

at home, or it would not be here. Money finds its level. It is the most fluid commodity of all. And that capital is not going to be pulled out of here unless we are getting into a situation where this economy is not profitable or the particular investment is not profitable.

I do not see this dramatic drain of \$121 billion. I do not see any prospect of it.

When you are talking about the fact that we may have 4 percent inflation in this economy, you cannot talk about 4 percent as if it were a domestic situation. It is a relative situation: 4 percent as it relates to what in France, or in Germany, or what in England.

If it is 4 percent and 3 percent there, there is only 1 percent disadvantage. And if they are getting 5 percent on their investment, 1 percent still leaves them a net profit of 4 percent more than they had before.

I do not see the direct relationship that is implied by your premise.

Mr. O'LEARY. I think the line of reasoning is that as our gold stock has declined—and at the present time the relatively small amount of free gold, with the gold cover in effect—I think that what speculators are betting on is that somewhere along the line the United States will have to raise the price of gold to get out of this box. And, what in effect they are saying is if the United States does raise the price of gold it will be a pretty big increase, because they would not raise it by some small amount, since that would still leave open the expectation that they would do it again. What they are in effect saying is, somewhere along the line we are betting that the United States will raise the price of gold, let us say, to \$70 an ounce. And this the reason they are choosing to hold gold rather than dollars, because they expect to get a big profit on their gold holdings. I do not expect that the entire volume of our gold reserves is going out.

You see, the interesting thing is there is all sorts of crazy psychology in this. I agree with some of the things the chairman has said. Psychology seems crazy. But, it is there.

One of the things Europeans think is that the U.S. military has told the American Government that—we need \$10 billion or \$12 billion of gold simply as a war chest, in case we get involved in World War III, and so, they are betting we are not going to sell much more gold, that we will have an incentive to hold onto what we have, because we need it as a war chest. There is all of this crazy speculation. But, if you have that sort of thing, and—what could tip this off is that we may show in the first quarter a continuing rather poor balance-of-payments position. The pound may not look so hot. The pound and the dollar are tending to be tied together. What you might get would be two or three flurries where we lost \$200 million or \$300 million of gold. And, who is to say that the psychology of this thing is not going to be as bad as what happened to the pound in November.

Representative BROCK. When we talk about gold—let us not get too far afield from the balance-of-payments program as it has been proposed. I think you made one most pertinent point earlier in the discussion, when you said one reason they might pull this money out that is invested in our economy is that they might fear exchange controls. Now, that is a realistic fear, because the very proposals that were made by this administration on the first of January were the first and