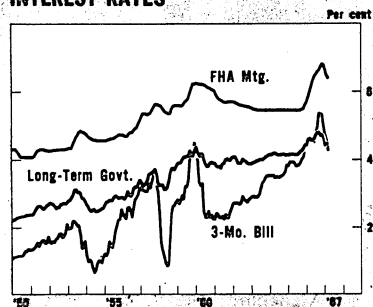
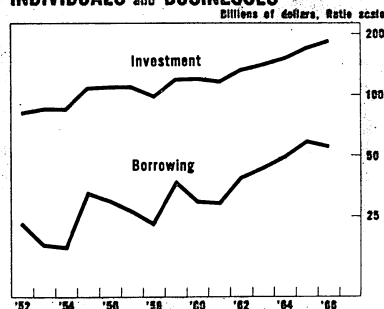


## INTEREST RATES



## INDIVIDUALS and BUSINESSES



suggests that a larger share of current income is now being absorbed by debt service. The need for maintaining a stable growth in income to sustain repayment abilities of borrowers has thus become more critical.

Federal debt—net of holdings by the Federal sector—dropped sharply relative to GNP in the early postwar years. In dollar amounts, net Federal debt reached its trough in 1951, but the increase since then has been slow, and the ratio to GNP has fallen further. However, with private debt rising rapidly, the ratio of total debt to GNP began to show an upward trend early in the 1950's, and the rise continued until recently. In the process the financial markets had to absorb an abundance of new securities.

Debt expansion has brought with it rising interest rates on all types of borrowing. For long-term rates on both Government and private securities (the latter represented in the chart by the FHA mortgage rate), recessionary declines were short, and rates subsequently climbed to new peaks—and to the highest levels in four decades during 1966.

Three-month bill rates, characteristically more volatile, experienced much wider cyclical swings and rose more during the entire period than did long-term yields.

While the secular rise in yields reflects mainly the strength in domestic investment and borrowing, other developments also played a role. International capital markets have become more closely interrelated, and capital needs in other countries increasingly impinge on U.S. financial markets.

The pace of borrowing by individuals and businesses has been irregular. These fluctuations reflect principally the course of business investment in fixed capital and inventories, and purchases by individuals of homes and durable goods. Since these expenditures