

Senator PROXMIRE. How do you prevent it?

Mr. ROBERTSON. I would impose an interest equalization tax, a flexible interest equalization tax. And I would have it applicable to all outflows of credit, whether bank credits, or whether direct investments. And I would have it flexible geographically so that you could differentiate between the less-developed countries and the developed countries, and between export credits and nonexport credits.

Senator PROXMIRE. You want selective exchange control?

Mr. ROBERTSON. Not at all. It isn't exchange control.

Senator PROXMIRE. Why isn't it?

Mr. ROBERTSON. No. It would simply be a tax so that the profit mechanism could work and people could decide whether the funds were to flow out depending entirely on the profitability of the transaction to them. Under my proposal, Congress would give to the administration the power to set rates which would be adequate to prevent an outflow of dollars. And as that outflow diminished so that we weren't sending more dollars abroad than foreigners were willing to hold, you would reduce that tax and hopefully you would keep it at zero always. You would have that flexibility.

Senator PROXMIRE. In other words, a partial selective kind of devaluation of the dollar?

Mr. ROBERTSON. It is a selective control, definitely.

Senator PROXMIRE. It would have the same implications?

Mr. ROBERTSON. Yes, it would.

Senator PROXMIRE. No. 2, it would take, would it not, legislation which we may or may not be able to get through Congress?

Mr. ROBERTSON. Yes; definitely so.

Senator PROXMIRE. Absent that—

Mr. ROBERTSON. Absent that you have to use some other controls.

Senator PROXMIRE. If the international financial situation is as serious as we are told it is, and if it is as important that we correct our balance of payments—and many people feel it is our No. 1 economic problem—we still have the problem of what we are going to do about a situation in which we may have economic slack. We may have growing unemployment and high interest rates.

Mr. ROBERTSON. My answer to that, Mr. Chairman, is simply that you don't permit a recession in this country because of the way in which monetary policy is functioning. Because if you have a recession in this country you are going to have a recession everywhere else in the world. You are going to do no one any good. I would not from my own point of view ever use monetary policy for the purpose of raising interest rates here to keep dollars from flowing abroad if it will cause unemployment and a full recession.

Senator PROXMIRE. I am glad to hear this, and that you represent one of seven votes on the Federal Reserve Board. But you don't represent all seven. I am not so sure that we are going to have policies that are going to be that domestically directed, or that we are going to get a response from Congress that will enable us to insulate the economy from the serious balance-of-payments problem.

Mr. ROBERTSON. I don't want to deemphasize the importance of the international problem. I think it is a great problem. But I think it ought to be dealt with in a manner which does not react against domestic economic conditions.