centrated almost exclusively in the country banks and consist almost exclusively of vault cash.

Mr. McCRACKEN. Nonetheless, the evidence supports the conclusion which I stated in my testimony.

Senator DOUGLAS. Are my figures erroneous?

Mr. McCRACKEN. This is what I want to comment on. In the first place excess reserves historically tend to be concentrated in the country banks. This is not new. Larger banks keep even temporarily surplus funds quite fully employed in such things as bills or the sale of Federal funds.

In the second place, while the net free reserve figure, like any other simple figure, is subject to limitations, it is a useful quick way of getting some indication or some impression of the pressure on the banking system. It indicates at present a condition of relative ease, an impression confirmed by collateral evidence. I happen to be a director of a bank and spend some time in banking circles. There is a vast amount of difference in the sentiment of the bankers so far as their lending policies are concerned, or particularly so far as their interest in building up their loans, relative to that in 1957 or 1959. There is not the loaned up sentiment that there was in those years. Moreover, there has been an 8½ percent increase in bank credit during the past year. That is double the normal needed gain to support vigorous economic growth. So, as I look at the evidence, I do not see it supporting the position that the major problem that we face at the present time is in the area of monetary policy.

Senator DOUGLAS. I wish you would take another look at these figures, because it may indicate that free reserves are virtually nonexistent. The second question I want to ask perhaps applies to all three of you, although I came in late and did not hear Dr. Eckstein's statement. Dr. McCracken and Mr. Pechman seem to believe that the balance-of-payments problem requires relatively high interest rates. Yesterday, we brought forward facts indicating that so far as the short-time rate is concerned that the American rate is above the Swiss rate, which is only 2 percent. It is above the French rate which is about 2⅓ percent. It is above the Dutch rate, which is just about 2⅓ percent. It is below the French, British, and Canadian rates.

But, if you take the arbitrage costs into account, it is approximately equal to the French rate, and the British rate, and I think there are charts here to demonstrate that. It is below the Canadian rate, but I can hardly believe that people would transfer American dollars to Canada in view of the shaky situation in Canada which has caused them to devalue their dollar.

Now, then, just what is it that you are afraid of as far as the situation is concerned? Is it the fact that our balance of payments is against us? Is that the point?

Mr. PECHMAN. I would be concerned about substantially lowering the interest rate, particularly the short-term interest rate.

Senator DOUGLAS. How about the long-term rate?

Mr. PECHMAN. I would like to keep the long-term rate at the present level, or even lower it a bit. The short-term rate controls short-term capital flows, which are particularly sensitive to interest rates. I think we have to keep short-term rates at a higher level than we kept them during the early postwar period.