The National Outlook

What Is Ahead For Interest Rates?

By RALPH ROBEY

One of the efforts of this administration has been to make certain that the business upswing will not be halted too early by rising interest rates. Back of this is a belief that the recovery from the 1952 recession was needlessly checked by the Federal Reserve Board tightening credit too early and too strongly. This is an issue that sincere students can argue about by the day and never come to a conclusion as to which side is most nearly correct. But in any event the behavior of the interest rate structure has been materially changed in this uptrend from that of earlier recovery periods.

The most volatile interest rate is that for 3-month Treasury bills. These are bid for by banks and other interested investors, and since the volume outstanding is enormous and constantly turning over, it is seldom that two consecutive issues will be sold at the same price. During 1954 as a whole the rate of this type of government paper was below one per cent. From this it rose fairly constantly to over 3½ per cent in 1957. Then in 1958 the rate again dropped to below one per cent, and from this rose rapidly to a little above 2¾ per cent, and ultimately to above 4 per cent at the end of 1959.

During the first half of 1960 this rate plummeted to below 2½ per cent and for month after month remained around that figure. Recently, there has been a slight increase, but the rate is still below 3 per cent. No other interest rate has gone through such wide gyrations, but almost all the others have shown increased firmness in the last few weeks. It is time, therefore, to make a guess as to the future.

Before predicting, however, there are three basis facts that must be mentioned.

First, the Federal Reserve System has deliberately kept from driving this short term rate too low. The reason for this has been that it did not want funds moving out of the nation to foreign money centers because of a difference of interest rates. In its open market operations, therefore, the Federal Reserve did not limit itself to buying bills, but rather also bought government securities of longer maturity. This tended to keep the rate on longer issues lower than it otherwise would have been, but there is no way to measure this effect.

Second, the Federal Reserve authorities have been cooperating with the administration in keeping interest rates from needlessly rising. This does not mean that the Federal Reserve has given up its independence. It means merely that up to this point there has not been enough evidence of inflation, or of misuse of bank credit, to justify putting on the brakes. Even before the 1960 downturn of business the Federal Reserve started to ease credit conditions and it has continued a policy of relative ease ever since. Specifically, the Federal Reserve has kept the net free reserves of commercial member banks at about $500 million. This is the figure which determines the potential lending power of the commercial banks without further borrowing from the Federal Reserve.

Third, the demand for credit has been growing. Total loans and investments of commercial banks has increased by over $15 billion within the past year, and the money supply—which means currency outside banks and demand deposits—has risen sharply in the past few months.

Now the prediction:

There is no reason to assume that the Federal Reserve will make a sudden shift in its policy of credit ease. But there also is no reason to assume that it will continue this policy indefinitely.

On balance, the likelihood would appear to be that before long we shall see a firming of interest rates in all categories of lending.

Health For All

TB EPIDEMIC

Almost five per cent of the school children in a small midwestern town infected with TB germs within four months-

The first warning came in December, 1959, when the music teacher found he had TB. Immediately the other teachers and the school children were tuberculin skin tested in a cooperative project of the school system, the health department and the TB association. Ten children and six of the school staff were found to be infected with TB germs, but X-rays showed no active TB.

Three months later, the high school basketball coach noticed that one of the boys on his team tired easily. He tried to get the boy to see a doctor but the boy refused. Finally an order was given: get a checkup or leave school! The checkup showed far-advanced active TB.

Another tuberculin testing program already had been planned, and now it was put into high gear. Sixty-four students, it revealed, had been infected with TB germs since the previous test. Three of them needed to go to the hospital. It appeared from the available evidence that it had been the tuberculosis of the basketball player that had spread through the school.

The 1,700 children attending school were given further follow-up tests. The fifth, in May 1961, showed that the epidemic was under control. But, in all, seven children had been hospitalized with TB. So had the music teacher and the five-year-old brother of one of the sick school children. Ninety-eight other children had been infected and were potential TB cases.

Today, except for the athlete with far-advanced TB who will be sick for some time, all those who went to the hospital are back at school. Yet it is certain that the people in this town, many of whom had thought that tuberculosis was well under control, will not soon relax their vigilance against this smoldering menace.

