

rates. What impact do you think this will have on the balance of payments?

Secretary FOWLER. I tried to deal rather extensively with that same question from Senator Jordan. I don't know whether you were here.

Representative BROCK. No, I'm sorry.

Secretary FOWLER. But if my answer has been inadequate in any respect, I will be glad to go into it further with you, but roughly and quickly, there are three factors that we would hope would give rise to a situation in which we could have our interest rates lower, but not necessarily give rise to any marked outflows of capital.

One is the fact that we would hope interest rate levels in other countries would come down so that the gap would not be enlarged.

Secondly, we are tightening our two voluntary programs as far as outflows are concerned here—the Federal Reserve programs on banks and nonbank financial institutions, and the direct investment program administered by the Department of Commerce.

And finally, the interest equalization tax proposal, which you have just referred to, is the third element is the tripod that we would hope to use to accomplish two desirable objectives—a reduction in interest rate levels, without accentuating our difficulties in balance of payments.

I would also like to say I hope that this year will be marked by a return to an increasing trade surplus rather than suffering further declines in the trade surplus, such as we have had over the last 2 years.

Representative BROCK. I very much hope you are right. I think the only concern that I have was that if our interest rates do decline, whether we can honestly expect a decline in interest in—

Secretary FOWLER. That is why I went to Chequers, Congressman Brock, to work on that.

Representative BROCK. One further question. Has the administration, in light of the suggestion of some, by the Senate Finance Committee particularly, made a reappraisal of the cost of our military operations in Europe, and is there any study directed toward this insofar as it affects our balance of payments, running in any direction we might anticipate?

Secretary FOWLER. Yes, there is a great deal of study going on and I would like to comment on that briefly, both as to the budgetary aspects and as to balance-of-payments aspects.

First, as to the study. We are engaged in so-called "trilateral" discussions and negotiations with the West German Government and the United Kingdom Government to reappraise the military requirements and the force goals in the light of the changing situation.

And, secondly, as a part of that, how in the light of any feasible reductions, consistent with overall NATO goals and principles, the financial imbalances that result, because a large body of the forces are located by reasons of geography in a particular country, how that situation—the financial "fallout," so to speak, for NATO—is to be handled for the future.

As for estimates on budgetary savings, which I think the chairman adverted to the other day, I did check with Secretary McNamara, and he tells me that, so far as he is concerned, there would be no budgetary savings in returning whatever number of divisions one might mention. Indeed, in the first year, there might be some increases in budgetary