thing you should do when storm signals begin to go up is to reduce interest rates?

Dr. HELLER. Let me make a few comments on that. In January the 3-month Treasury bills was 2.746; now it is 2.802.

Senator DOUGLAS. That is when you were prophesying we would have a GNP of $570 billion. Everything was fine at that time.

Dr. HELLER. There had been a fall in the interim period and then a rise. Of much greater concern than the short-term rate—which is the essential one for stemming outflows of funds to foreign countries, funds that further aggravate our balance-of-payments and gold situation—of much greater concern for economic expansion is the long-term rate. There I would certainly share your concern about the rise.

Senator DOUGLAS. Let us get that into the record. In May that was 3.09, was it not? No, pardon me. It was 3.88, was it not?

Dr. HELLER. Yes, that is the figure.

Senator DOUGLAS. July 14, it was 4.03, which is an increase of 15 points and approximately under 4 percent.

Dr. HELLER. Yes, and the latest figure was 4.04 for the week of August 4.

Senator DOUGLAS. So that is slightly higher. You have had an increase both in the short-time rate and long-time rate. You yourself argued, and I thought very cogently, that the first thing you should do if it actually fell short of the prediction was to get a decrease in the interest rate.

I know you do not have control over the interest rate, but we are trying to find out whether the monetary policy has really been correct.

Dr. HELLER. As I indicated a moment ago, we have been concerned by the fact that the short-term rate increase has been matched by a rise of a similar number of basis points in the long-term rate, because it is the long-term rate that is most important for economic expansion.

Senator DOUGLAS. I have always held with that in the past. The excuse is the one that you gave, namely, it is necessary in order to prevent the outward flow of gold. I want to read the comparative short-time rates for the European countries.

Switzerland is supposed to be the rater and I think it is. The Swiss short-time rate is 2 percent. The Dutch, who are very thrifty have a short-time rate as of June of 2.32, or $2\frac{1}{3}$ percent. Germany, which has been held up to us as an example, has a short-time rate of 2.38. The only countries with higher short-time rates are France, which I do not think is a great deal of an international investor; Canada, which has just gotten into difficulties, and, therefore, is raising its rate to protect itself; and Great Britain which is the other gold exchange country. I want to suggest that these comparative rates indicate that the Federal Reserve has taken fright too quickly and is using an excuse which is really not tenable.

My time is up and with that I will stop.

Chairman PATMAN. Congressman Curtis?

Representative CURTIS. Thank you, Mr. Chairman.

Following your statement, Dr. Heller, you are basing the basic theory on what has been referred to as the gap theory that you advanced, I think it was a year ago.

Dr. HELLER. March 6, 1961.