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A Central Banker Reappraises CD's

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There is an old Spanish saying which translates roughly as "It is better to live with a devil one knows than a thousand angels one has not tried." The certificate of deposit often seems to have been characterized as playing a familiarly devilish role. Certainly in what was a climactic year for the financial system, 1966, the CD's were frequently condemned as contributing to undue competition for savings, aggravating the so-called "rate war," serving as a deterrent to effective monetary policy, and for a host of other disruptive influences.

To foreshadow the conclusions of my discussion today, I may say at the outset that I do not think the CD is that much in the power of the devil, nor do I believe that all of its characteristics are beatific. Rather, I think the CD has demonstrated its usefulness as a money market instrument, contributing importantly to competition in channeling the liquid savings that are essential to a vital and dynamic economy. Yet one must admit that the CD has had its share of abuses. And those abuses make clear that in this area as in others, boundaries need to be recognized by management, and sometimes defined by Government, so that healthy competition can flourish within those boundaries. Whether devil or angel, the CD has been an element both in the considerations of the monetary authorities over the past six years and in the responses of the banking system to the monetary policy of this period. And today I want to focus on both these aspects of our CD experience.

Six years ago, the negotiable CD began to function as a money market instrument. And about six months ago, the volume of outstanding CD's reached a height of over $18 1/2 billion. Then began a period of liquidation during which outstandings declined by more than $3 billion. About six weeks ago, the tide turned again, and since then issuing banks have regained over two-thirds of their earlier losses. Thus, an important period in the history of this instrument has recently come to a close and another is now getting under way.

In many ways the outset of the phase we are entering seems to bear some parallel to where we stood six years ago at the beginning of 1961 when we were endeavoring to stimulate the domestic economy while looking for ways to defend ourselves internationally against a chronic payments deficit. Consequently, this seems to be an appropriate time to review critically the experience we have been through--for you as bankers and for us as bank supervisors and policy makers--and to try and see what lessons it may suggest for the future.

Historical perspective

To grasp the possible lessons more fully, it is desirable that the contemporary CD be put in proper historical perspective. There has been some tendency to regard as a radical innovation the move by large city banks to compete for the liquid funds of national corporations and other large investors by issuing a negotiable instrument in denominations suitable for market trading. This view implies some criticism of bankers for venturing into this sensitive area, particularly for issuing short-maturity instruments, and of bank supervisors for permitting them to do so. A careful look at the record, however, suggests that for banks to serve as temporary havens for the liquid funds of large corporations is not an innovation and in fact can have constructive results.

Back at the turn of the century, commercial banks were not important holders of the public's interest-bearing assets, either personal or business. Time and savings deposits then comprised only about one-eighth of total commercial bank deposits. But the importance of time deposits at banks grew steadily over the earlier years of the century, so that by 1920 they accounted for nearly one-fifth of total member bank deposits and by 1930 for more than one-third.

Reported holdings of time deposits in the first three decades of this century, moreover, substantially understate the volume of bank deposits at interest since, in those years, banks were not prohibited from paying interest on demand deposits. They commonly did so on a selective basis, particularly on interbank and large corporate and local government deposits. Information on the amount of interest paid on demand deposits at member banks, which first became available in the late 1920's, suggests that at that time the volume of demand balances on which interest was paid may have been almost as large as the volume of time and savings deposits.

With the shrinkage of loan demand and the subsequent generation of excess liquidity during the Great Depression, banks became relatively uninterested in competing for time deposits. Many banks even refused to accept time deposits of corporate customers since there were few, if any, attractive investment outlets for such funds. Before the outbreak of World War II, the effective interest rate paid on time deposits had fallen to one percent and the proportion of such deposits to total deposits at all member banks had fallen back to around the one-fifth level of 1920. With most interest rates low, there was little incentive for businesses to economize on the use of cash and corporations tended to concentrate their liquidity cushions in demand deposits, even though banks by then were prohibited by law from paying interest on these deposits.

In the post-World War II period, after some transitional absorption of excess liquidity inherited from the period of war finance, demands for funds widened and strengthened, and indeed pressed against the availability of bank credit growth. Thus, interest rates step-by-step moved to higher levels. Corporations and other large investors began to transfer idle cash balances into interest-bearing assets to take advantage of the higher yields available. They also sought ways of utilizing cash balances more efficiently so that larger and larger sums could be transferred to earning form. Among other havens for liquid funds they turned to Treasury bills, a money market instrument non-existent before 1929, but which were available after World War II in expanding quantities with a substantial secondary market.

