

Fortunately, rates for top-grade short-term securities—the part of the rate structure which is the most important in international capital flows—also have the least significance from the standpoint of domestic business conditions. Therefore, within the limitations imposed by a free and fluid domestic market for credit, we have sought to encourage an active flow of funds into productive long-term investment, while maintaining a competitive equilibrium with foreign markets in the short-term area. For this reason a large portion of the funds injected into the market by the Federal Reserve since February 1961 have taken the form of purchases of approximately \$3.4 billion of securities maturing in more than 1 year, rather than short-term bills, as had been their usual practice in the past. At the same time, the Treasury increased the volume of its own debt outstanding in the under 1-year maturity area by nearly \$14 billion.

With the short-term rate structure supported in this manner, the Federal Reserve has been able to supply the banks liberally with reserves throughout the recovery period, and thereby to maintain an atmosphere of credit ease and ample availability. At the same time, the Treasury, through flexible use of advance refundings and other sales of intermediate and longer term securities during propitious market periods, has been able to improve its overall debt structure without impeding the flow of funds into productive long-term investment.

The results have been gratifying. Rates for Treasury bills, which never fell below  $2\frac{1}{8}$  percent during the recession months of 1961, have risen to the  $2\frac{7}{8}$ - to 3-percent area. This has been necessary in order to keep out rates roughly competitive with the rate structure in foreign markets—after allowing for the fluctuating cost of forward exchange cover.

At the same time, the interest rates of key importance to domestic growth and investment—for mortgages, bank loans, corporate bonds, and State and local government securities—have generally remained close to, or even dropped below, their recession lows. Mortgage rates, in particular, have declined, slowly but almost steadily, for more than a year, and market rates for Government-insured mortgage loans now average more than one-fourth of 1 percent below the levels prevailing at the trough of the recession a year and a half ago. Local government borrowing costs in recent months have been at the lowest levels since mid-1958. Moreover, funds are freely available at these rate levels in all sectors of the market. Far from drawing back on new commitments, banks and other lenders have continued to offer liberal credit terms and to actively seek out potential borrowers.

The contrast with other recent periods of expansion is striking. Rates in all sectors of the market are well below the postwar peaks reached in 1959; 18 months after the recovery began, banks are still liberally supplied with funds for new loans; and there is no lack of credit availability.

As we move ahead in financing our current deficit, we will naturally be concerned to maintain a balanced structure of Federal debt. That means we must be able to continue to tap a cross section of the funds becoming available in the market, from individuals and long-term investment institutions as well as from banks. But it is not part