

Senator PROXMIRE. Home construction is very vital to employment?

Mr. KLOPSTOCK. Certainly.

Senator PROXMIRE. I understand for every man working at the homesite there are two in factories, and so forth, providing materials. The dilemma that we are in now was brought out for the first time this morning. I would be very interested to have your comment. And that is on this: Now that we have some slack in the economy, you can make a strong argument for some monetary ease domestically, but some monetary tightness in terms of our balance of payments. Germany has exactly the opposite situation. They have an embarrassment of capital inflow which they want to discourage, but they also have a tight labor market, a full utilization of resources, inflationary pressures, and therefore a strong argument for high interest rates domestically.

Are we going to be faced with this problem of pretty much permanently having to decide between our domestic needs and our international interests? It seems to me that in this country, as compared with others, because the domestic market is still so much more important than foreign trade usually, a logical decision would be on the side of meeting our domestic requirements. High interest rates when inflation threatens and monetary ease when the economy is slack.

Mr. BELL. I don't think we should neglect the fact that the level of activity in this country also has a substantial effect on capital flows. I don't deny that we might lose what I feel from my study is a small amount of capital with a rather low interest rate policy at the present time, but if, in fact, we could stimulate the level of economic activity, we could entice some capital to come back to purchase stocks and other things that might well offset the interest rate effect.

I feel on the side at the present time we need to do everything we can to stimulate the economy and we should not exaggerate the seriousness with which this will affect the balance of payments.

Senator PROXMIRE. It is possible that monetary ease may be consistent with the international balance-of-payments position.

Mr. BELL. I think in part it would be. It would gain and lose. I would think, for example, that if a tax cut came, the sensible thing to do would be not immediately to raise interest rates and in effect choke off a lot of the effects of the tax reduction, and not hold interest rates down permanently at a low level either, but it would be to gain an immediate monetary fiscal mix to pump some money into the system to keep the rates from going up too sharply, but to let the interest rates rise slowly as the economic activity rose slowly, and I hope not too slowly.

I think that would be the best type of monetary fiscal mix.

Mr. HUMPHREY. I don't think I have anything to add to that, except to stress Mr. Bell's last point, that this time phasing makes a big difference. I would quite agree with him that once we have recovery, the high level of activity will be favorable even as to the balance of payments. I would fear that in the initial stage an all-out policy of low interest rates would have initially a negative balance-of-payments effect.

The question is, Just how much are we willing to pay to avoid any extra fears in this delicate matter of climate? As I have said, I would not pay in terms of choking off building construction, but if a little higher on the short-term rate would help, it doesn't seem to me it is