

is a large number of smaller organizations that have a hard time putting these marginal funds to work on a short-term basis. They are not able to predict quite as well ahead of time, and they are not quite as well able to participate in the Federal funds market which gives a means of distributing these funds between banks that are short and banks that are long.

I think the real test of credit policy in any reasonably long period of time, the real payoff of monetary policy must be in the extent to which reserves have been made available, because by and large if they are made available they will be used.

If we look back over the last year, we find that reserves have been absorbed and used by the banks at a very substantial rate. We find, for instance, in the 12 months ending July, that we have had about a billion dollars increase in total reserves, about the same amount in required reserves.

We have provided or we have injected about \$2.5 billion into the open market account by purchase of Government securities, which—together with other reserve gains—has not only permitted that increase in reserves, but also has taken care of a substantial gold loss of about a billion and a quarter, and an increase in currency of a billion and a quarter.

Representative REUSS. What you have just said, Mr. Hayes, translates to me simply as a statement that the banking system in the reserve cities where we really have our banking system centralized is loaned up and cannot make any more loans. This seems to me an unwarranted degree of tightness at a time when we are all worrying about our economy as much as we are.

Mr. HAYES. Mr. Reuss, my observation, talking with bankers from all over the country, and also looking at figures, is that most of the banks feel far from loaned up. They have been very much disappointed in the fact that the loan volume this year by and large has not measured up to their expectations. They would love to make more loans.

Representative REUSS. Loaned or invested up?

Mr. HAYES. As I say, a well-run bank will always use whatever reserves it has to invest if they cannot find the loans to put the funds to work in. While there has been a good increase in real estate loans, a big increase, the demand in most types of loans has been moderate. They have been in a position to buy substantial investments.

I know they are looking avidly for loans both here and abroad. It is the fact that they are looking for them avidly abroad that gives me some concern.

Representative REUSS. Thank you. My time is up.

Senator PROXMIRE. Mr. Hayes, you indicate that your conclusion is that domestic economic activity has improved and during the first half, as we all know, it achieved record levels. You feel that the indicators for July suggest expansion is continuing, but you are not satisfied. You see one principal difficulty in the domestic situation, that is unemployment, I take it?

Mr. HAYES. Yes, sir.

Senator PROXMIRE. Would you not also add excess plant capacity on the basis of the Federal Reserve study, Fortune study, McGraw-