

as possible with a supply of money which is ample for the expansion that the economy needs.

Senator PROXMIRE. So you can concentrate on restraint in the wage-price front?

Mr. HUMPHREY. Yes, sir.

Senator PROXMIRE. And also the administered price front. You feel we might be able to sell some to the banks and create some additional money to finance the deficit?

Mr. HUMPHREY. Yes.

Senator PROXMIRE. Do you share Mr. Bell's viewpoint that it ought to be split, or do you think it should be concentration on sales to the banks?

Mr. HUMPHREY. Since it is very hard to make a complete shift abruptly, some split may be prudent with new money initially and more out of savings toward the end, as we go along.

Senator PROXMIRE. Mr. Klopstock?

Mr. KLOPSTOCK. I have not reached any definite conclusions on this issue.

Senator PROXMIRE. Mr. Pizer?

Mr. PIZER. I don't think I can add on this subject.

Senator PROXMIRE. Mr. Klopstock, I understand you are prepared to explain the Euro-dollar market. We welcome that. We have had this term tossed to us by you professional economists. We are very interested in this. One of the questions that particularly interested us is whether or not the Euro-dollar market represents a flight of American capital, or can, and how it relates to claims that the central bank may make against us.

Mr. KLOPSTOCK. I have made a study of the Euro-dollar market together with an associate of mine. The study was published in the Monthly Review of the Federal Reserve Bank of New York, and if I may, I would like to submit the study to the committee.

Senator PROXMIRE. Very good.

Mr. KLOPSTOCK. As to capital outflows.

Senator PROXMIRE. How long a study is that?

Mr. KLOPSTOCK. It is several pages published in our Monthly Review.

Senator PROXMIRE. That will be printed in the record of the committee's proceedings at this point.

(The study follows:)

THE MARKET FOR DOLLAR DEPOSITS IN EUROPE

(By Alan R. Holmes and Fred H. Klopstock ¹)

In recent years a broad and active market for dollar deposits has emerged in Europe. In this market, generally referred to as the continental or Euro-dollar market, European and other foreign banks place and accept for varying time periods deposits held at banks in the United States. The banks accepting such deposits employ them for various types of loans and investments either in the form of dollars or other currencies. The attractiveness of this market for dollar deposits partly derives from the fact that interest rates paid by foreign banks have generally been higher than those paid by U.S. banks on time deposits, or obtainable on money market instruments of similar maturity in New York. In addition, European banks offer interest on call and very short-dated deposits, a

¹ Alan R. Holmes is manager, securities department, and Fred H. Klopstock is manager, research department, Federal Reserve Bank of New York. Their analysis is based in part upon a survey which they jointly conducted in Europe during June 1960.