He was not going to buy another 30-year bond. He merely exchanged one piece of paper for another. And I do not think it has any effect on taking new money available for investment in the long-term area out of the market.

Senator PROXMIRE. Certainly this last action, of selling a 30-year bond, and hoping to sell, or at least being willing to sell, as I understand it, $750 million, expecting to sell $500 million and ending up with $315 million, indicates a number of things.

No. 1, that by this sale you do tend to depress, to a very moderate extent, perhaps, but to some extent to depress the price, and raise the interest rate on long-term obligations.

No. 2, the general expectation is that interest rates are going to rise higher. This is certainly the most logical explanation for the fact that there was not a very enthusiastic reception for this offering with an attractive coupon.

And, No. 3, the Fed is not cooperating to the extent of stepping in and providing the kind of support for this sale to assure its success.

Secretary DILLON. Well, we were very careful to price it in such a way that it would not affect the market. Maybe we were too careful. And that is the reason that only about $300 million was subscribed.

I do not think that there is anything in some statements that it was because people thought interest rates are going up in the future. I think that is obviously ridiculous, because in the market, within a week of our sale, the rate on long-term corporate securities rose, interest dropped, and people bought the bonds avidly. So I do not think it was a question of that.

I think the real question was that these new bonds were priced at a level that did not give enough advantage to the purchaser over what they could get in utility bonds. They preferred the market for regular corporates and utilities and just took a moderate amount of these Government issues, because we priced them at what the market considered to be a high price. We did that on purpose, because we did not want to affect the market.

If people were ready to take a little more at the high price, we were ready to sell them. But we agree with you, that large sales at lower prices would tend to raise long-term rates and we keep that constantly in mind, so that we would not affect the basic long-term market, because if we did so, we think that would be doing a disservice to economic expansion.

Senator PROXMIRE. Mr. Chairman, I want to reserve the balance of my time. I am sorry we have to run in and out to vote on the floor. It is the price of cloture.

Chairman PATMAN. There are some questions that I wanted to ask the Secretary. I would like to return to the issue of the profit squeeze for just a minute.

We have had several studies presented during these hearings, which show that total return of capital, that is, both profits and depreciation allowances, is very closely correlated with utilization of capital.

In other words, with high rates of capacity utilization, the return to capital is very high; and at low rates of capital utilization, such as we have now, the rate is low.