

ably ease in the Eurodollar market as well. These funds would still be available for use somewhere, and I do not think it follows that the American banks lose all interest in this market with some easing of money in the United States, when that easing is paralleled by an easing of money in Europe.

But I think you have certainly put your finger on a potential problem, and it is related in a more general way to the fact that while we did have a surplus last year—and that is welcome—the structure of our balance of payments is not in a condition in which we would like to see it. The trade balance has declined. We have had to rely much more heavily on capital inflow, and I think we will be in a much more satisfactory long-term position when we begin building the trade balance back to at least its normal historical level than when we rely heavily in this kind of capital inflow. But I do not want to imply that all this capital inflow is temporary and transitory. We think there are some real factors behind it as well.

Representative WIDNALL. Are these investments pretty well divided, or do they reflect that one or two major central banks make the investments, or one or two private groups?

Mr. VOLCKER. I think they are very widely diversified in both the private and official areas, except to the extent of the military offset operations that were referred to earlier. The offsets naturally, are concentrated in those countries where we have some heavy military expenditures abroad.

But, in general, certainly the inflow of funds into stock market, as nearly as one can tell, comes from a wide variety of sources, mainly in Europe, but from a number of European countries.

Representative WIDNALL. To get back to the 4¼-percent interest rate being received on Government bonds, does the Treasury advocate changing the definition of Government bonds to include instruments up to 10 years?

Mr. VOLCKER. We have not reached a conclusion on that point, Mr. Widnall. I think the logic of the situation suggests that the ceiling under present conditions be removed but whether that is the best approach or not we just have not decided upon.

Representative WIDNALL. There is a choice of doing away with the ceiling altogether?

Mr. VOLCKER. I think that is the general logic of the situation, but I am not able to say whether we would propose that as the approach in this specific situation at this point or not.

Representative WIDNALL. There has been some discussion about doing away with the tax-free aspects of municipal bonds. Some have argued very seriously that this would impair local financing. Those favoring the elimination of the tax-free advantage have said that a program of federally supported loans as in the proposed Urban Development Bank would permit cities to obtain funds at a lower cost, since the municipals are now being floated at increasingly higher interest rates to attract buyers. Has the Treasury taken any position on abolishing tax-free bonds?

Mr. WALKER. No, sir, we have not. This is an issue that is under intensive study.

I will mention one or two of the situations that come into the picture.