

deposit in Zurich because our interest rates are above those in Switzerland.

Dr. HELLER. We have to consider not only discount rates and bill rates, but also a number of other short-term rates. For example, the local authorities in the United Kingdom surprisingly enough offer 4½ percent on 7-day money. There is a whole range of short-term rates that we have to take account of. I think that is a factor that has to be weighed in making this assessment.

I am not suggesting, Senator Douglas, that the interest rate movements that have occurred are a kind of a categorical imperative in the light of international balance-of-payments considerations. That is a matter of judgment on which we are not prepared to reach any final conclusion here. However, I am prepared to suggest that, particularly at the long end, the increase in rates does not seem to make much of a contribution to the balance-of-payments problem.

Senator DOUGLAS. Do you think there is any relationship between the fact that in May and June, as interest rates started to move up under the policy of the Federal Reserve, business activity started to move down. The Commerce Department publishes its series of business cycle indexes. Congressman Reuss introduced this into the record yesterday. It shows on page 5 that the index turned down in May and June and this is what in the past advocates of the tax cut brought forward. I raise the question whether there is any connection between the fact that durable goods, hours per week, accession rate, and so forth turned down at the time interest rates turned up. Is it possible that the second factor was the cause of the first?

Dr. HELLER. We certainly cannot always know the precise cause-and-effect relationships. But it does seem that some of these things that have happened in recent months have occurred too fast or too soon to be directly related to the monetary tightening that has taken place very recently. The disappointing Commerce-SEC survey of plant and equipment investment plans came in March, well before this recent tightening.

Inventory-sales ratios have been low for some time and cannot be directly related to that. Of course, it is possible that there might be some other results that are directly related to the recent tightening, although I cannot think of any obvious ones.

Chairman PATMAN. Congressman Reuss, you may proceed, sir.

Representative REUSS. Dr. Heller, you have been defending the Federal Reserve for some time now. I am going to ask you to defend the State Department for a while. In your statement you pointed out that the proposed Trade Expansion Act could, by expanding our exports, not only help us from the standpoint of our balance of payments but increase the demand for the output of our farms and factories. I agree that it has that potential, and I am one of those who think that it is a very important potential.

I want to ask, however, a question about it. Because my question necessarily is somewhat long, I wrote up the main points of the question and handed you a copy of it earlier. It reads as follows:

Bearing in mind the following:

1. There is not in sight today any stimulant to demand comparable to automobiles in the 1920's or homes and appliances in the early 1950's.