

mercial banks or the 4% at the savings and loan associations were not really very attractive rates of interest. They became more sophisticated investors, let's say, and withdrew funds from the regular savings intermediaries and bypassing the established financial system went directly into the securities market.

There has been a bit of reversal of that, quite a reversal of that this year. A good part of the rapid growth in reported time and savings deposits at financial institutions has been a reversal of this flow, a one-shot recapturing of this money. I expressed my concern earlier that, now that we have educated the saver as to the availability of other instruments besides a passbook savings account or savings and loan share, were short-term market rates to rise again to any point close to last year's levels we would see a beginning of this movement once more.

I might add that the life insurance companies, which for years had regularly made about \$50 million per month in loans against policies, saw that figure jump to about \$150 million per month during the last 6 or 7 months of last year, a most serious drain on their resources. That has not settled back to the \$50 million level but has been running month by month around \$100 million. I think it is a good illustration of the way that the typical consumer or saver, once he becomes educated, does not revert to the simple way of saving that he used before. He has discovered that he can borrow money at 5 percent against the cash value of his life insurance policy.

This is one of the most serious problems we face in the months ahead, because this money pulled out of the banks, insurance companies, and savings and loan associations is almost without exception used by the small investor to buy short-term obligations. He has had his money in a savings account in the past because he has virtually immediate access to it. The savings institution, had it kept the money, would have used it to buy mortgages or longer term investments, but the saver when he pulls it out of the institution uses it to buy short-term—

Representative CURTIS. In other words, this is an indication of a shift from long- to short-term investment.

Mr. GAINES. Yes, sir.

Mr. KATONA. May I object to the expressions, "small investors," "typical savers"? Our studies indicate that it is almost exclusively high-income people who make use of these things where they think of borrowing at 5 percent and investing at 6 percent.

Representative CURTIS. But take in the life insurance companies' experience?

Mr. KATONA. Including that. The typical person or, put it that way, the majority of American savers and middle or lower income people don't make use of it. So that we have a question of social injustice. The high interest rates serve only the relatively well-to-do people in America, and the typical person does not profit from those rates.

Mr. GAINES. I accept the correction and agree with it. In our own institution, we saw that most of the withdrawals from our savings department were the \$25,000 or larger withdrawals.

Mr. KATONA. Which the typical person doesn't have.

Representative CURTIS. Mr. Katona, I deeply appreciate this elucidation. To me, it stresses that what you have said was true in the past, but hasn't there been a shift? Aren't the smaller investors