As post-World War II loan demands on banks slowly began to mount, deposit growth was held in check partly by contemporary monetary policy and partly by the conversion of corporate demand deposit balances into other liquid assets. In these circumstances, bank liquidity declined, and indeed declined rapidly. Eventually, commercial banks began to feel a real pinch for funds, especially the big city banks serving the large national corporations. For these banks had been called upon not only to continue supplying the short-term credit needs of these corporations; they had also been asked to supply a sizable portion of corporate needs for long-term funds as well, through term loans.

The need to find additional sources of funds was forcefully brought home to the large city banks during the 1958-60 boom. In that upswing, monetary policy appeared to exert a greater restrictive pressure than in earlier postwar surges. Large city banks reluctantly found it necessary to reduce their liquidity to levels judged at the time to be uncomfortably low. In the face of this situation, as demands for credit expanded again in early 1961, these banks began to compete for the liquid funds of their national customers. In so doing, they were actively resuming a role they had been obliged to forfeit nearly three decades earlier and also taking a calculated liquidity risk in order to cope with the expanding credit demands of the private sector.

In seeking again to become debtors for corporate savings, however, banks had to modify their earlier procedures because the changes of the 1930's in bank law and regulation not only affected banking operations, but also influenced the manner in which corporations managed their cash balances, including their time deposits. These changes had lessened the attractiveness of both demand and time deposits as repositories of liquid funds. The prohibition of payment of interest on demand deposits made it more costly to hold assets in this form. With rising interest rates on market instruments, corporations had the incentive to use cash more efficiently relative to the volume of their prospective payments, and the percentage of corporate financial assets held in the form of demand deposits declined sharply. Moreover, the restriction of corporate holdings of interest-bearing deposits to special notice accounts and deposits with specific maturities of not less than 30 days made the degree of liquidity available to corporations on time deposits quite limited. Consequently, they did not place any sizable percentage of their financial assets in time deposits.

To succeed in attracting corporate funds away from market instruments, since banks could not pay interest on demand deposits and only nominal interest on short-term time deposits, the only alternative open to banks was to improve the liquidity of the time-deposit instrument. This they did through three innovations. First, banks began to issue time certificates in "bearer" form to establish their unquestioned status as a negotiable instrument. Second, arrangements were made for a secondary CD market to be set up, so that any purchaser who needed to convert his certificate to cash on short notice would be able to do so. Third, they generally restricted issuance to denominations in convenient trading size, generally $1 million, so as to facilitate the development of a secondary market. Within a relatively short time, a sizable volume of trading in negotiable CD's developed and the instrument was launched as a money market investment.

It might be observed, in passing, that individual bank exposure to withdrawal, which has figured so frequently in discussions of the CD is probably less with this instrument than under the arrangements prevailing in the 20's. Then, corporate interest-bearing deposits were to a considerable extent in demand balances; now they are subject to specific maturities and not redeemable before maturity except in certain circumstances.

CD's and Federal Reserve policy--1961-65

Up to this point I have been talking about CD's primarily in terms of their relation to banks' needs for loanable funds. But the timing of the introduction of the negotiable CD was particularly fortunate from the standpoint of the needs of national monetary policy as well. Over the years immediately following its introduction early in 1961, the negotiable CD figured importantly in Government policy efforts to ward off interest-induced outflows from the U.S. of short-term funds while encouraging domestic economic expansion.

During 1960, when the Federal Reserve was following a stimulative monetary policy to combat the recession, interest rates were declining. As is usual in periods of monetary ease, commercial banks undertook to regain as much liquidity as they could by acquiring large amounts of Treasury bills and other short-term assets, and short-term rates declined much more sharply than long rates. At the same time, economic activity in Europe was expanding, and interest rates there were rising. The increasingly attractive yields available abroad, in contrast to the increased availability of funds and declining rates of interest at home, led to a sharp rise in the rate of capital outflow from the U.S., particularly short-term bank funds. After mid-1960, the size of this outflow became sizable and very soon led to a substantial drain on the U.S. gold stock.

