

thinks they should, the system is safe. But in order to prove to them that they should have faith in the dollar, let's break the system first.

Let's let it go bust by creating more and more short-term liabilities to the point where they will pull out every short asset we have when there is a moment of fright, and then afterward they will say, "Aren't we sorry." And the question is whether we can sit here and say we are ready to run that experiment because we are so sure we are right, that it will all come back in place afterward, or whether we have to be seriously concerned about the threat in advance, because we have the primary responsibility to maintain confidence in the dollar from the beginning.

Chairman PROXMIRE. Congressman Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Roosa, you suggested that an avenue of inquiry might be with respect to the interest equalization tax. Do you believe it should be renewed?

Mr. ROOSA. Yes; I do. As you know, I appeared before the various committees of the Congress when the interest equalization tax was being first considered, and when I did, I said with all the capability that I then possessed that I considered it as a temporary measure.

I still consider it as a temporary measure, and I certainly realize the awkwardness of having to come again to support its renewal. But I believe the renewal is necessary because, as you have seen, the separation in the capital markets is not all that secure.

There is a real danger that there will be an outflow of investment funds to Europe, or around the world for that matter, at a time when we are under continuous balance-of-payments strain. It seems to me that the measure has worked.

This is something which we could explore in the statistics at great length, and it is a rather circumlocutious process, but the essential point, as I see it, is that the loopholes that Professor Kindleberger implies were there, indeed were there. We knew that when the interest equalization tax was first being proposed. But you have to have some evidence that these risks of outflows really exist, before anything can be done about them in the context that will assure public support or understanding.

We knew that the next risk was that there would be an outflow of banking funds, and that one way or another, through a voluntary program or a Gore amendment or both, something would have to be done about that, once you put a barrier against this particular part of the capital flow structure.

We also knew that if that were ever done, there would then be another loophole, the potential for a substantial further outflow of funds through the direct investment window. You would move from portfolio over to the bank loans, and then to direct investment.

These had to be taken up one by one, as they became important. The way in which to do it effectively, because the administrative problems and exchange control are so obnoxious, as Professor Kindleberger says, is through a demonstration of need which can then be met through a program which is essentially voluntary in its enforcement rather than through detailed regulation. That is the pattern that has been followed.