

grams, legislation and administrative action to restrain the fierce competition for consumer savings, and a Federal Reserve move toward easier Reserve availability.

By early 1967, credit market pressures relaxed further, as economic growth abated, monetary policy eased some more, and the President's fiscal program announced in January proposed a tax surcharge to begin in fiscal year 1968.

Easier credit was evident in terms of both availability and cost. The Nation's money supply expanded at a 6 percent annual rate in the first half of this year, while total bank credit has grown at an annual rate of about 11 percent. The discount rate was reduced from $4\frac{1}{2}$ percent to 4 percent, and the prime bank lending rate from 6 percent to $5\frac{1}{2}$ percent.

Yet, in the face of this expansionary monetary policy, long-term interest rates, which had turned down from their peaks of last August and September to substantially lower levels through March, have more recently moved back up and reached levels uncomfortably close to last summer's peaks. Indeed, for some types of government and corporate bonds, current rates are as high as those of a year ago.

The decline in short-term rates from last year's peak levels proceeded into June, and extended to more than two full percentage points on some types of securities. In recent weeks those rates have also bottomed out, however, and moved back up as much as a percentage point—although they remain well below last year's peaks.

A major cause of the rise in long-term rates since March is the huge volume of borrowing by corporations and by State and local governments. New capital issues by corporations in the first 7 months of 1967 were a record \$13.5 billion, up 23 percent from the similar period in 1966—which had been a recordbreaking year.

If one excludes private placements by corporations and looks just at public offerings, which have a greater immediate market impact, the volume of new issues was \$7.2 billion in the first half of this year, against \$8 billion in all of 1966 and \$5.6 billion for all of 1965.

To a considerable extent, this heavy pace of offerings has reflected a desire of corporations to take advantage of the greater credit availability to rebuild their liquidity and reduce their dependence on the banking system. Last summer, even some of the largest corporations found their access to bank credit limited, and this experience is still quite memorable to corporate treasurers.

States and municipalities have also borrowed very heavily, and for somewhat similar reasons—making up for some postponements of borrowings last year and seeking to obtain some money needed now or in the future while it is currently available. New tax-exempt issues by State and local authorities came to \$8.8 billion in the first 7 months of this year, up about 28 percent from a year earlier.

There is an additional market factor that seems to be impelling this headlong rush to borrow, even at current high rates. Many of these corporations and governmental authorities are said to be pushing their borrowings because they fear that a greatly increased Federal Government deficit will produce still higher interest rates and tighter conditions of credit availability in the months ahead.

And they are apparently concerned that big Federal Government demands might coincide with an increasing buildup in private de-