

gap, the foreign-securities gap, etc. Would the interest equalization tax be applied to foreign sales of U.S. securities already owned? If so, how? If not, it must be remembered that there are \$56 billion of foreign investment in this country which can be withdrawn to Europe if returns there become sufficiently more favorable than those in this country. What about the \$1 billion or so in unrecorded capital movements (errors and omissions). To extend the interest equalization tax involves in practice foreign-exchange control. I oppose escalation on this front and favor withdrawal.

Third, Governor Maisel and many other critics are concerned that if the United States remains joined to an international capital market, it will lose the use of monetary policy for domestic purposes and be forced to rely exclusively on fiscal policy. This fear, fed by inadequate analysis, is excessive. It is true that monetary policy has to be operated differently in an open than in a closed economy, and likewise fiscal policy. But it is not true that in an open economy with close financial ties to abroad monetary policy works solely on the balance of payments and fiscal policy solely on domestic employment and stability. Monetary policy can be set internationally on an agreed basis to meet the domestic employment and stabilization goals of the group of countries as a whole. In this process, the United States carries great weight because of its size and importance in capital markets, and retains its sovereignty in the event of inability to agree. Fiscal policy has to cover only a short distance between the agreed overall policy and the particular national domestic stabilization requirement. In a world of many nations, there must be coordination of national policies, and compromise between national objectives and international constraints. Those who put domestic policy first and international economic policy nowhere are falling into an isolationist way of thought.

The fact is that much as an international capital market is needed abroad—to provide liquidity and perhaps capital to Europe, and to provide capital and perhaps liquidity to Canada, Australia, New Zealand, Mexico, Taiwan, Peru, and other developing countries as they establish their credit standing—it is not without its relevance for the United States. Severe as was the banking squeeze last summer, the \$2 to \$3 billion which American banks borrowed in Euro-dollar market or brought home prevented a real crisis and even collapse. The Federal Reserve System may object to having its control of the domestic money market tempered by access to the international money market. In the absence of more perfect knowledge of the breaking points in the system, however, it has been helpful. Italy was saved in 1963 and 1964 from a devaluation which was unnecessary and would have upset the Common Market by private borrowing of \$1.5 billion or more in the Euro-dollar market. A further official line of credit was needed in 1964 to quiet down the speculation.

My point is that the international capital market is not only an effective instrument for providing longrun capital for economic development. Supported by joint official arrangements of the Basle-agreement type, it is a highly efficient and flexible means of providing liquidity internationally, far superior in my judgment to the plans