resulting from the gold outflow. Banks remain comfortably liquid and anxious to lend.

Bank holdings of mortgage loans and municipal obligations spurted by a total of $6 billion over the first 7 months of the year, more than during any other similar span of time. Installment lending has also increased substantially.

At the same time, loan demand and security flotations by business borrowers have been disappointing, despite the fact that interest rates for such credit are little changed from those prevailing at the trough of the recession.

One important reason for the lackluster performance of bank lending is the moderate business demand for inventories. A look at the volume of reserves supplied by the system, together with the maintenance of a relatively high level of free reserves since the beginning of the recession, should be persuasive evidence that the Federal Reserve authorities have been consistently replenishing reserves which the banks have put to work.

It is true that the money supply—narrowly defined as checking accounts and currency—has increased comparatively slowly of late, but this development has to be viewed together with an unprecedented spurt in commercial bank time and savings deposits. Such deposits, which, for most holders, provide almost as much financial maneuverability as checking accounts, have spurted by $10 billion, or 12 percent, so far this year.

The public's holdings of short-term U.S. Government securities, which can be readily turned into cash, have also expanded substantially.

So long as the short fall of economic activity from what I regard as a reasonable goal persists, it seems to me that monetary policy should properly remain concerned with maintaining the maximum degree of credit ease consistent with its other objectives.

At the same time, we must keep in mind that attainment of our economic goals depends on many factors, of which credit and monetary conditions, over which the central bank exerts direct influence, represent only one—though an important—element. The job of instilling new vigor into the business expansion must, I believe, be done largely by means other than monetary policy.

I should like to turn now more specifically to developments in our international position.

The balance of payments, as you know, has shown some needed improvement in the first half of 1962. However, a part of the improvement, although by no means all of it, has occurred because of a temporary flow of funds, now reversed, from Canada to the United States as pressures developed on that country's currency.

It is therefore clear that unremitting efforts to make further progress in reducing the overall deficit remain the order of the day.

The administration, as you are aware, is pursuing a multipronged attack on the problem, including an export promotion program, reduction of military spending abroad, negotiations for both additional foreign defense purchases in this country and a wider sharing of aid to underdeveloped countries, and further "tying" of U.S. aid to those nations.