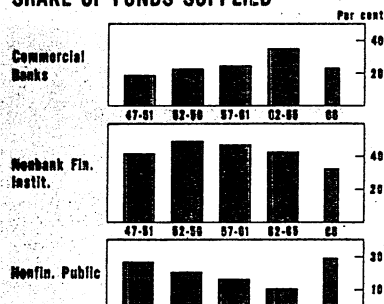


SHARE OF FUNDS SUPPLIED



grew slowly over the first 15 postwar years—more slowly than sales or current liabilities. Large banks became concerned about the sluggish growth of the accounts of their large customers, and in 1961 they introduced negotiable CD's to recapture a larger share of corporate liquid funds. Corporate time deposits then mushroomed, but money holdings declined.

However, corporate investment in short-term securities also appears to have been reduced by this increased commitment to CD's. Thus, corporate security holdings have not increased materially since 1960, even though their total liquid assets have grown by one-fifth.

For banks, attraction of time and savings deposits from consumers, businesses, and others has significantly improved their position as suppliers of funds. In the first 5 postwar years banks supplied less than one-fifth of total funds raised; by 1962-65, on the other hand, their share had risen to over one-third.

This rising bank share was partly at the expense of nonbank financial institutions, whose share of funds supplied has diminished gradually over the past decade. But the principal offset was the reduction in funds supplied directly to borrowers by the nonfinancial public, through their purchases of market securities.

The funds attracted by banks and nonbank intermediaries through competition in rates and other terms have proved to be highly interest-sensitive. In 1966, market interest rates rose sharply—and by more than the rates on deposit-type claims, whose yields were constrained by both institutional and regulatory factors. Consequently, the nonfinancial public acquired more market securities and fewer deposit-type claims, and the shares of funds supplied by banks and