

and had moved from a minus \$500 million—and you know my feeling that free reserves is not a good measure, but let us use it—we had moved from minus \$500 million to plus \$500 million.

In the area of \$300 million to \$500 million, \$310 million can be easier than \$510 million. Our figure on free reserves tomorrow will be \$440 million to \$446 million, or something in that area. It will be in the paper tomorrow. Actually, I think that is slightly tighter than the \$350 million we had the previous week.

Senator PROXMIRE. I think the Federal Reserve Board has been following policies of relative ease during much of this period. There is no question about it. I am saying in the past few months, a period during which many people feel there are trouble signs flying, that the interest rates have been rising and money relatively contracting.

I would agree with you that this has been a period of general expansion, and ordinarily interest rates do rise during this period. But I would also say that this is the weakest expansion we have had in a long, long time. Altogether, I think we can make some argument that we should be easing up some.

Let me ask you one other thing: I think you have not done what some people have done who came before us, argued that the interest rates should be high because of the international situation. You have not placed any stress on it.

Do you accept the analysis of Mr. Gemmill of your staff which suggests that interest rate differentials, while of some minor significance, represent a relatively small factor in the balance of payments?

Mr. MARTIN. Mr. Gemmill is a very valued member of our staff, and I am ashamed to say that I have not read that article. I read excerpts from it, Senator, and I will read the article. I think Mr. Young, who has read it, if you would permit him, might comment.

Senator PROXMIRE. I would appreciate it very much. Also, incidentally, if you have read an article yesterday by Philip Bell, of Haverford, who went further and made a thorough analysis of the effect of monetary policy on international flow, if you would comment on both of those, I would deeply appreciate it.

Mr. YOUNG. I recall the Gemmill piece, which I read at the time, but I have not read it recently. As I recall, he was speaking of this matter in rather limited context of the funds that are held here in our market by foreigners, and the relationship of movements in these funds to interest differentials. He did not find for this limited question a close empirical relationship.

I haven't studied the Bell paper closely, but I did examine it briefly. I have the impression that he set himself the rather difficult task of trying to say how much of a relationship of movement of funds could be traceable to an interest differential. He is not saying that interest differentials are not important.

A lot of things will influence capital movements. Of course, borrowers are naturally concerned about what the price is that they have to pay in this market, as compared with other markets, and they are influenced by that to some extent. It would be a factor. It would not be the only factor.

Senator PROXMIRE. It would be, I would hope, a minor factor in the determination of our basic monetary policy for this reason: If we try to maintain the differential, I don't see how we can win, because