

this year is simply that the textbook system of pumping reserves into the banking system and thereby having an effect all through the rate structure has not been effective. There is not an easy flow from short-term to long-term markets, and the pressures in the first half of the year have been on the long-term markets.

Consequently, if they would continue to supply long-term funds directly, buying Government bonds from the market, this program I believe could put a ceiling on the extent to which long-term rates might rise, although I do not think the Federal Reserve would wish to push it so far as to drive rates down from present levels.

It is a matter of supplying long-term investable funds directly to the market rather than indirectly through the banking system. This could be done with no change in their underlying policy with respect to the funds supplied to banks, growth in money supply, and the rest of it.

On the other hand, I see no escape from significant upward pressures on short-term rates during the rest of this year. I believe that my estimate of \$20 billion of Government borrowing during the last 6 months is well within the ball park, give or take a billion dollars or two on either side.

This pressure of demand, even though it may be offset on the other side by the net cash expenditures of the Federal Government, will be difficult to service simply because of the frictions that exist in the financial system in translating net expenditures from Government into the availability of investable funds in the financial markets.

My serious concern, then, is that short-term interest rates might be driven up again to a level that would cause the withdrawal of savings funds from the banks, and lead to the increase in the policy loans of insurance companies and all the rest that we saw last year.

Were this to happen, if, in other words, short-term rates were permitted to rise to these levels, we would have a most complex situation. I would not attempt to predict the way the financial markets would work their way through this process.

I would like to add that we are not too far from this disintermediation level at the present time.

I mentioned in my remarks that yesterday's auction of 1-year Treasury bills went at an equivalent rate of 5 percent. That means that agency borrowing by the Home Loan Banks or FIC would today have to be around $5\frac{1}{4}$ percent.

At that level, equal to what savings and loans are paying on their savings certificates and in excess of what commercial banks are paying, we are quite close to the point where disintermediation could lead to the problem I am concerned about.

Chairman PROXMIER. I wish I could stay but, unfortunately, I must leave. This is a wonderful panel. I think you are doing a most enlightening job.

I am going to ask our ranking minority member, Congressman Curtis, to chair the committee.

Representative CURTIS (presiding). Thank you, Mr. Chairman.

Let me add my expression of appreciation to this panel, and let me compliment our committee staff for getting such a well-balanced and distinguished panel. This is not an easy thing to do. These papers clearly are to their credit, as well as to the credit of the panel itself.

I am going to make this observation. This is one of the few times, if not the only time, I have seen presented to us the problems in-