

Since then, such purchases have been more limited. The Treasury Department has also adapted debt management policies in part to these same objectives, primarily through concentrating new cash offerings of securities in the short-term area, but also by buying long-term securities for the Treasury investment accounts to the extent that such purchases were consistent with the objectives of these funds.

The action that the Federal Reserve took, effective January 1 this year, in raising the maximum interest rate payable on commercial bank time deposits to as high as 4 percent, has increased the total flow of funds through financial institutions. This has put pressure upon these institutions to find investment outlets and has helped to reduce yields on both mortgages and municipal bonds. Actually at this point of time, 17 months after the beginning of economic recovery, long-term private interest rates are generally below their levels at the cyclical trough in February 1961. This does not say they are low enough.

What it says is that as far as the statistical record is concerned, they are below the trough levels in February 1961. They are also below the levels at the corresponding stage of the 1958-59 recovery, despite the postwar peak in interest rates that intervened. The reduction in long-term rates has had to overcome two psychological barriers, rather stubborn ones—first, some persistence of inflationary psychology in the financial community despite the lack of tangible inflation; and, second, vivid memories of the experience of 1958-59, when economic recovery was accompanied by sharp increases in long-term rates (as I recall, the sharpest in a hundred years in comparable phases of the business cycle).

The total of demand and time deposits and currency has been increasing since February 1961, by more than 7 percent per year, and the availability of bank reserves has been generally favorable to the expansion of bank credit. Banks have been going more heavily into municipal bonds and mortgages. Very little of the expansion of bank loans and investments over the past year has been in U.S. Government securities. In relation to economic activity, liquidity in the economy is not much changed from its postwar low.

A special word is in order on the relation of monetary policy to the balance-of-payments situation. We have, from the beginning, taken a number of determined and effective measures to improve our balance of payments and maintain confidence in the dollar. In dealing with the balance of payments, however, it would be self-defeating to adopt policies that would undermine the vigor of the economy; for example, through restrictive monetary-fiscal policies. Confidence in the dollar is dependent upon a strong, growing American economy.

Further, a revival of vigorous growth here will make the United States a more attractive outlet for long-term investment funds, both domestic and foreign. As a result, monetary and debt-management policy must continue to aim at providing ample credit and liquidity to support needed recovery and growth, consistent with the requirements of balance-of-payments policy.

Finally, as monetary and fiscal policies are brought into coordinated focus, these points stand out:

1. At a time when the Federal budget was becoming progressively less expansionary in its net impact on the economy during the 1961-62