

I wonder what your position is on the question of whether the Federal Reserve should put upward or downward pressures on the long-term rate.

Secretary DILLON. Well, I think that what is going to happen is that the long-term rate would only move depending on business. I think I said that in my statement, that it would not move artificially.

I think that what Dr. Heller was talking about has turned out to be a more or less temporary phase of the market. When short-term rates rose, about 6 weeks or so ago, long-term rates rose part of the way with them. There was no particular reason for this, and I think that the reaction of the public market since then has indicated that. Certainly new corporate issues, as I stated earlier, that have been sold in the last few days have been sold at steadily declining rates of interest, and most of that increase in corporate interest rates, not all of it, that Dr. Heller was talking about has now vanished and is not there any more.

I think what Mr. Martin may have been saying is that if there is an increase in business, and if our economy moves ahead, so that there is a substantially greater demand for long-term credit, then the long-term interest rate might increase somewhat.

I think that I am one who would believe that there is no great reason for long-term corporate interest rates to vary very much from their present level one way or another.

They might go up a quarter of 1 percent, or even a half of 1 percent, if there is a great demand, and even come down again as demand lessened.

But I think they have found a level which, if one looks at the level of long-term interest rates historically, seems to be reasonable. And I know that the International Monetary Fund staff feels that this is about the case, and they feel the most likely occurrence is that as the industrial development continues in Europe, long-term rates in Europe may gradually come down somewhat and approximate our own at a level of 4½ percent plus or minus a little bit, for corporate securities.

Chairman PATMAN. Thank you, sir.

On June 30, 1914, when the Federal Reserve System was established, demand deposits amounted to \$10.1 billion and currency outside banks to \$1.5 billion, giving us a money supply in the form of demand deposits and currency amounting to \$11.6 billion.

That was in 1914, June 30, at the end of that fiscal year. The figures today are \$115.1 billion and \$30.1 billion, respectively, making a total money supply of \$145.2 billion.

How has this increase in money supply been brought about?

Now, Mr. Martin testified yesterday, and in his testimony yesterday he seemed to be opposed to money creation. So I wonder where this money actually came from.

What would be your answer to that, Mr. Dillon?

Secretary DILLON. Well, I did not know that he was against money creation, because I think that the Federal Reserve has always had a policy of supplying the funds that were needed for a growing economy. Therefore they would have to supply the reserves that would enable the banks to create deposits that were needed to sustain the economy.