

Money and Credit: Exploring Alternatives

Rapid and sweeping changes during the past few years in financial instruments available to the public have raised questions about basing monetary policy on a narrow monetary aggregate (M-1). Already, past relationships between narrow money and the economy at large have started breaking down. In the future, the relationships are likely to change even more. Because of recent regulatory changes, an expanding portion of narrow money pays interest, and over time a large portion may pay interest virtually at money market rates. Thus, narrow money has increasingly become a hybrid, including some balances that are used primarily to make transactions and other balances used primarily as savings instruments. Of course, other hybrid investment instruments are also available (notably money market funds and the money market deposit account). They are instruments with some transactions features, though they are outside the definition of narrow money.

If narrow money as presently defined and measured threatens to become an increasingly unhelpful aggregate for policy purposes, the question naturally arises

whether monetary policy should focus on something else over the longer term. This issue of the *Quarterly Review* begins with three articles that seek to analyze some aspects of that question. James Fackler and Andrew Silver have taken a new look at the evidence on the links between measures of credit and the economy. Marcelle Arak has asked what means could be applied to attain targets for credit aggregates. And John Wenninger has explored the case for putting reserve requirements on debits to transactions accounts, as well as on the accounts themselves—an idea which first surfaced over a half a century ago, but which may have relevance for future monetary policy.

To a considerable extent, these articles step back from the discussion of current monetary policy. Rather, they are an attempt to inform policy debates that may emerge somewhere down the road. Obviously, they do not begin to exhaust the possibilities for further work on these topics. But they do raise some new themes and bring some fresh insights into subjects that will require increasing attention.