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## Monetary Policy and Debt Management

Both full recovery and economic growth require expansion of expenditures for business plant and equipment, for state and local governmental facilities and for residential construction. To increase the flow of credit for these purposes, long-term interest rates must fall. At the same time, the United States must remain competitive in world markets for short-term funds. The current task of monetary policy and debt management is to achieve the credit expansion our domestic economy requires without impairing our ability to hold and to attract internationally mobile liquid funds. Reduction of long-term interest rates relative to short-term rates is within the present capacity of the Federal Reserve System and the Treasury.* I shall recommend two further steps to enable these governmental agencies to meet simultaneously their twin responsibilities, for economic expansion at home and for defense of the dollar abroad. (a) Repeal of the ceiling now imposed on the interest rate commercial banks may pay on time and savings deposits, to enable American banks to compete for funds. (b) Special issues of short-term securities available only to foreign central banks and governments, to permit the Treasury to offer internationally competitive yields when necessary.

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* [Not for inclusion in message:
This requires that the Federal Reserve buy genuine long-term securities (not "longs" that have become short), offsetting the effects of injecting money on the short-term rate by selling shorts or even by raising the discount rate. The Board must abandon its position of neutrality towards the structure of interest rates. Also, the Treasury must for the time being confine its borrowing to the short end of the market.]

To make sure that general expansion of long-term credit is effective in stimulating residential housing construction, the government is taking special measures to increase the availability of mortgage funds at lower cost. The Federal Housing Administration is reducing the borrower's rate on insured mortgages by 1/2 point, to 5-1/4%. The resources of the Federal National Mortgage Association in the secondary mortgage market will support this change in the rate.*

*[Not for inclusion in message; FNMA will raise its buying price for insured mortgages by 1/2 point.]