To which I replied:

"I am not for artifically cheap money, but just for the kind of money you are now producing, and should keep on producing until unemployment is down to a manageable level."

Much to my delight, Mr. Speaker, the Federal Reserve System then proceeded to keep free reserves at around the $500 million level for the months following that June 1, 1961, colloquy. Free reserves, at the $549 million level in June, were still at the $517 million level in November. The recovery continued nicely.

Practically all through 1961, the Fed Open Market Committee, which—by buying or selling securities in the open market—controls the level of reserves of the banking system and thus the money supply, pursued this adequate-money policy. As the minutes of the Open Market Committee meeting every 3 weeks show it wisely decided to let well enough alone through June and July and August and September and October and November 1961.

But, alas, this performance was too good to be true. On December 19, 1961, the Fed returned to its old habit of choking off recovery, learned in 1955 and 1959. The Open Market Committee issued an economic policy directive for a somewhat slower rate of increase in total reserves than during recent months, and with emphasis on continuance of the 3-month Treasury bill rate at close to the top of the range recently prevailing.

To their credit, Govs. G. H. King, Jr., and George W. Mitchell voted against the directive on the grounds that the time had not yet arrived for any modification of policy in the direction of less ease.

The new tight-money policy was not long in taking effect.

The 90-day Treasury bill rate, which was at 2.4 percent in November 1961, promptly jumped up to 2.75 percent, where it has since remained.

The money supply, which had been increasing steadily throughout 1961 and had reached a peak of $144.9 billion in December 1961, declined in January and February 1962. In the second half of February, the last date for which we have figures, money supply had dropped to $144.2 billion, a decrease from December of $700 million.

Free reserves likewise felt the onslaught of the new tight-money policy. By February 1962, they had dropped to $424 million. They rebounded slightly to $444 million by February 14, and have been lower ever since. Free reserves were $350 million on March 8, $353 million on March 22, and $369 million on March 28, 1962. This low level of free reserves means that great numbers of banks, particularly city banks, are "loaned up"—without any ability to lend money, except as an old loan is paid off, or as securities from their portfolios are sold. Indeed, in February, commercial banks had to sell $1.2 billion of U.S. securities, at least partly in order to meet even a small part of the demands of businessmen, homebuilders, consumers, and other loan applicants.

Now, it is perfectly true that in the last few weeks the interest rate on long-term U.S. bonds, and on other long-term securities, has softened slightly. This softening, however, has been in spite of, not because of, Federal Reserve monetary policy. Investors have become somewhat more pessimistic about the economy's growth rate, and are hence switching from stocks to bonds, which raises bond prices and lowers bond yields.

The Federal Reserve System, I regret to say, is at it again. Having tasted the heady wine of tight money when the economy was recovering in 1955 and 1959, it has now reached for the same old bottle again just as the economy was beginning to recover.

The remedy is clear. The Federal Reserve System ought promptly to repeal its destructive policy decision of December 16, 1961, and supply the economy with adequate credit—net free reserves at least at the $500 million level. Two bouts with the tight-money bottle in a decade are enough.

Chairman PATMAN. The committee will stand in recess until 2:30.

(Whereupon, at 12:25 p.m., the committee recessed, to reconvene at 2:30 p.m. of the same day.)

AFTER RECESS

(The committee reconvened at 2:30 p.m., Representative Wright Patman, chairman of the committee, presiding.)

Chairman PATMAN. The committee will come to order, please.