commitment for 30 years, and you can have a big drop in the price of of the bond if the interest rates rise to 5 or 5½ or 6 percent.

Mr. Eccles. You have entirely different markets for the long-term and short-term securities. You have an investment market for the long term. In the short term the market is the corporations with surplus funds. It is investors who don't want to get their money tied up for a long period. There are some short-term securities that go into the banks. There are entirely different markets for short-term and long-term Government securities.

The free reserves in the Federal Reserve System tend to keep the short-term market rate low. You have bills today at a little less than 3 percent. They could eliminate free reserves. But they have maintained free reserves in the banking system of $300 to $400 million. You can't get a tight-money situation as long as there are free reserves.

Senator Proxmire. Let me say those free reserves have to be adjusted for the fact that we now have a vault cash counted as reserves. Almost all these free reserves are in country banks. Very few in the central reserve or Reserve banks.

Mr. Eccles. Yes, but the free reserves are the reserves that tend to keep pressure on the market and hold the short-term rate down. There is an abundance of short-term credit for all purposes.

I don't believe that it would help stimulate business if, instead of a 3-percent short-term rate, that you had a 2½-percent rate.

Senator Proxmire. I agree with that. I am concerned about the long-term rate.

Mr. Eccles. The long-term rate is not determined by the Federal Reserve. The long-term rate is based upon the supply of investment funds for the market. It is not determined by the Federal Reserve.

Senator Proxmire. My argument is that they could have more influence.

Mr. Eccles. I don't think so. I think it might have the opposite influence. The investor may think that it is an inflationary action and steer away from the long term. I was opposed to bills-only policy. The Federal has gotten away from the bills-only policy. I have always been opposed to pegging the price of Government securities. The Federal Reserve has bought some long-term and middle-term securities. Now for them to go out and sell all their short term and buy only long term, the purpose would be to so far reduce the amount of long-term securities available in the market that you may force rates down.

Senator Proxmire. Let me ask: What factors does the Open Market Committee take into account in making monetary policies?

Mr. Eccles. I don't know what they do now, but I would think they take into account the factors we always did. That is, the state of the economy, the matter of production, the matter of employment, and the gross national product. Those are the principal factors. If inflationary developments are indicated, a restrictive monetary policy should be adopted. This should be assisted by a fiscal policy of a budgetary balance or surplus. If the economy is not growing and a deflationary situation is indicated, an easy monetary policy should be adopted, supplemented by a budgetary deficit. Any action taken by the monetary authorities today must take into account the condition of our international balance of payments.