

price level. Nevertheless, it is certainly our view that for the present and for the year ahead we would be wise to aim at an expansion of demand sufficient only to maintain roughly the current rate of unemployment.

I would certainly agree that we should not be satisfied with that, that in the longer run we ought to be able to move closer to really full employment. But an important part of that achievement must rest on the success of our expanding and I think increasingly effective manpower policies, which will help shape the character of the labor force to the character of the demands of the economy.

Chairman PROXMIRE. I will come back to this. My time is up.

I yield to Congressman Curtis.

Representative CURTIS. Thank you, Mr. Chairman.

I ask unanimous consent to have the remarks by William McChesney Martin, Jr., Chairman of the Board of Governors, Federal Reserve System, before the Rotary Club of Toledo on June 26, 1967, made part of the record.

Chairman PROXMIRE. Without objection it is so ordered.

(The statement follows:)

SUMMARY OF REMARKS BY WM. MCC. MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, BEFORE THE ROTARY CLUB OF TOLEDO, JUNE 26, 1967

As all of you are undoubtedly aware, the Federal Reserve System moved promptly into a policy of monetary ease last fall as soon as the inflationary forces that marred economic progress in 1966 had been brought under control. This policy of ease, pursuit of which has continued this year, has cushioned the impact on the economy of adjustment to the inflationary excesses of 1966, especially the adjustment to the excessive inventories accumulated during the period of inflationary expectation.

The System's policy of monetary ease, together with stimulative fiscal actions, particularly in the form of higher-than-expected Government expenditures, has been successful in preventing the economic adjustments from becoming cumulative. Now, after only a short pause, the economy is beginning to show signs of moving ahead again.

As a result of the System's expansionary monetary policy, the nation's money supply has increased at an annual rate of 6 per cent this year and total credit outstanding at all commercial banks has expanded at more than an 11 per cent annual rate in the same period. The liquidity of financial institutions generally has improved as has the liquidity of many corporations and of consumers generally.

In the face of such monetary ease, many persons find most puzzling recent financial market developments that have returned long-term interest rates to levels in the neighborhood of their peaks of late last summer, while short-term rates have shown substantial declines and, in some areas, are more than two full percentage points below their 1966 highs.

The explanation lies in the huge demand pressures that have been exerted on the bond market by corporations and by state and local governments trying to raise record amounts of long-term funds. Publicly offered corporate bonds, for example, amounted to approximately \$6 billion in the first five months of this year in contrast to \$8 billion for the whole of last year and only \$5.6 billion in all of 1965.

This concentrated outpouring of new security issues is related to three basic reasons: First, many corporations found their liquidity positions reduced to uncomfortably low levels during the 1966 boom and there has been an understandable desire to rebuild their cash reserves from sources outside the banking system. Secondly, current business spending for plant and equipment has continued at exceptionally high levels requiring more cash than has been generated by internal flows. Similarly, total outlays by states and municipalities, including those for capital improvements, exceed currently available funds by a substantial margin.

Finally, and most important, market participants seem to feel that no matter how high interest rates may be pushed by their efforts to raise long-term funds