

Second, in contrast to the present fragmentation of financing efforts, the new institution would automatically provide for coordination of issues and control over programs requiring finance. Thus, a central financing institution would have the greatest flexibility in going to market at the best time and with the volume, maturities, and other terms and conditions which would enable it to borrow at a significantly lower interest rate than could be obtained by several smaller, special purpose institutions, each with its own special problems of timing, seasonal factors, and other program considerations.

I do not think, incidentally, that the answer to the financing problems over the next decade will be to establish a separate new institution for each problem area, such as an education bank, a pollution control bank, a transportation bank, etc. The difficulty with this approach—in addition to the duplication of effort and the problem of finding that much financing talent—is the proliferation of financing instruments which would develop and the problem of coordinating these issues in the market. Of course, even a central financing institution could decentralize its lending activities, either in terms of loan purpose or geographic region. But I think there is a persuasive case for a centralized approach to mobilizing capital funds.

Third, the new approach permits the most economical financing of the growing new needs, looked at either from the viewpoint of the Federal Government or from the viewpoint of State and local governments.

If all of these new needs were to be financed in the tax-exempt municipal bond market, which, by its very nature, is limited in capacity, the additional volume of financing would tend to have the effect of significantly increasing State and municipal borrowing costs, not only for these new programs but across-the-board for all State and municipal government programs. The proposed new institution would avoid these problems by operating in a far broader market. The net cost to the Federal budget, moreover, would be minimized through the use of the proposed development bank, which would issue taxable securities.

These considerations give the Federal Government and State and local governments a community of interest in finding the financing means that will be most economical for all levels of government combined. And I am confident that means can be found which will not impinge in any way on the ultimate fiscal independence of State and local governments, which now rely mainly on the tax-exempt concept.

Some implications for capital markets

Even if the burgeoning new needs that we now envisage are financed in a much more efficient fashion than is now the case, such financing will be bound to have a major impact on capital and securities markets generally. Added to continuing large private requirements—and notably the likelihood that new housing needs will exert much greater pressures on the general capital markets than in the past—it will almost certainly mean that the average level of long-term interest rates will be higher than in the 1950's and early 1960's, when they were quite low.

This is not to imply that rates will not come down from their very high recent levels. But it does raise questions as to how long we can afford to continue accepting attitudes and practices that were essentially developed in periods when average interest rates were substantially below the levels indicated for the future. It suggests that continued maintenance of the statutory 4¼ percent ceiling on long-term Government bonds could become an increasingly troublesome obstacle to sound Federal debt management.

CONCLUDING COMMENT

So there you have the short and long of it. For the short-run, the pressure of Federal finance demand will diminish sharply, with consequently less pressure on interest rates. Over the longer run, the needs for social welfare infrastructure will place very heavy demands on the capital markets.

I welcome the lessened short-run pressure and wish my successors well in meeting the hard financial problems of the future.