

Mr. HAGEDORN. No, of course not, Congressman. Holding balances in this country has attractions that may be entirely aside from the competitive interest rate.

Representative REUSS. Those attractions would include the avoidance of currencies that may have speculative dangers, even though the countries of those currencies pay a high interest rate.

Mr. HAGEDORN. Certainly. The quality of the loans must be considered.

Representative REUSS. Another reason for holding balances is one quite apart from interest rates. It involves lubricating the wheels of international trade.

Mr. HAGEDORN. The ability to get goods for those balances. Certainly that is an important consideration in their willingness to keep balances here.

Representative REUSS. I am glad to hear you recognize both of those things, because it seems to me they militate against a too great obsession with differential interest rates.

I would hate to see this country adopt the policy that whenever some country somewhere, by reason of its central banking policy at the moment, raises its interest rates, we raise ours competitively. If the free world starts doing that, the sky is the limit.

Mr. HAGEDORN. Yes. I realized, as I wrote this, that the comparison of the \$16 billion we have in gold and \$19 billion of short-term balances might sound like a scare statement to somebody. I didn't mean it as such. We are in the same position as a commercial bank. There is no reason to expect them to have cash in the vaults to pay off all their depositors at once. But they certainly have to maintain their assets in a condition that recognizes the fact that they have a certain amount of demand claims against them.

We, as a nation, are in that same position. The interest rates we maintain is one of the many factors we have to take into account.

Representative REUSS. I am wondering if this country should become so alarmed because other countries have temporarily higher interest rates than ours. For example, if Ruritania's central bank wants to raise its interest rate structure to 8 percent, why should we become alarmed if holders of claims against this country then take off after that 8 percent?

Mr. HAGEDORN. I doubt that the Ruritanian economy could pay 8 percent on any very large volume of balances, Congressman. I have not seen recent figures on the national income of Ruritania. I would guess they simply cannot. After all, the income on investments or the interest on balances has to come out of the product of the economy.

Representative REUSS. Yes, except non-Ruritanian countries such as Germany and France. I hoped you would not goad me into mentioning them. They have had rather high interest rates in recent years. I am wondering whether it is a cause for alarm in a free world of convertible currencies, if holders of claims choose to put down their money where they get the highest interest rates. I don't see why this should bother us.

Mr. HAGEDORN. I would be very much alarmed if our gold started flowing out of the country at a rate which would make it impossible for us to maintain the convertibility of our own currency.