

rated, the toll could be critical. We should be prepared to pay something, if necessary, to avoid this. If raising the short-term interest rate by half a point would help significantly, this does not seem too high a price, in the light of the alternatives. But, on the other hand, I should resist choking off a couple of billion dollars of building construction with higher, long-term rates.

Because of the great fundamental strength of the American economy, we would not need to match foreign interest rates in order to stem the outflow capital. A second point is that the nominal high interest rates of Europe are already impaired by the development of Euro-dollars.

The least offensive direct control would be a Capital Issues Committee to screen flotations of new foreign securities in the United States. But here we should recognize that these issues are partly taken up by nationals of the borrowing country which may already own liquid dollar assets. To curb the purchase of foreign securities by Americans is a more serious step, while regulation of ordinary bank loans is still more drastic.

The trouble with a little regulation is that it risks touching off fears, however unfounded, of still more extensive controls. Thus, it is argued that even the most modest curb on the outflow of capital might tip off the shipment of capital to Europe by those preparing for future investments and travel. But against this view is the opposite possibility that a little firmness in screening outside borrowers and foreign portfolio investment might be regarded as a sign of strength. It can be argued that if we do not care enough to protect ourselves in this respect, we may not hold the full confidence of others.

Extreme controls would involve licensing of foreign transactions and registration of foreign assets, such as were used during the war. The technical problems are onerous and the loopholes are many. Anything less than comprehensive and effective regulation in this direction might threaten, rather than strengthen, the improved position of the dollar as a reserve currency for the immediate period ahead.

A quiet different bargaining weapon, which I sometimes feel we may have neglected, is the taxing of tourist travel and expenditure in continental Europe, though it would hardly be popular politically to deny school teachers their trip to Europe while allowing the free outflow of capital in search of profits.

Another measure, which is rarely mentioned, would be to allow a tax rebate on exports, in order to encourage exports during this cyclical period of domestic expansion when imports normally increase faster than exports. Many European countries normally remit excise taxes, which amounts to an export subsidy. Since we use the corporate income tax, rather than relying as heavily on excises as they do, such a step could be justified. A tax rebate equal to, say, 10 to 15 percent of certain exports might be preferable, all around, to the type of import restrictions which Europe employed, and we accepted, when Europe was wearing the deficit shoe. Compared with import restriction, export expansion has the advantage of moving in the direction we want to go. And the loss of tax receipts need be