This situation posed a difficult dilemma for monetary policy. A firmer monetary policy, with the higher interest rates such a policy would have entailed, might have helped to dampen the capital outflow very quickly. But a generally tighter credit availability was the direct opposite of what was called for to promote domestic recovery. The interest rate requirements for domestic and international positions were obviously in conflict. Thus, policy makers had to seek ways to maintain ready availability of credit for the domestic economy without putting further downward pressure on short-term rates that would aggravate the flow of capital abroad.

The Federal Reserve, for its part, endeavored to minimize its usual fall buying of Treasury bills in 1960 by providing a sizable part of seasonally needed bank reserves through making all vault cash eligible for reserve and through purchases of short Treasury coupon issues with maturities up to 15 months. This was followed by a further policy shift in early February of 1961, when the Federal Open Market Committee authorized open market operations to be conducted in longer-term Government securities as well as short-term. The first purchases of longer-term issues under this broader authority were announced by the Manager of the System Open Market Account on February 20. The birth of the negotiable CD, together with plans for development of a secondary market in this instrument, was announced by a large New York City bank the same day.

As events were to unfold in the ensuing weeks and months, these separate announcements were precursors of a chain of developments having closely parallel economic implications. Thereafter, the System acquired relatively substantial amounts of longer-term Treasury issues in supplying the reserve needs of the banking system. Not only did this serve our international needs, but it was compatible with our domestic needs as well. By focusing its additional demands for assets in long-term markets, the System helped to foster a condition of ease in long-term markets helpful to domestic recovery. In pursuing these objectives, the Federal Reserve was joined by the Treasury, which also made large purchases of long-term securities for its agency and trust accounts and concentrated its new cash borrowing through much of 1961 in the short-term area.

The restructuring of bank portfolios, accompanying rapid growth in CD's, also played a key role in making it possible to stimulate the domestic economy through monetary and credit policy without immediately worsening our international payments position. By pressing onto the market increasing quantities of these new short-term money market instruments, banks helped to satisfy the needs of the economy for liquid assets, and buttressed the level of short-term rates. At the same time, banks that had acquired large amounts of interest-bearing deposits at rising market rates were under pressure to make effective use of those funds to cover their increased costs.

As a result, issuing banks invested a substantial share of their increased funds in longer-term assets, particularly real estate mortgages and municipal securities. From the end of 1961 through 1964, real estate loans and municipal securities at the large weekly reporting member banks, which include the principal issuers of CD's, accounted for over half the total expansion in their total loans and investments. Increases in CD's over this period financed one-third of their increase in total loans and investments.

Reflecting the aggregate impact of all these market influences, private and governmental, the 90-day bill yield never fell appreciably below 2-1/4 per cent in the cycle that began in 1960 compared with lows of less than one per cent in the two preceding cycles. On the other hand, long-term interest rates either declined or showed little net change during the earlier years of the upswing from 1961 on, in contrast with the substantial rise that had occurred in the comparable phase of other postwar periods of economic expansion.

These differential shifts in interest rates, called "Operation Twist," would have been impossible without the CD and its rapid growth. As I said a moment ago, these developments provided stimulation for the domestic economy while at the same time reducing pressures toward worsening the balance of payments position. I think there can be no question but that outflows of U.S. corporate liquid funds would have been larger and the growth of domestic bank deposits smaller if short-term rates in the United States had been lower in those years, or had risen less.

During the course of the ensuing record economic expansion, upward adjustments in ceiling rates on time and savings deposits permissible under Regulation Q, enabled banks to maintain their competitive position as interest rates on competitive financial assets increased. Interest rates on short-term market securities rose late in 1961, again in mid-1963, and once more in the fall of 1964. Each time, yields on close substitutes for negotiable CD's--such as those on Treasury bills--rose sufficiently to make CD's, selling at then-existing rate ceilings, unattractive. On each of these occasions, accordingly, banks began to experience difficulty in rolling over their maturing CD issues, and growth in outstanding CD's slackened. Following the changes in CD rate ceilings in January 1962, July 1963, and November 1964, banks were able to compete for funds again, and growth in outstandings once again accelerated.

By early December 1965, market rates of interest--reflecting the rapid rise in public and private borrowing--had once again begun to press close to the CD ceiling. With banks offering money to borrowers at relatively cheap rates and expecting heavy loan demands at the same time, but with large CD maturities still to be handled that month, a serious constriction in the flow of commercial bank financing threatened. Under these circumstances, along with increasing the discount rate from 4 to 4-1/2 per cent, the Board again raised Regulation Q ceilings, this time by a full percentage point to 5-1/2 per cent. Specifically, we wished by these actions to permit member banks to continue to compete for time deposits of businesses and individuals while signaling some restraint on the economy's borrowing from the banking system.

