Senator DOUGLAS. Is there a drain from Switzerland?

Mr. PECHMAN. No, but I am afraid that, if we pushed the rates substantially lower than they are today, it might stimulate a large flow of liquid funds abroad.

Senator DOUGLAS. Don't we have a real margin of safety on this and need we be concerned with speculative outflows of gold in search of higher interest rates abroad? That is what I am trying to say. What are you afraid of: that the balance of payments is against us and Europe may not be content with leaving their balance on deposit in dollars?

Mr. PECHMAN. Both factors are involved. I do not want you to misunderstand me, Senator. I do not want a higher level of interest rates.

Senator DOUGLAS. I understand. But you do not want a lower rate.

Mr. PECHMAN. That is right. In other words, I am saying that we have done fairly well in monetary policy up until recently. I am a little concerned about the noises being made on monetary policy, though I cannot say that the action has been as bad as the noises. If these noises are followed up by action, I would be terribly concerned, as you would.

Senator DOUGLAS. Here is the point. Recently the Federal Reserve sold Government securities and depressed the price and consequently raised the yields. The result has been a rise in the short-term rates and a lesser rise, but some rise, in long-term rates.

On the question of the unfavorable balance of payments, must we accept eternally those inadvisable items which turn a favorable balance of trade into an unfavorable balance of payments, which turn $3 billion surplus in commodities to a 1½ to 3 or 4 billion unfavorable balance because of the so-called inadvisable items. Are we committed indefinitely to continue maintaining military divisions in Europe? Are we committed indefinitely to the attendant costs of expenditures of dependents? Are we committed indefinitely to the existing level of foreign aid if the other countries do not contribute? Are we committed indefinitely to the present flow of capital abroad when virtually every other country imposes some controls upon the export of capital. I mention all these things. Can we take the existing unfavorable balance as something we cannot do anything about?

Mr. PECHMAN. I agree with the implications of what you said. A great many of these things have already been done and a lot more perhaps should be done. Certainly we should not have a domestic policy that would prevent us from getting back to high employment merely because of the balance of payments. I think that is the important lesson of your remarks.

Senator DOUGLAS. That is the point I was making. My time is up, but if any of you wish, you may volunteer a reply.

Mr. MCCRACKEN. May I make just one comment, Senator Douglas.

The point of that part of my testimony where I commented on the balance of payments problem was simply this. We hear a great deal of discussion that the nature of our rather precarious balance of payments problem makes it impossible for us to consider expansionist fiscal policy action. Precisely the point that I was trying to develop here was that if we manage an expansionist economic policy correctly, there is reason to think that this kind of action at least would be