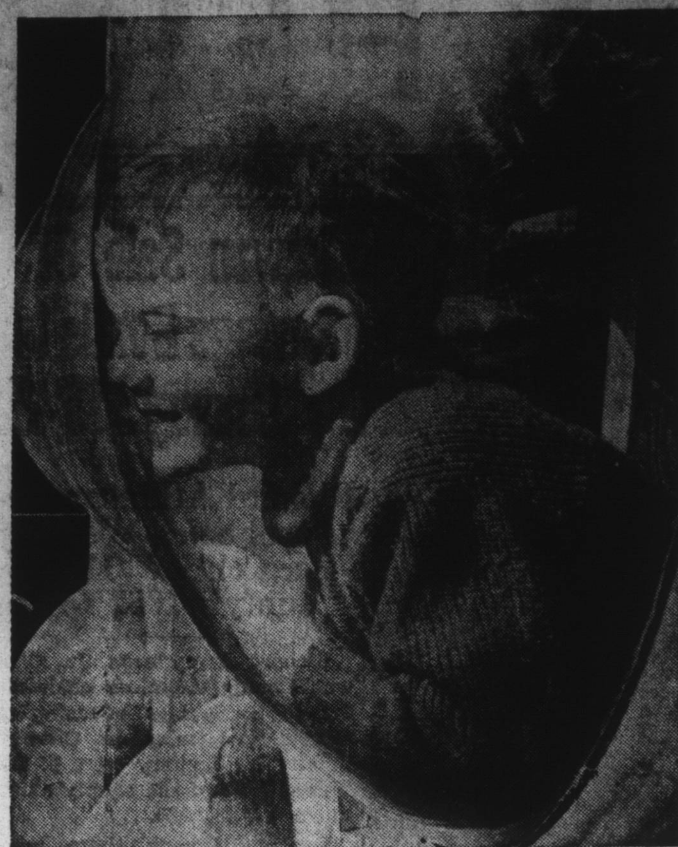
A Lot Of Trust

"Why is it" asked a visitor to the United States Mint, "that they stamp 'In God We Trust' on the pennies?"

"That," explained the guide, "is for the benefit of the people who use them for fuses."

About Average

An inquisitive visitor in a small village began questioning a native. He wanted to know everythng about the community, its elevation above sea level, politics, religious tendencies, the bank clearances and so on. Finally he asked "What is the death rate in this town?" To which the somewhat bored native replied: "About one to a



THROUGH THE LOOKING GLASS—Jimmy Pitts, 5, of Atlanta, Ga., didn't quite make it to Wonderland as Alice did, but he did see a construction project through one of the six sidewalk superintendent-type portholes.

No Comment

By JAMES W. DOUTHAT
Assistant Vice President, Government Relations Division of the National Association of Manufacturers

NO COMMENT is a report of incidents on the national scale, and does not necessarily reflect NAM policy or position.

Washington — The opportune time for seeking to restrain astronomic government spending is now.

Members of the Congressional Economy Bloc are convinced that President Kennedy's $92,500,000,000 record peacetime spending program for the 1963 fiscal year can be trimmed substantially without impairing National Defense or any essential government service.

Economy advocates were provided with valuable ammunition contained in an analysis of Mr. Kennedy's budget by the National Association of Manufacturers which recommended a cut of $5,684,500,000.

The government's fiscal situation makes it imperative, economy advocates maintain, that Members of Congress be urged in every way possible to vote against all unessential spending.

Holding down government spending as much as possible is essential, it is contended, in order to protect the nation's fiscal solvency, to fight inflation, to facilitate tax rate reform legislation, to protect the present value of the dollar, to lower the national debt, and to restore an international balanec of payments.

Many members of Congress are becoming increasingly alarmed over the present high spending and over the future outlook. Among the causes for concern are these:

1. The $92,500,000,000 spending program for 1963, in addition to being the biggest in peacetime history, has soared by $11,000,000,000 above the total for the 1961 fiscal year (which ended last June 30).

2. The Kennedy Administration already is on record as expecting government spending to pass the $100,000,000,000 mark "sometime during the next few years." This forecast came from Budget Director Bell.

3. Higher expenditures in the future were clearly indicated by Mr. Kennedy's request to Congress in the 1963 budget for new authority to spend $99,300,000,000 in that fiscal year and later. Since the new obligational authority sought is higher by $6,800,000,000 than the actual spending proposed for 1963, this portends climbing expenditures later.

4. The programs proposed in the 1963 budget involve more federal control over the nation's economy than any other peacetime budget in history.

It is based on the philosophy that the people are incapable of dealing with local problems—and, therefore, the bureaucrats in Washington must broaden their domain to include such activities as school construction and teachers' salaries, urban affairs, mass transportation, juvenile delinquency, sewage disposal, parks, and playgrounds and a host of other things.

5. The Budget is being used as a fiscal tool to manipulate the economy—with official sanction for deliberately-incurred deficits in a time of business recession. Such a policy is regarded as extremely dangerous by those who believe that a balanced budget, whenever possible, is essential for a sound economy.

6. The rapidly increasing federal expenditures—and the accompanying confiscatory tax rates—seriously limit the availability of capital required to finance essential business expansion and modernization.

7. Most of the increased federal spending is for non-defense purposes rather than for defense.

8. The Administration has made no effort to curb non-defense spending in order to defray the cost of higher defense expenditures.

9. Whenever the Administration forecasts a reduction in certain expenditures, it uses this as the basis for recommending other spending programs to use up the potential savings. In this way, the taxpayer gets no break.

10. The legal debt limit has been elevated eight times in the last eight years—and Mr. Kennedy now wants it raised to an unprecedented $308,000,000,000. Chairman Byrd (D.-Va.), of the Senate Finance Committee, is among those demanding that the Administration prove its case.

11. The number of government employees is increasing rapidly under the Kennedy Administration—which means more expenditures not only for salaries but also for broadened federal activities. Government employees traditionally seek to build their own bureaucratic or special-interest empires.

Federal civilian employment is expected to jump to 2,538,390 for the 1963 fiscal year—an increase of 131,000 over 1961.

It is not enough to do good; one must do it the right way.
—John Morley.

BIRTH ANNOUNCEMENT

Mr. and Mrs. Billy Boyce announce the birth of an 8-pound, 12-ounce son, Edward Blake Boyce, born Thursday, February 22, in Chowan Hospital. Mrs. Boyce is the former Miss Frances Necaise of Gulfport, Miss.