

Senator DOUGLAS. The point I want to make is that only in the case of the United Kingdom and Canada do you have any real difference in rates. The difference between United Kingdom and United States is accounted for by the arbitrage cost. This does not account for the full difference in the case of Canada. But I can't believe that Canada, with a population of 20 million, subjects the American dollar to such great strain, particularly in view of the highly uncertain financial situation of Canada. Both political parties concealed it during the election but it has come out after the election. I should think with the devaluation of the Canadian dollar down to 92 cents, whereas some time ago it was \$1.05, that people would not be getting Canadian dollars in preference to American dollars. So, very frankly, I am puzzled by the claim that it is necessary to increase the domestic interest rate, both short term and long term, to meet the balance-of-payments problem.

In view of these facts, we know the adverse effect which a higher interest rate has in dampening off business recovery. I hope this will not be regarded as libelous, but I heard a wag say the other day that a good new Chairman of the Federal Reserve Board would be worth a \$10 billion tax cut.

Dr. HELLER. I have heard it said that the Chairman of the Council is worth 50 points on the Dow-Jones.

Senator DOUGLAS. No; I think you are doing a fine job. I have a sneaky feeling that now you have become a Government official you feel an obligation to defend all policies of all branches of the Government.

Dr. HELLER. May I respond to two or three of the points you made?

First, while the points you make are very well taken, and while it is extremely difficult to judge whether the exact degree of tightening that has occurred is really necessary to meet balance-of-payments and gold pressures, it is necessary to take into account that the so-called Euro-dollar market is offering rates of over $3\frac{1}{2}$ percent in Europe and without any exchange risk, is perhaps attracting dollars on that ground.

In other words, these are the dollars that are circulating, so to speak, and used from bank to bank and country to country in Europe, financed in effect with U.S. funds.

Second, the U.S. dollar is at a forward discount against the Dutch guilder, against the Swiss franc, and against the German mark. This may not be a huge factor, but it does mean that U.S. rates have to be slightly higher than you have suggested to prevent a flow of funds.

Senator DOUGLAS. Are Euro-dollars convertible into gold?

Dr. HELLER. Euro-dollars which find their way into the hands of foreign central banks are convertible to gold. They are not convertible to gold in the hands of private individuals at the U.S. Treasury, but they also may cause some problem by being converted to gold in the London gold market. This is only an indirect gold-conversion problem. But we must include it if we are talking about the total withdrawal of funds or the total attraction of funds overseas.

Senator DOUGLAS. So far as the Netherlands, Germany, Switzerland are concerned—countries that are held up to us as the great examples—our interest rates are higher. If they are economical men they would not call their short-term deposits with us and put them on