## AMERICAN BANKERS ASSOCIATION

The American Bankers Association is pleased to submit a statement in connection with the annual hearings of the Joint Economic Committee on the state of the economy. The committee request asked for "comments on the economic issues which concern the Nation and your own organization." We have, therefore, selected for comment a number of specific issues upon which we feel the banking industry has special competence to express itself. Largely these concern either credit matters themselves or public policy that will ultimately affect the demand and supply of credit. The issues raised, however, are of such importance they transcend concern by the banking industry alone.

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Periods of high employment such prevailed in 1968 and presumably will prevail in 1969 put major strains on all financial institutions. While the real growth of the economy from the previous year as measured by gross national product was only 5 percent in 1968 and price increases added 4 percent to the growth in total GNP, the aggregate volume of credit increased some 20 percent last year. The growth in credit demand is the result of a combination of circumstances; high aggregate demand as a result of strong business and consumer incomes, the fact that rising prices makes future investment and production appear abnormally profitable and attempts by businesses and consumer to anticipate future price and interest rate increases and shortages. That these conditions are occurring is, of course, the consequence of unduly expansionary monetary and fiscal policy in 1967 and 1968.

The strain on financial institutions may take several forms. While the traditional channels utilizing financial institutions under ordinary circumstances are adequate to move a sufficient volume of savings into investment, in periods of high employment demands for credit frequently exceed the amount that can be provided by these institutions. For example, the volume of mortgages or corporate bonds in particular years may substantially exceed the amount normally purchased by institutions buying assets of this type. The increased supply of these instruments pushes their interest rates higher. Some leading institutions may then shift their purchases from types of obligation that they customarily find attractive to the particular asset that happens to be in strong supply, or the borrower, because of the increased cost of funds and the inability to attract sufficient buyers for these particular assets, may switch to other types of instruments. Businesses which would ordinarily finance in the bond market, for instance, may move to bank loans or commercial paper as a source of funds.

The role of commercial banks is complex. In addition to servicing their customers' normal short-term needs, banks tend to be the major residual supplier of funds for the economy in periods when credit