Chairman REUSS. Or maybe he believes—and we will be back to Professor Mundell in a minute—maybe he believes that the monetary authorities are going to be so masochistic that they are going to undo the effect of the fiscal action by refusing modestly to ease the monetary situation.

Mr. SALANT. I think it is possible to subscribe to everything that Professor Despres explicitly said, and still believe, which he may also believe, that the present situation is dangerous.

I think that probably all of us will agree that tight money, the tightness of money in capital markets in the United States and in Europe is a reflection, not only—well, I should say the tightness in Europe is a reflection—not only of European monetary policy, but of American monetary policy and of American policy with regard to the outflow of capital.

It is perfectly conceivable, and it has happened in the past, that tightness in the United States has as much effect in the countries to which capital would normally be flowing as it has on the capital markets of the United States, and it may have as much effect in retarding demand. So it is by no means clear that anything it does to benefit the capital account and the balance of payments isn't going to be offset by what it may do to the current account, and thus the whole balance of payments, which is a point to be taken into account if you think what happens to the balance of payments is that important.

What I should regard as more important about the monetary stringency, which is imposed all over the world by the joint actions of monetary authorities, and aggravated by our controls of capital outflow, is that it can slow up the rate of economic growth in all these countries, to the detriment of those countries and also to the detriment of less developed countries.

From that point of view, the situation can well be regarded as a critical one. From that point of view, if we want to stop price increases, I would say it would be desirable for there to be a more or less concerted action if restraint is needed, to substitute fiscal restraint for monetary restraint, and undo some of the present stringencies in credit and capital markets in all the advanced countries.

That is an item to be put on the agenda for international cooperation, if the subcommittee proposes to recommend one.

Chairman REUSS. Mr. Despres?

Mr. DESPRES. I feel I have sown more confusion than light, if one can sow light. Let me say what kind of an international monetary and financial environment I would like to see first and then say something about the present situation.

I would like to see an international monetary and financial environment in which the movement of capital between countries is substantially unrestricted, and I think this to be necessary for liberalized trade.

I don't think that close balance in the current account can be achieved in the modern world, or should be achieved in the modern world, and that accommodating capital movements have to play an important role as they would play under a system of freedom of international capital movements.

Under such a system, we would be the world financial center. As the world financial center, it would be our job to base our monetary policy, interest rates, and all the rest, not on the domestic stabiliza-