

A main reason for our balance of payments and gold problem has been the perhaps excessive movement of American capital to Western Europe (although I think this too is exaggerated) I am not quite sure that I am absolutely clear as to why we should move toward a philosophy of free exchange of goods based upon marginal efficiency but not allow capital to flow where the manager of the capital, so long as we believe in a free system, thinks it will be most efficient. I think we are a little mixed up on this score, but I haven't got time to get into this in detail.

A main reason for our balance of payments and gold problem has been the perhaps excessive movement of American capital to Western Europe, and the excessive withdrawal of foreign funds from the United States. Both of these trends are to be explained mainly by the higher rate of economic growth, the lower levels of unemployment, the freedom from economic recessions, and consequently the more favorable opportunities for sustained investment and profits, in some countries of Western Europe contrasted with the United States.

It follows inescapably that those of our national economic policies are absolutely upside down which attempt to cure our balance of payments and gold problem by repressing economic growth, employment, and production in the United States. Variations in interest rates, comparing here with overseas, are a relatively inconsequential factor. And in any event, it shows a fantastic lack of perspective to saddle the whole \$550 billion American economy with the incubus of rising interest rates in order thereby to effectuate some slight changes in our balance of payments and gold position.

In addition to the main remedy of restoring and maintaining maximum prosperity in the United States, we need to improve the development of international mechanisms which would serve as a clearing-house and set off short-range against long-range claims. In long-range terms, our balance-of-payments position has in general been satisfactory.

Now, Chairman Heller, in his testimony, and others have brought up the point that maybe we should try to hold down the long-term interest rates because of our domestic needs, and let or help the short-term interest rates go up in order to take care of the capital flow problem. I have been trying to convince committees of Congress for a long time, and I think unfolding developments have helped me a little bit, that it is absolutely impossible as a basic proposition to do these two things at the same time because interest rates interrelate. Most interest rates are fixed by other interest rates, and that is why I went before the Senate Finance Committee in 1957, when they were talking about raising the interest rates on savings bonds because other interest rates were going up. I said, "You have created a mess. You start raising some and you have to raise others, and you are on an escalator that will never come to an end."

It is absolutely impossible to do these two things at the same time. One of the reasons why the recent effort of the Treasury to float long-term bonds, at even what I consider a rather high coupon interest rate of 4¼ percent, didn't work out very well is because we are getting into a situation where you are going to have to pay 5 or 6 percent interest to borrow anything, even on the supreme credit of the Government of the United States.