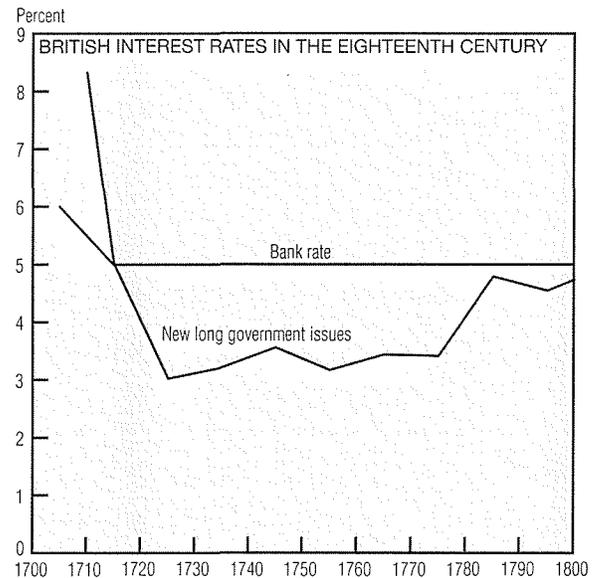
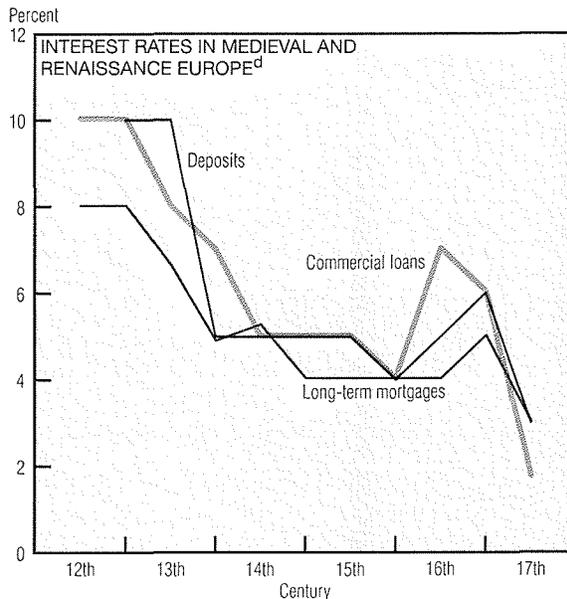
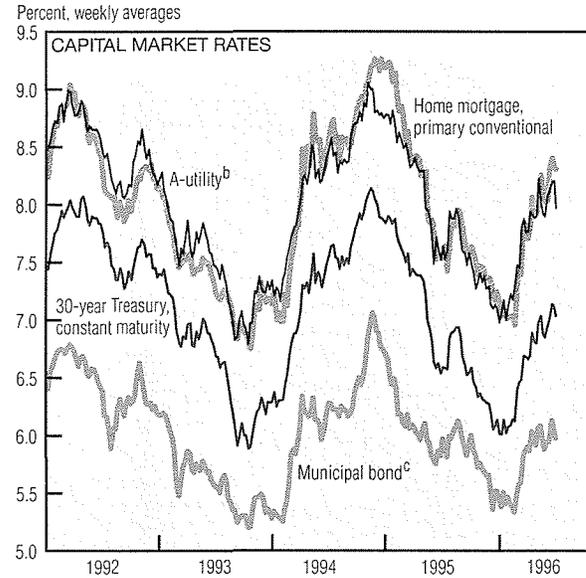
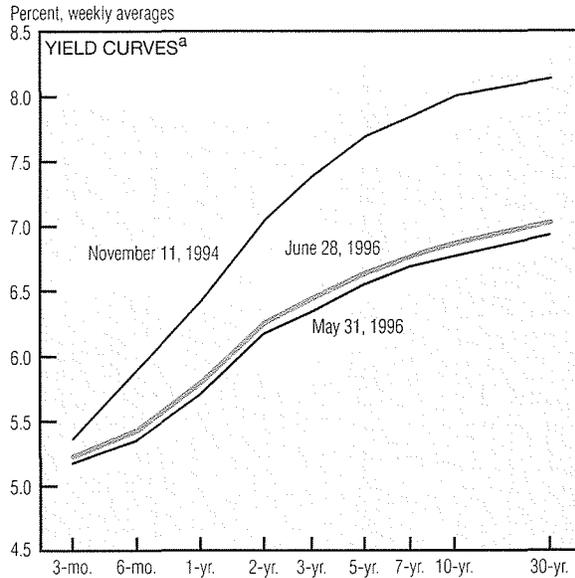


Interest Rates



a. Three-month and six-month instruments are quoted from the secondary market on a yield basis; all other instruments are constant-maturity series.

b. Estimate of the yield on a recently offered, A-rated utility bond with a maturity of 30 years and call protection of five years.

c. Bond Buyer Index, general obligation, 20 years to maturity, mixed quality.

d. Rates are the lowest reported during each half century for each type of credit, regardless of location.

SOURCES: Board of Governors of the Federal Reserve System; and Sidney Homer and Richard Sylla, *A History of Interest Rates*, 3d ed. New Brunswick, N.J.: Rutgers University Press, 1991.

The yield curve has changed little since last month. Daily and weekly shifts have occurred at both the long and short ends, depending on the market's assessment of the economy's strength and the chances of the Federal Reserve raising or lowering rates. The closely watched 3-year, 3-month spread and 10-year, 3-month spread stand at 122 and 164 basis points, respectively. Long rates have generally continued the upward path they began early in the year, although they remain a point below the levels of late 1994 and early 1992.

Interest rates can provide a fascinating historical perspective, as records for Medieval and Renaissance Europe exist as far back as the twelfth century. They can also provide some important lessons for today. Even on a long time scale, interest rates show tremendous variation: One century's average interest rate is easily double that of another. Great Britain demonstrates that 60 years of rates near 3% can be followed by 20 years of rates near 5%. These figures should make analysts think twice before calling a 7% long bond rate "unsustainable."

Still, the downward trend as Europe developed and industrialized may presage a pattern for countries now going through the same process. It is significant that the lowest interest rates appear in seventeenth century Holland, a country with a financial system advanced enough that government bonds (and tulip futures) traded on an exchange. The data even hold a warning about the dangers of inflation: The high rates in the sixteenth and seventeenth centuries arose from the oversupply of gold and silver brought back from the New World.