Mr. Roosa. That depends on the pattern of expectations set up, and whether the short rate is maintained for any considerable period above the long rate.

I don't expect to see—even if policy were followed just as I would like to apply to it—I wouldn't expect to see the short rate maintained above the long rate very long.

But it could go above from time to time, that is quite possible. Even to the extent of easing that has occurred in monetary policy already there is a spreading through into the longer sector.

It takes time after the kind of blow that the financial institutions suffered last year, because there is liquidity position to be built up in the institutions that have to distribute the longer term funds around the economy.

But I don't accept the implication of Professor Kindleberger's remark suggesting that because there is a close relationship between the European and the American capital markets, that we can set the entire level of interest rates without any concern then for the flow of funds in or out of the country that would occur. It just doesn't seem to me that that is possible. It isn't possible because we are a bank, and I just see the implications of our being a bank differently from the way in which he has expressed them.

Chairman Proxmire. Let me pursue this a little further. Maybe Professor Kindleberger can give us his feeling on this.

Supposing, Professor Kindleberger, your optimism is not well founded. Supposing we do have a deterioration in our balance of payments this year, and supposing we continue to have a deterioration. Supposing we continue to lose gold. When does this really become very serious in your view, or does it ever?

Mr. Kindleberger. Well, I think the time that it becomes serious is when it becomes clear that the world is not ready to operate this kind of a system.

Chairman Proxmire. The world is not what?

Mr. Kindleberger. Ready to operate on a dollar system at all. I think that the world is having doubts about it, but my suggestion has always been that they don't understand it. If they understood it, they would realize it is a very good system indeed.

Chairman Proxmire. So what you would pay attention to is the confidence in the dollar?

Mr. Kindleberger. Yes.

Chairman Proxmire. And you think regardless of what the statistics may show in one year or another——

Mr. Kindleberger. Exactly.

Chairman Proxmire. How would you measure the confidence in the dollar?

Mr. Kindleberger. Well, sir, I am impressed by the extent of the use of dollars in Europe. For international transactions, the dollar is the unit of account, the medium of exchange, and the store of value in which Europeanwide bonds are issued, and the market for short-term capital operated.

I am impressed by the fact that the Electricité de France, which is the big public utility, issued a dollar bond in Europe, and this must have caused a certain twinge on the part of French nationalists. This