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As you undoubtedly know, I do not have a banking background. Instead, mine is one of lumber manufacturing and beef cattle. It was intentional that the Board of Governors of the Federal Reserve System represent as many divergent ranges of experience as practicable. While this plan helps assure that decisions are based on many considerations, it also provides a clear indication that the Board is not dominated by what is sometimes referred to as the "banker's viewpoint." Quite naturally, most of the groups that I address are predominantly commercial bankers. As you can imagine, this presents me with a problem in trying to select a subject. I am expected to speak on some phase of the banking picture and usually my audiences know more about commercial banking than I do. I am sure you can realize the dilemma I confront. Frequently, I feel that I would "abandon ship" if it could be done gracefully.

So it is a problem for me to select a subject close to money and banking in which you might be interested. Tonight I would like to make some observations regarding what I think are a few misconceptions. As I see it, some of these misconceptions actually work to the detriment of our maintenance of sound monetary policy.

One of the frequent complaints by critics of monetary policy during the past year has been that the money supply decreased for a while and is not now increasing fast enough. Some say there should be a steady increase without any wavering of the trend line. Now this sounds like a good idea, but I believe the subject cannot be disposed of so quickly. There are other considerations. Many of you know the definition of money supply, as we use the words, is the total of demand deposits in commercial banks plus currency and coin in circulation. There are good technical reasons for defining money in this way for certain purposes. For one thing, this is the part of the total liquid funds in the hands of the public which is used in day-to-day transactions; other liquid assets generally have to be converted into money before they can be spent. Furthermore, currency and demand deposits are the things that monetary policy can influence most directly. Therefore, we need to have separate data for this part of the total supply of liquid funds.

But for many other purposes and, particularly, for judgments as to whether the supply of money and credit in the whole economy is the right amount to promote stable growth, it seems to me to be a very narrow type of index on which to base judgment. It includes no consideration for the quantities of Government securities held by private investors, savings and time deposits, savings and loan shares, life insurance cash surrender values, or other liquid assets. But since many people have used this total in attempting to measure a thing that really cannot be measured so simply, it places the advocates of sound money in a position of trying to explain why such a figure doesn't always go up.

Well, of course, one of the main reasons that the total of these two figures slowed down last year was because of the decision of many corporate and private investors to enter the Government securities market -- as a result of high and attractive yields. Suddenly it became more advantageous to be a lender of excess funds than to leave them in the liquid form of bank deposits. And while this was taking place, commercial banks were reducing their Government security portfolios and taking on additional loans at the highest interest rates in decades. But with the movement of corporate and private funds into Government securities, the decrease of demand deposits in commercial banks should not be surprising. So while we had a situation where banks and private investors were pleased over high interest returns and total credit extensions in the economy were at record levels, the decline in demand deposits resulted in a lower figure for the "money supply" as narrowly defined. This provided an occasion for many to point out that monetary policy had been too restrictive.

The entry of a larger number of corporations and individuals into the Government securities market was a development which some think was good; others think the opposite. On the good side, it gave a larger number of our citizens an interest in maintaining the value of the United States dollar, and this is a matter in which far too few have been concerned. On the bad side, it took funds out of banks at a time when their loan-to-deposit ratios were already high and rising. Regardless of the pros and cons on this subject, the transfer of funds in this manner did slow the growth of the money supply. Just about the time this type of shift was abating as short-term Government rates were falling, total savings and time deposits started increasing. But since this type of deposit is not included in the so-called "money supply," this was no help in bolstering the "money supply" to an upward trend.

The conclusion I draw from these facts is that the money supply means little in an analysis of the critical question of whether the total supply of credit in the economy is too large, too small, or just right. Perhaps someday we will use a more comprehensive figure which might mean more -- or it might mean less. But it seems wise to recognize the fact that there is no simple or meaningful way to total up a single set of figures and call it "money supply" for all purposes.

Another misconception based on that pair of misnomers, "tight money" and "easy money," has hurt the cause of sound monetary policy. I don't know who thought up this "tight money" description. I assume it was coined by someone who felt that perpetual inflation was a good thing for the country, because it certainly loads the dice in his favor. Human beings who don't know money and banking inside out just naturally revolt at the idea of "tight money." It is most unfortunate, I think, that so many of us have swallowed the bait, and find ourselves in the position of defending "tight money" when that is not what we mean at all. If it was described as a "sound money" program, many more would accept and support it. And instead of using the phrase "easy money," we should put this cause in clearer view by calling it "printing press money."

In the past, there have been occasions when we, as a nation, have indulged ourselves to a certain amount of what some consider the luxury of "easy money" or "printing press money." Today we really do not have a choice and are in no position to indulge ourselves. There are two main reasons for this. First, we are now, in effect, reserve banker to the free world. Foreign countries and their citizens hold dollars as large portions of their reserves, and their continued holding of them is based on their confidence in the American people to meet their problems and challenges in a realistic manner. The second reason we cannot choose "printing press money" is that we are now in trade competition with the rest of the world. We helped some countries build themselves into a position of strength after World War II in order that we might have strong allies to defend freedom in the world. Today these countries want the good life they have heard of in our country and they are serious challengers, not only in world markets but even for our own domestic markets.

The point I am coming to is this: In the past, perhaps the choice of descriptive phrases and statistics has not seemed of much consequence. If they were inaccurate or misleading to some extent, no great harm was likely to result. But today the American public is becoming more interested, and the very use of misnomers makes it easier for the public to be misled.

Just think -- if even half of our people felt as strongly about maintenance of sound Government finances as I dare say everyone in this group, then our Government's financial problems would no longer be of the same magnitude. So, if you feel as I do that responsible fiscal, monetary, and debt management policies are the foundation of our strength, then we are all charged with a moral responsibility to see that more and more of our people know there is no way to stretch money without it losing its shape or, what is more important, its value.