

and increasing the volume of short terms can be a useful part of an overall policy program to promote economic expansion. It increases the liquidity of the public, tends to reduce interest rates in the capital markets where the most interest-sensitive private borrowing is done, by maintaining yields on liquid short-term debt it provides incentives for people to avoid hoarding cash, and since international mobility of funds is greater in the short-term area it somewhat aids the balance-of-payments position.

The crucial fact to have in mind regarding such a policy is that it has not been undertaken during the past year and a half. On the contrary, the Treasury has been more active in drawing funds from the intermediate and long-term capital markets than during most of the earlier postwar period. The highly touted Federal Reserve purchases of securities other than short term did nothing more than buy back a part of the illiquid debt that the Treasury was selling. To argue that selling two bonds with one hand and buying one of them back with the other hand would raise bond prices has always seemed to me rather silly, and I see nothing in recent experience that requires a change in that view.

Actually to increase the volume of liquid short-term Government securities outstanding and limit or reduce the volume of long-term securities would have some favorable effect upon domestic economic developments and the balance of payments. Such actions should be a part of a total Government program to achieve full employment. Obviously, the major responsibility for such a program must fall upon the Treasury, since its financing operations dwarf Federal Reserve operations in Government securities, and it is futile and confusing to have the Treasury and the Federal Reserve busily engaged in offsetting one another's actions.

However, the Treasury has not followed such a policy in the past, and I have heard no intimations that it intends to do so in the future. It again entered the long-term market within recent weeks. In the debt management as well as the monetary area, what we need is a complete reorientation of policy.

I think it important to observe that our present economic weakness does not seem to be episodic or temporary, but rather appears as a continued tendency toward insufficient dollar demands for the final output of our economy. Thus, it is just the sort of condition that we should expect to be produced by monetary and debt management policies that were over a period of time steadily too restrictive.

By the same token, we evidently should assume that what the economy will be needing from policy is not a temporary, one-shot upward push, but rather the continued maintenance of an environment more conducive to economic expansion. For this purpose, fiscal policy is evidently not a fully satisfactory answer. If large Government deficits had to be expected to persist over a considerable period of years, even the most enthusiastic admirer of fiscal policy must regard the prospect as something of an embarrassment, and as limiting the economic efficacy and political attainability of the required policy.

On the other hand, placing under the economy a foundation of money and liquid assets consistent with full employment levels of expenditures will help not only to bring the economy to full employment, but to maintain it there indefinitely thereafter without problems