less there was still an incentive even with the differential for funds to move out in response to these interest rates.

Representative REUSS. Were the interest rate differentials, after adjusting for exchange risks and forward cover, such in the last 8 weeks as to require a different policy on the part of this country?

Dr. HELLER. I lack an intimate detailed knowledge of these movements, but I am under the impression that there were some pressures on the dollar to which this was at least in part a response. While I am not qualified to give you a very detailed answer on the movements of forward cover and interest rates, I do know that there was an incentive to move funds overseas, particularly to the United Kingdom.

Representative REUSS. Does the Council of Economic Advisers make an independent judgment as to whether a given interest rate differential is a major risk for our balance of payments, or do you accept the judgment of the Federal Reserve System? If your answer is that you make an independent judgment, have you made one in the last 8 weeks, and does it accord with that of the Federal Reserve? And if it does not, have you let them know?

Dr. HELLER. I would put our situation this way: We make a judgment based on information that is supplied by the Treasury and by the Federal Reserve. But as far as the policy implications are concerned, we, of course, form our own counsel, and discuss these matters with the Treasury, with the Federal Reserve Board, and with the President in periodic meetings.

Representative REUSS. Of course, if frail man should err in this, the consequences could be most serious, could they not? If we raised our interest rate structure when it was not necessary for balance-of-payments reasons, we would have injured our domestic growth prospects, needlessly.

And if domestic stagnation results in a large involuntary deficit, perhaps made even larger by a tax designed to undo the effects of tight money, we might in fact increase our balance-of-payments problems. Foreign central banks could become more alarmed with such a large budget deficit than from seeing modest quantities of short-term capital move around.

Dr. HELLER. I think that any tightening that goes beyond what is required for progress and stabilization on the balance-of-payments and gold front is a heavy price to pay, and an unnecessary price to pay, particularly when it hits long-term rates. We are concerned, and have been concerned, with the recent tightening to which both you and Senator Douglas have referred, with the question whether it meets felt and actual needs, with the question of whether it might not be nullified by rising interest rates in some of the other countries, and with the question of whether it would not be possible to differentiate a little bit more between the rise in short-term rates and that in long-term rates. These concerns of ours have been expressed in our discussions within the administration and with the Federal Reserve Board.

Representative REUSS. Putting to one side the question of whether we have in fact gone astray in the last 8 weeks in raising interest rates, would you agree that interest rates higher than those we have today are likely to harm our domestic situation and are of doubtful value for our balance-of-payments situation?