

I am talking about the long rate primarily. I think our short rate is possibly competitive today with the short rates in England and on the continent.

Senator PROXMIRE. Let us get into that as my last question. Yesterday we had one of the few witnesses who made a study of international balance of payments and the effect of interest rates on capital flow, Dr. Bell, of Haverford University. He made, I thought, a very impressive analysis of the situation.

He said that study of the components of the recorded capital outflow and the movements of capital as well as the timing of the various movements in conjunction with the timing of interest rates changes does not support the hypothesis that U.S. short-term capital has been moving in recent years primarily or secondarily because of interest rate differentials.

Economist Robert Gemmill, of the Federal Reserve Board, made a study that showed that in recent years between \$600 million and \$1 billion is the maximum amount of switching which may take place as a result of interest rate differentials between this country and nations abroad.

And even in this less than one billion sum he suggests that two other considerations may well have swamped the interest rate factor. The other considerations in the high correlation of deviations from trend in interest rate differentials were the need to build up working balances, and speculative movements.

This was not based on opinion. It was based on very, very careful study, one by the Federal Reserve Board and one by a private economist.

Mr. ECCLES. What we are concerned about is the balance of payments. We are not concerned about American funds going abroad because of the interest rate.

Senator PROXMIRE. That is an important distinction.

Mr. ECCLES. There is a real distinction. We are concerned about the loss of the large amount, \$18 billion of short-term foreign funds, in this market on deposit and in Treasury bills and a deficiency in our free gold reserve of \$10 billion or more.

We have a free gold reserve today of about \$4 billion. So there would be about a \$14 billion deficiency in the gold reserve we have in relation to the short-term foreign funds. It wouldn't take much of a run to use up our free gold reserve.

The concern that we have here is being forced to devalue, or put an embargo on gold. Either one would affect us seriously in the world picture. Therefore, it is terribly important that we prevent these foreign funds running out of our market.

We must eliminate the deficiency in our international balance of payments. We must take action to do that. We could, as has been suggested, guarantee to those who have funds here the price of gold so they would have no concern about a devaluation.

Then we could do what we pleased about our interest rate. As it is, we are locked into a world situation.

If this free gold reserve continues to diminish and bank deposits continue to grow as a result of deficit financing, it is going to weaken the confidence of the foreigner in the dollar, just as we would be shaken in our confidence with reference to foreign currencies of a