

year the balance-of-payments problem really benefited by high domestic interest rates. Do we not run a serious balance-of-payments risk if rates are lowered too sharply this year?

Mr. OKUN. We do have to remember that the situation in the domestic economy last year had two large and opposing effects on the balance of payments. As Mr. Ackley pointed out, because of the pressures on demands in many areas, we had a huge surge in imports which was unfavorable. On the other hand, as you point out, the tight money and high interest rate conditions in the United States certainly did have favorable effects on the capital account.

This year we look for a significant improvement in the import situation, with much more moderate growth. We do not expect our purchases from abroad to outstrip the growth of GNP as they did by a very wide margin last year. That is going to make a big difference.

On the other hand, we do have to be concerned about the capital account. This will make a difference in the kind of monetary easing we get. We will have to consider the structure of interest rates, in full recognition that short-term interest rates are the ones that are likely to be most important to our international capital flows.

Our capital account depends not only on what happens to interest rates in the United States but also on how they behave abroad. That is why we have placed great emphasis on international discussions among the Finance Ministers. Secretary Fowler's recent conference in Chequers with the Finance Ministers of other major industrial countries helped to emphasize that the overall level of interest rates in the Western World may well have gotten too high. It can be safely brought down if it is brought down cooperatively by all countries so that there is not a competitive aspect of trying to pull in capital. And we are optimistic.

There are indications that interest rates in Europe can behave better and these should make it more feasible for us to have the monetary easing we want here.

At the same time, concern about the capital account imposes a real need to keep our voluntary programs at the highest effectiveness this year. The Federal Reserve program relating to bank lending does call for a very high degree of restraint and asks for a great deal of cooperation from our banks to hold down their volume of lending to developed countries. The Department of Commerce program also has new guidelines for the cooperating firms which should make it possible to bring down our direct investment outflows this year. I think this gives us a balanced program and the basis for optimism that, despite the lower interest rates, we can still have improvement in our liquidity deficit and still retain part of the very substantial improvement we scored last year in our official settlements.

Representative WIDNALL. Thank you, Mr. Okun.

Mr. Ackley, in your statement you said something that I think is very important. It is a fairly short sentence: "The record of the Federal Reserve responding to the changing economic climate in recent months as well as our consultations with the Federal Reserve make us confident that fiscal and monetary policies will be working toward the same objective in the months ahead." This would seem to me to be a change in direction. In the past few years the fiscal policies and monetary policies have been merrily wending their own separate ways