

Representative CURTIS. I have been listening to them and interrogating them to find why they felt that way. They do not all look at it that way, fortunately. Those who hold your view, I honestly think, are not looking at the indicators that really measure economic growth.

Chairman PATMAN. Congressman Reuss?

Representative REUSS. Mr. Chairman, Chairman Heller and members of the Council, I want to commend you for responding once again to the mandate of the 1946 Employment Act, directing the Council to send up not only an annual report but supplementary reports at such times as they may be advisable. You did so last year, and I thought your decision most appropriate. I thoroughly agree that a new report is advisable at this time, and I am delighted you have given us this very comprehensive document.

I want to discuss with you the monetary policy which appears to be in effect today. In the last 8 weeks, at a time when there has been justifiable concern about the economy, the Federal Reserve Board has markedly decreased the free reserves in the banking system, and this has resulted in an increase in both short-term and long-term interest rates, has it not?

Dr. HELLER. Yes, it has.

Representative REUSS. The Treasury has also within the last few days issued a long-term bond with a maximum legal permissible coupon of $4\frac{1}{4}$ percent. That is also a fact, is it not?

Dr. HELLER. Yes.

Representative REUSS. If it were not for so-called balance of payments considerations, it would be indefensible, would it not, to tighten the supply and increase the cost of money at this time?

Dr. HELLER. In the light of economic conditions today and economic prospects, yes.

Representative REUSS. So let us look at the validity of the balance of payments argument for doing this. You would agree, would you not, that one, speculation, and two, the needs of trade, are a very important cause of the movement between countries of short-term capital funds?

Dr. HELLER. Yes.

Representative REUSS. Would you say that these causes are more important than, or at least equally important as, differentials in interest rates?

Dr. HELLER. The answer to that question varies from period to period. At one time, as in late 1960, when there was a speculative run, no feasible amount of change in interest rates could have stemmed the flow. At other times, however, a very substantial part of the short-run flow is responsive to interest rates.

Representative REUSS. In the last 8 weeks were interest rate differentials between the major trading nations such as to have justified an apparent attempt to raise U.S. interest rates?

Dr. HELLER. As Senator Douglas pointed out, in some countries, yes, and in some countries, no.

Representative REUSS. Weren't Canada and the United Kingdom the only major countries with interest rates higher than ours?

Dr. HELLER. Canada raised its short-term rate to about 5 percent, and the U.K. had come down to just under 4 percent. Neverthe-