there is every reason in the world why monetary managers in European countries should have high interest rates. They have a tight labor situation. They are short of capital facilities. They have inflationary problems that are severe.

I should think almost any money manager under these circumstances would do all he could to persuade the Government to adopt a high interest rate policy. This is true in most of these areas. In spite of it, we have a situation in which Germany, Holland, and Switzerland have lower interest rates on short-term obligations than we have.

Mr. YOUNG. It is a very special kind of situation.

Senator PROXMIRE. I understand their other obligations are higher.

Mr. YOUNG. Yes.

Senator PROXMIRE. Nevertheless, I think this point is significant, because I think for some time we will have that situation. We are getting into a problem here where in Germany the international trade situation would suggest that they should have low interest rates, discourage capital inflow, which is embarrassing them because it is too abundant, and the domestic situation would suggest higher interest rates. We are in almost the opposite situation.

I wonder whether we will persist in a situation where there is an obvious conflict between our domestic and international situation. I would hope it would be reconciled by relying primarily on domestic considerations because (*a*) they are important to our well-being; (*b*) because there are other ways to cope with the international situation; and (*c*) the only studies that I have seen indicate that this is not a highly significant factor in our adverse balance of payments.

Mr. YOUNG. Recorded net outflows of U.S. capital in 1960 and 1961 came to $4 billion.

Senator PROXMIRE. The short-term capital movement in the first half of 1962 was only $300 million, short-term capital, on an annual rate.

Mr. YOUNG. On the annual rate basis, the outflow of U.S. short-term capital is less than $1 billion at an annual rate for the first half. This is down considerably.

Senator PROXMIRE. The figures I have seen were $300 million in the first half of 1962, adjusted to an annual basis. A drop from something like $1.6 billion in the preceding year of 1961.

Mr. YOUNG. The outflow of short-term U.S. capital might not be as low as $300 million. Not all of the figures are in yet. Then there is a question of the unrecorded capital balance.

Senator PROXMIRE. This is adjusting for errors and omissions.

Mr. YOUNG. That is the short-term. When you throw in the unrecorded items, as is usually done, then you raise the figure somewhat, possibly to as much as $1 billion, but we do not know yet. That would be at an annual rate.

Senator PROXMIRE. Mr. Martin, would you care to comment whether you think that is correct, that under these circumstances that we can give primary weight to domestic considerations?

Mr. MARTIN. I think we have given primary weight to domestic considerations right along. We have also had to give consideration to the danger of—I will use the words "decline of confidence."

Senator PROXMIRE. In the absence?