

we have been putting too much pressure on monetary policy. That is the reason we had the fiasco that we had in terms of the credit crunch in the middle of 1966. So I have been consistent on this.

I think one of our difficulties here is that in focusing so strongly on the very low unemployment rate, and trying to get that unemployment rate down, we have created a situation where over a period of time we may cause some very, very unfortunate developments.

Chairman PROXMIRE. We are also focusing strongly on growth. We grew very poorly last year. We had a poor record. This committee, it seems to me, should be concerned with getting maximum growth. That is part of our directive from Congress. We grew in real terms only 2½ percent last year. We grew less in absolute terms than the Soviet Union did. This is most disappointing. And I am concerned with the possibility that we might abort our growth in the coming year by too much restraint.

Mr. O'LEARY. I do not argue with that—I want to see us grow just as fast as possible. I want to see unemployment as low as possible. But as I see it, we have some very serious difficulties here in that we have had an escalation in prices—it may be and is to a large extent the product of Vietnam. But the fact is, we have it. And some things are happening which are extremely alarming to me. A general philosophy is growing in the investment markets that fixed income obligations are not a good investment. What you are seeing is a phenomenon, for example, of the life insurance business, for the first time in history, in a major sort of way getting into the mutual fund business. And they are trying their best to find products that they think will appeal to the equity consciousness of the public. This is the reason interest rates are so high. One of the things that is bound to occur—in trying so hard to get growth and very low unemployment—is a decline in the value of the dollar. And then you have decisions taken in the investment area which I think represent a dislocation.

One of our problems is, as I see it—that as a result of this process, we automatically get relatively high historic long-term interest rates—the highest long-term interest rates in history.

Now, the difficulty with that is that when you have interest rates at that level, you automatically create very serious problems for monetary policy.

As the Fed has to come in now to tighten credit, after it has gone through this period of excessive ease, what is it up against? It is up against the fact that just as soon as it begins to tighten, it touches off a disintermediation process, because the rates that now exist are virtually at the regulatory ceiling rates for these institutions? And you would say, Why not raise the ceiling rates?—they are regulatory. The effective ceiling is what these institutions can earn. They are not earning on their assets what they are currently receiving. For example, life insurance companies today are investing their new money at anywhere from 7 to 7½ percent. But, what are they earning on the average on their assets—less than 5 percent. And the same thing is true of savings banks and savings and loan associations. The rate of return they pay to depositors must be based on the rate of return they are earning on assets they have acquired over a period of time. So, you cannot get out of this box by lifting the ceilings. The minute the Fed moves toward tightening credit at this stage of the game, it automati-