report. It recommended to this country that because of balance-of-payments considerations we adopt a policy of high-interest rates and fiscal looseness, a proposition somewhat like you presented to us this morning, Dr. Niehans, except that he hedged a bit. At least, he held out a hope that one really didn't have to raise interest rates without limit and beyond endurance.

I want to come back to you on that. Let me ask Mr. Day what he has to say about this.

Mr. DAY. I think the main disadvantage with a combination of high-interest rates and a looser fiscal policy would be that this might demand a substantially large budget deficit.

The advantage of holding interest rates at something like their present level in the United States is that you would then need a relatively smaller budget deficit in order to achieve something like full employment.

I would therefore suggest that the right policy is to hold interest rates at something like their present level rather than tightening them. I don't think you could lower them from the present level because then you would be far too much out of line with the European level.

But to raise them would demand an even looser fiscal policy and an even larger budget deficit which presumably would be rather difficult politically in this country. As far as the international problem is concerned, the better recommendation would be that all three of us put forth here this morning, the gold guarantee.

Representative REUSS. You are a Daniel come to justice. I am glad to hear you reject what seemed to me a rather extreme reliance on interest rates by the BLS.

Mr. Day, you referred to the recent $6 billion supplementary credit agreement of the IMF as an agreement where possibly something might be worked out to increase international liquidity and to avoid some of the balance-of-payments difficulties that we have been having.

Let me ask you whether you do not envisage the possibility that an expansion of that supplementary payments agreement might not hold the key to some of our troubles. Specifically, if the notes issued by the IMF under this agreement came to be accepted by the various participating countries as a new international currency, and, if in time, the IMF or a similar agency would create a few of these notes on its own initiative as any national central bank creates money, might not these two evolutionary steps be a way of getting us out of the bind we are now in?

Mr. DAY. They would. They would be admirable developments. My worry about the $6 billion of bonds is the discretionary way in which they are made available. They are not made available automatically. They are at the discretion of the granting country which, I think, is unfortunate because the countries which are likely to provide help in continental Europe understandably have a certain feeling that they have respectable policies. Why therefore should they help the United States or United Kingdom whom they sometimes accuse of having careless inflationary policies? Unjustly I think, but there is always the sense of self-righteousness.

I would agree that the principle of the Fund ultimately issuing its own notes which will be a new sort of international currency is a thing we should move toward as fast as possible. I don't see this as a practi-