

with interest yield on 90-day bills. Interest yields on long-term bonds are plotted on the vertical axis, and the bill rate on the horizontal axis.

You may note that from 1947 through 1957 there seems to have been almost a straight-line relationship between long-term and short-term rates.

The average relationship for 1947-1957 is shown on the lower curve. But from 1958 through 1961 long-term rates seemed to have jumped much higher than would have been expected from their past relationships to short-term rates. The average relationship of these years is shown in the shorter, upper curve.

This is a very interesting situation which has been brought out by Prof. John Gurley. I wonder if you are aware of it, Mr. Hayes?

Mr. HAYES. No, I am not. This is the first time I have seen the chart. (See p. 550.)

Chairman PATMAN. You know of course that there has been a great deal of testimony and discussion over the last year about the abandonment of the "bills only" policy. When the announcement was first made, in February 1961, and when Mr. Martin testified shortly thereafter, some of us got an impression that the "bills only" policy had been changed by the Open Market Committee, as a gesture of cooperation with the new administration.

We also understood that this announcement meant the Open Market Committee would try to reduce long-term rates relative to short-term rates, narrowing the gap between the two.

Would you tell us what the Open Market Committee has actually done, if anything, in an effort to reduce rates on bonds of more than 10 years' maturity, Mr. Hayes?

Mr. HAYES. I think the way you expressed or described that change of policy to my mind conveys a slightly wrong impression.

Chairman PATMAN. About the gesture of cooperation with the administration. You take exception to that?

Mr. HAYES. Yes, I would. I think the primary reason lying behind that change of policy, which incidentally I was wholly for, the primary occasion for it, I should say, was that we were increasingly concerned with the possible effects of excessively low short-term rates on our balance of payments and felt that under those conditions, when we wanted to make credit amply available to facilitate domestic expansion, it was incumbent on us to use all the flexibility we might have in our techniques to put in reserves without making, as I say, short-term rates unnecessarily low.

That, I think, was the main reason for the change, although I think the change in essence was a desirable one simply as a move toward greater flexibility over the longer run.

Of course, under the conditions that we were in at that time, which was at the bottom of a recession, it was quite useful that this kind of activity might have, and I think did have, a beneficial effect on the flow of longer-term funds into capital investment.

I do not think we ever had any particular rate objective. We were not terribly concerned about what rate level was achieved. We certainly were not trying to press rates down to any preconceived level.