We went from the interest equalization tax to, of course, the imposition of the Gore amendment, which I think is relatively unnecessary, as long as a voluntary bank credit program is effective, and then we had to have along with that a voluntary restraint on overseas direct investment.

All of this is indeed regrettable, but it is necessary in order to slow down the total outflow of investment and to keep some kind of brake on this, valuable as it is to us in the long run, because even a bank as strong as ours can't afford to expand beyond its immediate present capacity. That capacity is indicated by what our balance of payments will bear.

Representative WIDNALL. As I understand your views, you do feel a material impact, if interest rates are materially lowered here in this country. Professor Kindleberger, on the other hand, doesn't seem to fear that. As I understand his testimony, he thinks that the economy and the balance, such as they are today are in a far healthier state than most people seem to acknowledge.

It isn't clear in my mind why there is such a great variance in optimism and pessimism between the two of you. We have such a good opportunity under one tent to understand each other.

Mr. KINDLEBERGER. I do want to make one remark, which is that I demur rather strongly from Mr. Roosa's interpretation of my views in his last answer to the chairman, but since the chairman's time was up, I didn't get a chance to demur. I think that is the appropriate legal word. I just disagree with everything he said. That is demurring.

If I may go back to Mr. Roosa's latest remark, which is to say that the interest equalization tax has slowed down capital outflows, I have before me page 183 of the Economic Report of the President and the Report of the Council of Economic Advisers, and it is a little hard to see it.

In fact, the U.S. private capital flow net, 1961, 3.2; 1962, 3.9; 1963, 3.4; 1964, 3.5; 1965, 6.4, after the interest equalization tax, to be sure and then it comes down again to 3.7 and 3.6. I have a very difficult time seeing overall that the interest equalization tax has helped much. I would add one more thing: that the reason for raising the interest equalization tax now is that the administration is worried that people may pay the tax and use the New York bond market.

This is intended to be a prohibitive tax, as in tariff discussion, and this means that you have got to police the market, to make sure nothing happens, not that you collect the tax, but nothing happens. This means in effect you must apply foreign exchange control if you try to apply the tax beyond major issues.

But to take your question, sir, as to why we differ: reasonable men differ, as is well known as some reasonable men from unreasonable men. I can further recall when I was in Government my irritation with professors from outside the Government, free from the pressure, men who did not have their feet to the fire, the fire in many cases coming from the Congress, criticizing economists in Government for not being sufficiently classical in the application of economic principles. This was particularly true in Agriculture where professors of agriculture from the universities would object to the interference with the price system and attack the Department of Agriculture economists for