

Mr. KLOPSTOCK. Exactly.

Senator PROXMIRE. To trade in Europe. How does this result in interest yield?

Mr. KLOPSTOCK. The instruments traded in the Euro-dollar market are actually dollar balances in American banks. These are held by foreign banks and corporations. Other foreign banks are interested in accepting these balances and are willing to pay interest for these balances if they are put at their disposal. These acceptors of these dollar balances in American banks then employ them for various purposes. They may, for instance, extend dollar credits to their customers. The fact that a substantial amount of the demand for dollar credit has been satisfied by foreign banks that have obtained the requisite balances in the Euro-dollar market is of importance to our balance of payments. In the absence of this facility or the absence of the ability of the European banks to finance these credit demands, their customers may well have come to American banks for dollar credit. The total outflow on short-term loan account from the United States would have been larger than it actually has been.

So, from that viewpoint, the Euro-dollar market has been beneficial to our balance of payments.

Again, to explain or to clarify the workings of this market, the Euro-dollar market deals in balances that are held in American banks. These balances are transferred from the depositor in the market to the acceptor in the market. The acceptor may use these balances either in the form of dollars to extend loans to his customers or he may employ these dollars to purchase foreign currencies and invest these foreign currencies in foreign money markets, which also has occurred on a large scale.

The market has added to the usefulness of the dollar as an international currency, and for that reason to the foreign demand for dollars. This undoubtedly has helped to reduce the demand for gold because dollars supply pressures in foreign exchange markets, and therefore, accruals of dollars to the accounts of foreign central banks have tended to be less. Some of this favorable effect has been lost however, as a growing proportion of these deposits has been used for transactions involving swaps into sterling, lira, yen, and other currencies.

The market has its negative aspects. There has been a sizable outflow of dollars owned by U.S. residents, into this market, notably via time deposits in Canadian banks. The market constitutes a large pool of liquid funds readily available for speculative attacks against the dollar and other currencies. Speculative purchases in the London gold market have been financed with Euro-dollars. Also, banks and other borrowers in several countries have used the market to escape monetary restraints imposed by their central banks. And the succession of interdependent short-term claims, characteristic of the market, has introduced risks of vulnerability into international financial relations.

Senator PROXMIRE. I regret to do this, but I just have about 2 minutes to get to the floor to vote. I think this was my last question. I think this is a very excellent and lucid explanation and very helpful.

I take it you can put this in the record. It will be very helpful to the committee, I am sure, and I want to thank the gentlemen of the