Senator PROXMIRE. Yes.

Mr. BRYAN. Are there real limits?

Senator PROXMIRE. Are there any real limits?

Mr. BRYAN. I believe there are, sir.

Senator PROXMIRE. If we are interested in lowering long-term interest rates and maintaining high interest rates, the chart indicates Operation Nudge is not only dead, but buried 6 deep, because we have gone in reverse on Operation Nudge. The long-term interest rates are up, relative to short-term interest term rates in 1960 and 1961, this is exactly the opposite of the purpose of Operation Nudge.

If we can lower long-term interest rates, we can stimulate the economy without much danger to the balance of payments, because the flow is usually a short-term flow.

Why can't we be effective in lowering interest rates on long-term obligations by open market operations?

Mr. BRYAN. The most dangerous thing in that whole business, in my judgment, is that by a manipulated rate we dry up the supply of investment funds available in that market. I also want to reserve judgment on your apparent belief that long-term rates have no influence on the flow of capital out of the market or rather out of the country. I feel that that is not the crucial factor by any manner of means in our balance-of-payments problem. I do feel that it has an influence.

Senator PROXMIRE. The study made by the Federal Reserve economist indicated the influence was not very important. Dr. Bell, of Haverford, yesterday had a paper which was most persuasive on this. I have not seen any studies that indicate anything else. There are lots of opinions, but there is no data and no statistical study of the kind Bell and Gemmill have given us which suggest that interest rates, either long or short term, have any significant influence on the outflow or inflow of capital.

I want to commend you for this entire discussion in the paper without using as an alibi for high interest rates the balance of payments. I think that added strength to your paper in my judgment.

Chairman PATMAN. You didn't use inflation as of this time. Of course, in the past he did.

Senator PROXMIRE. In the colloquy that was the principal argument.

Mr. BRYAN. I appreciate the niceness of what you said, sir. I genuinely appreciate it. I also genuinely appreciate Mr. Patman's very tolerant and nice treatment of me.

Senator PROXMIRE. I want to call your attention to one statistic before we are through. Three-month bill rate, 1959, 4.49 percent. Government bonds, 10 years or more, 4.27. In other words, the short-term rate was actually above the long-term rate. But, 3-month bill rate, 1961, 2.6; Government bonds, 10 years or more, 4.06.

Mr. BRYAN. That is right.

Senator PROXMIRE. In other words, we are going in just the reverse of Operation Nudge, and the effect on the economy, I would think, would be bound to be adverse.

Mr. BRYAN. I will have to review the long-run history. Incidentally, on some of these questions, am I allowed to supplement?

Chairman PATMAN. Yes; you may elaborate on them. Of course, under the rules, you are not supposed to change the meaning.