INTEREST RATES ON LOCAL BONDS

I would like to ask when we consider that the bond money comes from the private money market, and we are speaking now of that share of possibly 70 down to 45 percent, supply and demand will control this interest rate.

Governor ROCKEFELLER. Sure.

Mr. MILLER. We have now a bill, as I understand it, that would pledge the full faith and credit of the Federal Government behind many of the programs that would be put forth by the larger cities. My question is, Do you feel that this would drive up the interest rates to those communities that would tend to help themselves and not be a part of the Federal programs, and therefore they would be somehow restricted or penalized for going it alone because they could not be a part of a Federal program?

Governor ROCKEFELLER. Mr. Miller, may I call on Joe Murphy, who is very familiar with this whole problem in the money market. He is the commissioner of taxation and finance. And if it would be all right with you, I would like to get his professional reaction. Would that be all right, Mr. Chairman?

(Mr. Blatnik resumes the chair.)

Mr. BLATNIK. Yes.

Mr. MURPHY. It seems to me that this would probably not be the problem with this situation any greater than it is today, because we have had a variance in interest rates and in volume of Government bonds, U.S. Government, which have remained about the same over a period of several years. And only in 1963 did our municipal bonds comprise one-third of this total.

Governor ROCKEFELLER. His question was—a Federal guarantee on a municipal bond would probably result in a lower interest rate because of a better credit risk with a Federal guarantee, would that have an adverse effect on the interest rate—if I understood your question—an adverse effect on the interest rate of a community that wanted to go on its own without taking the Federal guarantee.

Mr. MILLER. And naturally, the supply and demand does say where the money would go; and is it possible that it would be pulled away from the smaller communities under 125,000 population, where they must have a higher interest rate?

Governor ROCKEFELLER. Maybe I could comment on that this way. We have experienced in our own State that there are small communities who cannot sell bonds at a reasonable rate—some cannot sell them at all because their credit is not good enough and others have to pay a very high rate which is almost prohibitive. That is why we set up the pure water authority which is a public-benefit authority that can go in and contract for the community or for a group of communities.

So we have tried to meet this by providing a vehicle that these communities could use to get around this problem of their lack of good credit or credit standing.

I would say if, with the guarantee, municipalities were to sell a lot