

rope is less concerned with domestic budget policy and more concerned that our exports be competitively priced. Moreover, with output more nearly at capacity, unit costs will be lower, so that there is no need for higher prices.

Senator SPARKMAN. Mr. Humphrey, unfortunately there is a rollcall in the House, and there is also one in the Senate at the same time, so I think we are going to have to recess these hearings briefly. I shall go and answer the Senate rollcall and be right back. It is possible that some member of the committee from the House will beat me here, and if so, whoever it may be will resume the hearings.

Mr. HUMPHREY. We understand, Mr. Chairman.

(Brief recess.)

Senator PROXMIRE. Gentlemen, I want to apologize once again for these interruptions. This is going to be a very difficult day because, for the first time in 35 years, the Senate has invoked cloture. There are some 250 amendments pending. Whether they will all be called up, there is a question. I pray for your indulgence, and I apologize once again for this lack of courtesy.

Senator SPARKMAN. Mr. Humphrey, I understand you were on page 2.

Mr. HUMPHREY. That is right, sir, starting with the last paragraph.

Mr. Chairman, those who recommend high interest rates for the United States should prescribe low interest rates for countries with a balance-of-payments surplus, in order to avoid a disturbing flow of capital from the deficit to the surplus countries.

Of course, it will be said that countries with a balance-of-payments surplus need high interest rates to restrict demand and avoid inflation. The answer is that, if the United States is expected to rely on budget deficits to expand demand and restore full employment, then, by the same logic, the surplus countries should increase taxes, and rely on a budget surplus to control inflation.

Both low interest rates and budget deficits are favorable to an expansion of domestic employment and output, but each may have adverse balance-of-payments effects. For the same reason, both high interest rates and budget surpluses have adverse effects on domestic employment, but each helps to improve the balance of payments. Now if the effects are favorable to the achievement of one objective, but adverse to the other, then a nation needs to employ two instruments of policy in a different fashion in order to achieve both objectives. Thus, the conception that fiscal policy should be employed to expand domestic employment, while monetary policy is used to protect the balance of payments, has a certain logic.

The trouble, Mr. Chairman, is that European countries, with a balance-of-payments surplus, have failed to take the same medicine that they prescribe for us. It is not written in the heavens that the United States (or any country with a payments deficit) should bear the whole responsibility for curbing these disturbing international flows of capital. If the prescription is that monetary policy should serve balance-of-payments objectives, then the surplus countries should dose with their own medicine by lowering their interest rates.

The risk of a flight from the dollar, of which there are no signs, remains a source of possible trouble. If the uneasy climate deterio-