

Therefore, in the long-term area, the Government bonds are a very small tail on a very big dog; whereas in the short-term market it is totally different.

All outstanding securities in the short-term market, practically, are Treasury securities. In the long-term area it is totally different.

Senator PROXMIRE. I have a Federal Reserve chart book here which shows the movement of interest rates, corporate, VA, double A's, triple A's, and State and local government triple A's and Government bonds.

There is almost a precise parallel movement every year, every month, in which one goes down and the others go down. They are very closely interrelated, on the basis of the movement. And while there may not be as precise a causative factor as some people might argue, there is certainly a very close parallel.

You are completely correct in that non-Government bond yields have tended to fall off somewhat in 1962. And I certainly would not contend anything to the contrary.

My argument is that they might have fallen off further, and have been more encouraging to business, in the event of a more expansionary policy both on the part of the Treasury and on the part of the Fed.

Secretary DILLON. One thing that is of some interest, I think, is that the difference in rate—and I think that is probably what is shown there—in the last year between the market quotation of long-term Treasuries and the market quotation of corporate bonds has narrowed very significantly. Over the years, the difference has been in the neighborhood of three-fourths of 1 percent, getting as high as 1 percent at times. As recently as when we first started here, which was in the spring of 1961, it was nine-tenths of 1 percent.

This year it has narrowed down to, in the second quarter of 1962, only four-tenths of 1 percent. There has been a difference, in the closing of that gap, of a whole half of 1 percent. And that closing of the gap has occurred because of the decrease in the interest cost of long-term corporates; which is exactly what we were trying to do to stimulate private demand and help the economy.

The new triple A corporate issues that were brought out in the second quarter of 1961 were brought out at an average yield cost of 4.71. In the second quarter of 1962 they were brought out in average yield cost of 4.30—10 percent less in interest cost, roughly.

At the same time, long-term Treasuries were on a 3.80 basis in the second quarter of 1961, and a 3.90 basis in the second quarter of 1962.

So actually, you can see very clearly there, that while the interest rates on long-term Treasuries actually went up, there was a very substantial decrease in the interest cost for new corporate financing and for new municipal issues, which is exactly what we are aiming at.

Senator PROXMIRE. Well, my time is up. I just feel that there must be some relationship, in view of the fact that long-term investors do have something of an option. Clearly there is nothing like a substitute. People who invest in corporates would necessarily consider a long-term Government bond as a good substitute, but it is a kind of a rough substitute, and there is, I would feel, some kind of competitive connection. But I would not stress it too hard.