one reason that our balance of international payments looks a bit better was because a great deal of foreign capital, which was really in the short-term area, and really would have been in 1-year or less securities, actually moved into some securities that were just beyond the 1-year maturity date. The warning was that because of the way we compute the international balance of payments we should be aware of the fact that this probably is really short-term money that could go out just as fast as it came in. I wonder if you could comment on that.

Mr. MARTIN. Yes. I think that that is something that we have to be concerned about. I think that one of the interesting things is that over the last three and a half years we have financed our deficit almost entirely by our outflow of gold. We have not been borrowing as some of our foreign friends like to say we have; we have not been using our deficit position to borrow. We have been treating it just the same as any other country will treat its balance of payments, and we have been financing it by an outflow of gold.

Now this, of course, concerns us, and we would hope—we are well aware of the fact that part of the reason we have been able to do this has been that higher interest rates here have caused a reflow of funds from abroad. Last summer at one point over $2 billion came back. This could easily go in the opposite direction.

Representative CURTIS. Particularly if we were to achieve our policy of trying to get interest rates lower for the domestic economy.

Mr. MARTIN. We would hope, as Senator Proxmire said earlier, that this would be done, not on a unilateral basis, but that the interest rates—differentials—around the world would be lower. I think the same comment I made about our own domestic interest rates is true abroad. I think as low interest rates as we can have is the desirable thing to have, provided those interest rates are not being used to promote inflation.

Representative CURTIS. My time is up. Thank you.

Chairman PROXMIRE. Congressman Reuss?

Representative REUSS. Thank you, Mr. Chairman.

Chairman Martin, I want to thank you for getting up to us yesterday the advance page proofs of the Fed's annual report, and that of its Open Market Committee. I have had a chance to look at them, and they make fascinating reading.

Let me first ask a series of questions having to do with the policy actions of the Federal Open Market Committee.

Last October the Congress passed a tax increase law suspending the investment tax credit and also changing the depreciation allowance. Thereafter, on November 1, 1966, the Open Market Committee had a meeting and determined to maintain its policy of monetary restraint. That is a correct reading of the record?

Mr. MARTIN. Yes, that is about correct. It made no change at that time.

Representative REUSS. Then on November 22, 1966, the Open Market Committee in its record took five pages to describe the current economic state of the Union, without any mention whatever of the tax increase which Congress had enacted in October, and then went on for other reasons, apparently, to moderate credit restraint. Is that a fair statement of the record?