

Chairman PATMAN. I urge you to look that over more carefully and evaluate it more carefully with this in view: that the people turned down these bond issues because the interest rates were too high. More of the local people pay taxes on what they owe than what they own because of the ad valorem system. They are very careful about levying these extra costs on themselves.

Representative CURTIS. I might say to the gentleman that an examination reveals that is not so. I think I can tell you why this drop. It is because they are waiting for a Federal program.

Chairman PATMAN. What year was that? That was during the preceding administration.

Representative CURTIS. 1961. The other figure on this thing, if we go on to the next page, you get your public education construction, interest, cost of bonds, and educational construction put in place.

Chairman PATMAN. Senator Douglas, we are intruding on your time.

Senator DOUGLAS. Not at all. We have the interest rate on long-term bonds, Federals; the movement of the State and municipals is very similar; in 1953 the rate was around 2½ percent, and it has been rising to 4 percent more or less as of the present time, or a relative increase of 60 percent during this period. Dr. McCracken, in your statement you state that the reserve position of the banks has been easing. You mention this as an indication that monetary policy has not impeded economic expansion. I wonder what evidence you have for the statement that the reserve position of the banks has been easy.

Mr. McCracken. I would make two or three points here. First of all, there is the simple fact that the net free reserve position has continued at a very substantial level. Even with recent changes free reserves are still in excess of \$300 million.

Senator DOUGLAS. May I stop you right there. Dr. William Moor of the committee staff has charted the free reserves for a number of years. The chart shows, in brief, that in 1961 the average free reserves for the year were above \$500 million; probably a closer figure for the year as a whole would be \$550 million. The average free reserves for the year thus far have been around \$375 million.

Mr. McCracken. That is right.

Senator DOUGLAS. Or a decrease of some \$150-\$175 million. A further analysis indicates that almost the entire amount of these free reserves is in the country banks where only a small proportion of the demand for lending actually takes place. For instance, in the figures for the end of June, the free reserves in the country banks amounted to \$371 million. In the Reserve city banks, there was a minus \$5 million. In Chicago, a reserve of minus \$3 million. In New York, a minus \$12 million. The actual "free reserves" were thus entirely in the country banks, where, as I have said, a very small fraction of the total loans originate.

We should also remember that a few years ago we made vault cash a part of the reserves. You have to have cash for cashing checks and so forth and so on. So it would seem to me that in practice free reserves are virtually nonexistent. It puzzles me, therefore, when I read these statements—and yours is not the only one—that the reserve position of the banks has been easy because free reserves are plentiful, when they have declined absolutely and as a matter of fact are con-