The "moment of truth" for CD's--1966

As 1966 progressed, with the economy at practically full capacity output, capital outlays extremely strong, defense outlays still rising, and price advances quickening, further restraint was necessary. In the absence of adequate fiscal restraint, monetary policy had to do what it could to minimize inflationary pressures and promote a sustainable expansion.

Once again the CD played a pivotal role in the System's policy actions. You are all familiar with the actions taken. We twice raised reserve requirements on time deposits to add a marginal cost and reserve restraint on bank issuance of CD's, and we amended Regulation Q several times to hold down (and, after last September's legislation, to roll back) permissible rates payable by commercial banks on those kinds of time deposits most directly competitive with deposits or shares at mutual savings institutions. The most important action was inaction: the maximum rate permitted on negotiable CD's was not increased despite the continued rise in interest rates on competing market instruments.

As you know, the problems of dealing with recurrent maturities of CD's under last summer's conditions brought home forcefully to the banks their need for more liquidity. This sort of market pressure was of incalculable importance in influencing banks to reappraise overly expansive lending policies.

For the balance of payments, too, the tightened liquidity position of U.S. banks had important concrete results last summer and indeed all through the rest of the year. I am referring to the pull-in of private funds via the Euro-dollar operations of American bank branches. The sums pulled out of foreign central banks' reserves in this way were surprisingly large but, unfortunately, were obtained only at the cost of driving Euro-dollar interest rates to unprecedented heights.

Looking more closely at the August-September experience, the position of the CD was, as I have already indicated, especially relevant at that juncture to the policy considerations and to the differing views then expressed, both within and outside the System, with regard to the appropriate course of Federal Reserve action. Some felt that, by the time of the last credit tightening action in August, monetary policy had already been pushed to its desirable limits without risking disorderly financial markets that could prove self-defeating for policy. It was argued that an adequate degree of credit restraint had already developed and that financial markets were sufficiently, if not overly, taut. Subsequent developments necessitated the System's September 1 letter to member banks in order both to reassure the banking system of continuing credit availability and to center restraint on the area of greatest expansion; concern, however, was expressed in some quarters as to the desirability of the System attempting to apply this more selective approach to credit restraint via the discount window.

In any event, the period of intense restraint was short-lived. Announcement of the President's anti-inflation program in early September, which included a request for temporary suspension of the investment tax credit, immediately exerted a dampening influence on inflationary expectations. Moreover, as the autumn months passed, there were growing indications that the pace of expansion in activity of the economy was slackening. Reflecting these changes and the possibility that demands for funds at banks might be softening, the Federal Reserve took the initiative in relieving the reserve pressures on the banks, and market interest levels began to recede. But CD attrition at large banks continued, impelling them to persevere in limiting their extensions of new credit.

By December, however, market yields on Treasury bills had reacted sufficiently to enable banks once again to attract CD funds at the short end of the maturity range. There had been a $3.1 billion decline in total large-denomination CD's from mid-August through November. In December, when the record volume of maturities suggested that a sharp further run-off might occur, banks actually were able to increase their outstandings by $170 million. And indications are that in January outstandings rose roughly two billion dollars further, thus recovering over two-thirds of their earlier loss.

Lessons for the future

As we move into the second month of 1967 and a new phase of potential CD growth, I feel that in a sense we have come full circle in the role that the CD has played in policy considerations since about this same time in 1961. While circumstances are never precisely the same and the potential for CD growth may today be more circumscribed than in the early sixties, the CD has promise once again of becoming, for the individual bank, a constructive source of additional loan funds. And, for the nation as a whole, it may continue to play an integral, if less important, part in our efforts to ward off short-term capital outflows as monetary policy eases for domestic reasons while we still have an unsatisfactory balance of payments position. Once again the necessity of reconciling conflicting domestic and international considerations with respect to the path of change in interest rates poses a challenge to monetary policy.

At this point, it is appropriate to ask: What are the lessons of experience of recent years with CD's, both for the central banker and for the individual bank?

