25 percent of which are vault cash, is not a situation of monetary ease or abundance of funds.

Mr. HAYES. Senator, I agree it is exactly what they ought to do. It is what they do. I take satisfaction in expansion of bank loans and investments and deposits over the last year or year and a half, whatever period you measure.

I would say this about free reserves: that the figure has some significance as an indication of ease or lack of ease, but it has been given a great deal too much emphasis in my opinion by the press and other commentators. I do not think that single figure of the level of free reserves necessarily has a great deal to do with whether we are providing sufficient funds for the community.

Senator PROXMIRE. Let us take interest rates. Interest rates have been rising. Furthermore, long-term interest rates, as the chairman showed so well on this chart, have been rising more rapidly in recent years than short-term rates. So that Operation Nudge which was supposed to do exactly the opposite, has in fact pushed up long-term rates relative to short-term rates and has become Operation Fudge.

We have a reverse situation in which the long-term rates are rising more rapidly.

Mr. HAYES. May I point out another fact about the developments of the past 18 months? U.S. Government long-term bond yields have gone from 3.80 in February of 1961 to slightly over 4 percent when this chart ended, last month.

Senator PROXMIRE. What was the first date?

Mr. HAYES. February 1961. Slightly over 4 percent in July 1962, which is a change of only 20 basis points during a period of very strong recovery.

I also find that in 1958 to 1959 the previous cycle——

Senator PROXMIRE. Let me interrupt at this point. Here I think is the real crux of our difference. Most economists say this is not a period of strong recovery. Quite the contrary; every expectation is that we are leveling off at best and may be heading toward some kind of recession. They feel we are not in a period of strong recovery now and during the past 3 or 4 months we have not been.

Mr. HAYES. I would say over the period as a whole we have been going up rather nicely. I will admit there is always a question of where we are going from here. But I would say in the past 18 months when we have had what I believe is a good rate of expansion by comparison with the rate of expansion coming out of troughs earlier——

Senator PROXMIRE. And heavy unemployment all during the period and excess capacity during the period.

Mr. HAYES. Granted. But we had a surprising flat trend of long-term Government bond yields. If we look at triple A corporate bond yields, we find in that same period the yield has gone up from 4.27 in February 1961 to about 4.34 in July of this year, which is almost no change at all.

We also find in State and local government bonds, triple A, the yield has actually declined from about 3.14 in February 1961 to about 3.10 in July of 1962. I think that is a remarkable showing. I think we can take satisfaction from that.