

But we did note that by a certain amount of activity in the longer end of the market we think we eased the position of certain investors and made it easier for them to take up corporate and other issues that facilitated domestic recovery.

Chairman PATMAN. You touched on the question that I wanted to ask next. Mr. Martin has told us several times that the Open Market Committee is not concerned with interest rates as such, nor with the money supply as such, but that it is concerned with a proper flow of funds.

Do you think that is a correct statement of the objectives the Open Market Committee, Mr. Hayes?

Mr. HAYES. Mr. Patman, without seeing the full context of the chairman's remarks, I would not comment on the merit of his contention. But I would like to say this for myself: I think all those factors you mentioned are of definite interest to us and factors that we pay a lot of attention to.

Chairman PATMAN. What is meant by proper flow of funds?

Mr. HAYES. Proper flow of funds is a smooth translation of savings into credit requirements with a minimum of friction, or knots, or psychological difficulties in the process, I should think.

Chairman PATMAN. Mr. Hayes, Professor Ritter of New York University testified on Tuesday. In response to a question he made a statement which strikes me as very interesting. I would like to read it to you and ask you whether or not you agree with it. Professor Ritter said:

To return to your original question—

it was: Would the Federal Reserve by buying strongly in the long-term market return to a peg and wouldn't it be interfering with the free market forces?

I think it is important to reiterate that the Federal Reserve, no matter what it does, is interfering with free market forces. The Fed's purpose is to interfere with free market forces in the monetary area. That is why we have a Federal Reserve. We don't want a commodity standard. We want monetary management; and monetary management has to be management and therefore interference with free market forces.

Furthermore, this is not returning to a peg because by definition, at least in my book, a peg means maintaining a structure of interest rates through thick and thin regardless of economic conditions. It is not a peg to deliberately lower rates in a recession and raise them in a boom.

Mr. Hayes, do you have any substantial disagreement with that statement?

Mr. HAYES. I think I would differ from it in degree rather than in kind. It seems to me that obviously a central bank does have an influence on interest rates. That is inevitable.

I think we have our primary interest in the shorter rates, but there is also clearly an influence on longer-term rates as to what we do on availability of credit and interest rate levels on the shorter end.

I think, however, we have to be awfully careful in exercising that influence because there is a great danger of our becoming dominant factors in the market. I think when we have a free market in Government securities, it is a highly desirable thing for the entire country that it remain essentially free.

When I say "essentially free" I am not denying that we influence it. I think at any time when we are operating in it, we must always