2
Borrowings from major domestic sources 4/	1.1	3.9	1.1	2.3	.3	.9	-0.3	.7
Other liabilities	-3.2	-.6	-3.0	-1.6	-0.3	.7	-0.1	- .3
Euro-dollar liabilities 5/	-3.2	0.7	-2.5	0.1	-0.4	0.5	-0.3	0.1
Loan and security reserves & total capital account	.2	.7	.2	.2	- .1	.2	.1	.3
MEMO:								
Commercial paper 6/	-3.9	3.2	-3.0	1.7	-0.7	1.2	-0.1	0.4

1/ Changes for 1970 from June 24, 1970, to November 11, 1970. Comparable dates were used to compute 1969 changes.

2/ Less cash items in the process of collection.
3/ Negotiable time certificates of deposit in denomination of $100,000 or more.
4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.
5/ Bank liabilities to foreign branches.
6/ Issued by a bank holding company or other bank affiliate.
7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.
8/ For definition see Table 1.

NOTE: Figures may not sum exactly due to rounding.

Table 7

CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS
End-of-June to Mid-November, 1969 and 1970 1/
(In per cent, not seasonally adjusted)

	Total		20 Multi-Nat'l Banks 7/		60 Major Regional Banks 8/		250 Large Local Banks	
	1970	1969	1970	1969	1970	1969	1970	1969
Total loans and investments, gross	4.8	-1.0	5.2	-1.5	4.5	-1.5	4.4	0.2
Total loan sales	-51.9	113.5	-53.6	104.9	-30.8	87.8	--	--
Total loans and investments, adjusted for loan sales	2.9	--	1.9	--	3.9	-0.5	3.8	0.6
U.S. Treasury	16.8	2.0	31.2	8.7	10.6	-1.0	4.7	-3.0
Other securities	8.1	-5.5	7.3	-8.8	9.9	-4.2	7.8	-2.3
Total loans, gross	2.6	-0.4	2.0	-1.2	2.6	-0.9	3.4	1.5
Total loans, adjusted for loan sales	2.9	--	1.9	-0.1	3.9	-0.5	3.7	0.6
Business loans	-0.5	-0.2	0.5	0.4	-2.7	-2.0	-1.1	-0.2
Business loan sales	-57.3	*	-57.4	*	-45.5	*	-82.8	*
Business loans, adjusted for loan sales	-4.8	2.4	-5.6	3.7	-4.3	-0.9	-3.2	0.5
Real estate	1.1	2.2	1.0	3.0	0.6	2.2	1.4	1.5
Consumer installment	3.1	2.0	6.5	-1.9	1.9	3.0	1.8	4.0
Total deposits 2/	7.1	-2.0	9.6	-1.3	5.6	-4.3	4.9	-1.2
Total demand deposits 2/	-0.2	3.3	0.6	5.7	-2.8	-0.2	0.7	2.8
Total time and savings deposits	14.4	-7.9	19.2	-8.0	14.5	-8.4	8.7	-4.7
Large CD's 3/	83.0	-25.2	98.6	-18.5	79.9	-31.9	59.6	-27.0
Borrowings from major domestic sources 4/	5.1	24.1	11.2	31.2	4.1	17.1	-7.2	19.6
Other liabilities	-12.5	-2.3	-15.6	-7.5	-8.3	28.9	-1.8	12.0
Euro-dollar liabilities 5/	-25.6	5.2	-22.3	4.6	-56.1	158.4	-55.9	480.0
Loan and security reserves & total capital account	0.7	2.7	1.4	1.9	-0.8	3.2	0.8	3.7
MEMO:								
Commercial paper 6/	-53.2	744.5	-57.8	614.3	-43.5	597.9	-32.5	*

1/ Changes for 1970 are from June 24, 1970, to November 11, 1970. Comparable dates were used to compute 1969 changes.

2/ Less cash items in the process of collection.
3/ Negotiable time certificates of deposit in denomination of $100,000 or more.
4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.
5/ Bank liabilities to foreign branches.
6/ Issued by a bank holding company or other bank affiliate.
7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.
8/ For definition see Table 1.

NOTE: Figures may not sum exactly due to rounding.

Table 8

Measures of Liquidity at Weekly Reporting Banks, 1968, 1969, and 1970
(Ratios expressed in per cent)

	December 1968		December 1969		November 1970	
	Total Loans / Total Liabilities	Total Loans / Total Deposits	Total Loans / Total Liabilities	Total Loans / Total Deposits	Total Loans / Total Liabilities	Total Loans / Total Deposits
All Weekly Reporting Banks	68.1	77.2	71.7	89.0	70.0	84.3
Multi National	70.8	85.5	74.8	102.4	71.3	92.1
Major Regional	67.1	74.1	70.6	85.1	70.0	83.6
Large Local	64.5	68.2	67.5	74.7	67.9	74.7