Lessons for the central banker

For the central banker I believe there are a number of important lessons in the experience of the past six years:

Coping with downward pressures on short rates--As I have already indicated, it is clear that competitive interest rates on CD's can be useful both in resisting downward pressures on short-term rates for balance of payments reasons and in encouraging banks to supply funds, on a prudent scale, to the longer-term markets, especially the housing market.

Avoiding undesirable competition--At the same time it is also clear that bank competition for CD's and other time deposits can at times become so intensified as to distort orderly flows of funds and normal criteria of banking behavior, as last summer's experience demonstrated. The CD, as aggressively utilized, was one among several sources of funds that enabled banks to maintain an excessive rate of business loan expansion in the face of restrictive monetary policy, and indeed ultimately evoked a greater tightening of credit and greater disturbance in the financial markets than might otherwise have occurred.

Exercising flexibility in ceiling rate regulation--The central bank authorities should exercise their responsibility for establishing ceiling rates, that banks can pay on time deposits, flexibly as among maturities and categories of deposits. I recognize, of course, that the concentrated run-offs some banks may have encountered with their CD's have, on occasion, stemmed from the existence of these regulatory ceilings.

Painful though these squeezes may have been for the banks experiencing them, it is clear, I think, that the interests of national policy also had to be served. Assuming that all parties concerned have learned well the lessons taught by such experiences, I would hope that these rate ceilings could be placed on a standby basis at some future time, to be reinstated only in clear case of need.

Changing attitudes toward competitive shifts in savings flows--The fact that shifts take place from one form of savings to another in response to competitive forces should not always, or even necessarily, be cause for alarm. I think sometimes that central bankers, as well as commercial bankers, too often apply to CD prospects the old bridge rule known as "Murphy's Law", i.e., "if anything bad can possibly happen it will." But in fact, at no time did the run-off of CD's come close to the dire predictions so common at times late in 1965 and during 1966. Nor, I might add parenthetically, was there ever an avowed central bank objective of reducing CD's by any preconceived "X" billions of dollars! Yet undeniably, the liquidity pressure put on the banks last year served an important function. The environment of concern which developed undoubtedly helped bring the banks themselves to rearrange their maturities and watch the volume of their CD's to their own advantage as well as that of the financial markets. Beyond this the pressure on liquidity helped to check what was in danger of becoming a seriously inflationary loan expansion.

Lessons for the commercial banker

Turning to the equally important lessons for the commercial banker, recent experience suggests the following:

Choosing markets for CD's--Experience thus far suggests that there are two relatively distinct markets for CD's and that banks should consider carefully their various attributes in choosing where they wish to compete.

On the one hand, there is the national money market, where buyers are mainly the leading industrial corporations and other large investors, where bargaining is for the most part of the arms-length variety, where availability of funds is governed almost exclusively by rate, and where movements of funds are highly responsive to relatively small rate differentials. In this market, it is possible to attract substantial amounts of funds very rapidly merely by shading the offering price slightly above the market, but it is also possible to lose substantial amounts of funds just as fast, if the offering rate or the credit standing of the issuer should fall slightly below the prevailing standard.

On the other hand, there is the more local or regional market for funds. Here, market participants tend to have smaller amounts of funds to invest, customer relationships tend to figure more importantly in decisions as to where to invest, and funds are less likely to move in response to small rate differentials. This market offers less opportunity for rapid growth through aggressive pricing, but it is a more reliable and stable market and often a less costly one as well.

In the early months of 1966, when market rates moved up sharply following the December 1965 increase in the discount rate, an appreciable number of medium-size banks that previously had competed in the national market were no longer willing to pay the higher rates necessary to keep abreast there, and voluntarily withdrew. Instead, they turned to cultivating their regional and local sources of funds. The wisdom of that decision was demonstrated this past fall. For during the period when outstanding CD's at the money market banks were experiencing a sharp decline, smaller banks had only nominal losses in the aggregate and many individual banks continued to gain CD funds.

Further analyzing sources of CD's--It is essential for every banker to analyze the character of his available funds, to know, for example, from which of these markets they are being drawn or from which type of customers. And regardless of source, bankers will want to bear in mind that depositors are becoming increasingly interest-sensitive. After their earlier success in attracting CD's, facilitated by successive increases in rate ceilings, many bankers may have become unduly complacent about the source of their funds. Some assumed that CD funds could be turned on and off at will like a water faucet--as long as they were willing to pay the market price.

