

II. Some more specific questions:

1. Should a surcharge be made on Federal corporate and individual income taxes?
2. Is there scope for changing the impact of Federal Government expenditures upon the economy, including defense expenditures?
3. What can be done through a harmonization of monetary policy, debt management, and the borrowing and lending activities of Federal credit agencies?
4. Should the investment credit promptly be restored?
5. Should the Interest Equalization Tax be renewed? Are there other sectors of the balance of payments that need comparable selective treatment?
6. Has the time come to promote agricultural production via the free market, rather than to limit that production and pay heavy subsidies?
7. Are there alternative monetary techniques, not yet tried, which could insulate the American economy? Could these be consistent with American foreign policy objectives?

Mr. Chairman, the agenda of your committee is so extensive, and the documentation already presented to your members is so lengthy, that I have not presumed to elaborate on any of these questions in advance. From among them, I would hope, the various members of the committee may find some which they would like to pursue, while undoubtedly discarding others which they have already explored to their full satisfaction.

Chairman PROXMIER. Thank you very much, Mr. Roosa. We will have the statement from Mr. Kindleberger, and then we will question you. I should introduce our other distinguished guest, incidentally, who as I say has been a well-known monetary authority for years. He comes from the Massachusetts Institute of Technology. We are very honored and delighted to have you here, Mr. Kindleberger.

STATEMENT OF CHARLES P. KINDLEBERGER, DEPARTMENT OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. KINDLEBERGER. Thank you, Mr. Chairman.

I am honored in being asked to comment on the balance-of-payments passages in the Economic Report of the President and the Annual Report of the Council of Economic Advisers. May I refer at the same time to a somewhat wider discussion of the subject in recent weeks, including the speech to the Economics Club of New York on January 18 of my distinguished colleague today, former Under Secretary of the Treasury Robert V. Roosa?

What follows on the U.S. balance of payments and choices for policy is idiosyncratic. In particular, I do not think the balance of payments is in bad shape, or that there is need for further steps to improve it. I oppose taking measures solely for balance-of-payments reasons, such as bringing home troops from Europe, raising or maintaining high interest rates here, or seeking to cut the United States still further off from the international capital market through higher taxes on international capital movements, as recommended by the President and supported by the Council. The international capital market is a highly flexible and efficient instrument for transferring liquidity internationally which saved this country from a serious banking crisis last August. The world needs it and we need it.

My observations are presented under three headings: (1) The balance of payments of the United States in 1966; (2) the impact of the balance of payments on domestic monetary policy; and (3) the importance of the international capital market to the world economy.