to add these dollars to their reserves and not take our gold in exchange for dollars. What they will do is buy a medium-term U.S. Government obligation.

Now, I do not contend, Mr. Widnall, that this is the best answer in the world. I do not think it is as good as if they were neutralizing the full cost of our troops by buying military equipment as they used to. But that seems to have been nonnegotiable up to this time.

I submit, Mr. Widnall, you have hit on one of the most difficult issues that I know of, and my successor, Mr. Kennedy, is going to be wrestling with this problem. All of you are going to be wrestling with it. If you do not find an answer, I guess the only answer is to redeploy—pull back those troops.

Representative WIDNALL. I understand from your answer that you are saying that at the present time, we can expect these items to recur in the near future.

Secretary BARR. Maybe—I would hope that all of you can ponder and worry about this matter because it is crucial. It is one of the most difficult issues. It has been attacked by some of the best minds I know in this country and ~~I will be frank to admit~~ I do not think the answer is completely satisfactory. It puts us in the position—as one Member of Congress said to me publicly—of looking as though we are borrowing money from the Germans for the delicious pleasure of protecting them.

Now, that is putting it in the worst possible light. But it is a light that a tough politician can put it in, Mr. Widnall. The best light is that we are fulfilling our military obligations to keep peace in Europe and we are doing the best we can to prevent the Treasury's financial resources from being seriously impaired by doing so.

I am sorry this is a long answer, but you hit on a question that really troubles me.

Representative WIDNALL. I would like to ask you something important that goes along with that. Although these bonds are technically long-term nonliquid securities, is it not true that if either Germany or Canada found itself in balance-of-payments difficulties we would not refuse to redeem them?

Secretary BARR. Oh, that is quite correct, sir. There is an agreement we have worked out with them. If their reserves drop, I cannot remember the precise level, by a certain amount, they can get their money any time they want.

Representative WIDNALL. Was not the Canadian agreement to buy certain U.S. Government securities predicated on our exempting Canada from our controls on capital flows?

Secretary BARR. That is correct, Mr. Widnall. The Canadian situation is a much better one. I feel good about that. I like the Canadian arrangement and my only recommendation is that you try to keep it.

Here is the position we are in. It is a political situation really, and you gentlemen can understand it better than anyone. We are sitting here on a continent with a political boundary dividing two nations, Canada and the United States. Now, in effect, we have one economy. I hope my friends in Canada are not offended, but you cannot split the economy. The economy does not pay any attention to the political boundary.