This assumption, it seems to me, was wrong from two points of view. From the point of view of the individual bank, it ignored the possible adverse effects that overissuance of CD's could have on the rate a bank would have to pay for CD funds. The effects could come through raising the risk premium the market would demand, and also even through limiting a bank's ability to attract funds at all, in case it became too adventurous. From the point of view of the banking system as a whole, it took no account of the possibility that large-scale attraction of time deposits might create problems in financial markets or lead to inflationary loan expansion necessitating counter action by the monetary authority.

Structuring maturities of assets and liabilities--It is obviously desirable for banks to achieve and maintain a reasonable relationship between the maturity structure of their assets and of their liabilities.

The art of banking always requires a delicate balancing of the nature of asset claims with the nature of deposit liabilities. Prudence suggests a structuring of assets to assure that a bank will have liquid assets available for meeting a significant deposit runoff, particularly of deposits with scheduled maturities. It might also call for a rediversion of efforts from attracting short-term liabilities toward borrowing long-term funds. Such a spreading of maturities would not only ease the administrative burden of rolling over maturing deposits, but it would also moderate the impact of any sharp reduction in availability of new funds.

Avoiding overdependence on CD's--A clear lesson from recent experience is the undesirability for a bank to become overdependent on any single source of funds. In diversification there is safety, on the liability side of the balance sheet as well as on the asset side. Only when there are alternative sources of funds to tap can a bank find a backstop if a given source tends to dry up or become unduly costly. Seeking out and cultivating additional sources may involve additional research and administrative inconvenience, but these mainly short-run costs need to be weighed against the longer-run benefits. One factor a bank may wish to consider in weighing these alternatives is the relative importance of being able to take care of its regular customers at a time when competitors might not be in as fortunate a position. Another is that a bank may have to go on escalating the rates it pays on some of these sources of funds when money is tight or even liquidate assets acquired, as deposit losses occur.

Exercising flexibility in fixing terms--There appears to be a need for greater flexibility in fixing the terms on bank deposits and on bank loans to aid in keeping flows of funds in balance. For example, banks that foresee strong loan demands ahead might find it desirable to try to gar garner some of those funds in advance by offering premium rates to attract long-maturity CD's. On the loan side, the existing prime-rate and compensating-balance framework for setting the charge on bank loans has not proved adequately flexible in deterring loan demand in periods of reduced availability of funds. Nor does it provide sufficient response to encourage borrowing during periods of monetary ease. The shortcomings of this framework for curbing loan demand in tight periods were clearly demonstrated last year, when banks unexpectedly received a considerable number of loan requests from customers with long-standing deposit relationships who had never borrowed before--loan requests, incidentally, which they found it virtually impossible to turn down regardless of the cost to the bank of raising the funds to meet them. Such problems would be reduced if greater reliance were placed on prices--prices that are flexible in both directions in response to supply and demand changes--in setting charges on bank services. And clearly closer attention should be paid to lines of credit commitments, and their future implications, in periods when loan demands are slack.

Concluding comment

Finally--and perhaps this is implicit in much of what I have said before--we all recognize that commercial banking is a vastly different operation today from what it was in the 1950's--nor has central banking been exactly a static affair! The emergence of the CD, and its role in the private and public arenas, is symptomatic of the kind of changes and adaptations that have been occurring, and may be expected, in a growing and dynamic economy. Undoubtedly, the ability and determination of banks to compete for deposits on a price basis have increased the total resources of the banking system, and have altered its position in the overall financial framework. Benefits have accrued not only to the depositor-saver but even more broadly throughout the economy, particularly in terms of a more efficient allocation of financial resources. And the monetary authorities, too, have been able to capitalize on this basic banking innovation in adapting policy instruments to changing economic needs.

As banks have become larger and more diversified institutions, their management and administration have, correspondingly, become more complex and more difficult. Planning, forecasting, and management decision-making of necessity now are more sophisticated. The stakes have become larger but so have the risks of inadequate performance. And in this environment bankers will be seeking to reshape and adapt tested guidelines--guidelines such as the well-worn admonition not to confuse asset soundness with liquidity nor deposit term with immobility--to new instruments as they are developed. And central bankers, in turn, need to follow the flexible approach as they, too, seek to assure the maximum usefulness in the public interest of such innovations as the CD. Competent, foresighted, and imaginatively creative bank management is an invaluable resource--not just for banks but for customers and the nation they serve. And central bankers must at all times at least try to match this imagination and creativity.