

wanted a \$20 billion package, and I take it he means a bigger tax increase. I think we all recognize the pressure from the balance of payments to maintain a tight monetary policy, maintain high interest rates. Under these circumstances do you foresee the possibility that the Federal Reserve Board could wisely follow the notion of easier monetary policy, given the international situation, or will we not be constrained to have, No. 1, tighter fiscal policy with the \$14 billion package and the continuation of a tight monetary policy to keep our capital here, or attract capital from abroad?

Mr. MODIGLIANI. A mix of the sort I have suggested would, I am sure, be quite acceptable to the foreign central banks.

Chairman PROXMIRE. They do not vote in this country.

Mr. CHANDLER. That is right. But if you are talking about the balance-of-payments effects, the most severe part of that is the gold problem. They do not like us to have high interest rates in this country because of the effects on their own domestic economies. They have been pleading for a more restrictive fiscal policy here so that we would not tend to draw funds away from them in the loan markets.

So I would be quite sure that you would get cooperation from the foreign central bankers even if the interest rates were lower. They would welcome that.

Chairman PROXMIRE. They may welcome that, but would this help our balance-of-payments situation? After all, if our interest rates are lower here, would there not be a tendency for capital not to flow abroad or more capital to flow here?

Mr. CHANDLER. This is true, but there may be no more gold conversion.

Senator PROXMIRE. Less gold conversion.

Mr. MODIGLIANI. By the cooperation of the foreign central banks, I think he means they would also come along with the easier monetary policy.

If we stopped increasing or perhaps eased a little on our long rates, I think the foreign central banks would try to pursue a policy of the same kind and this would not deteriorate our balance of payments.

Senator PROXMIRE. They might try to, but our past experience with them is that they tend to serve their own economic needs.

Mr. MODIGLIANI. This time I think there is a willingness to cooperate and they have indicated a willingness to pursue an easier monetary policy if we will let them, as it were.

Chairman PROXMIRE. I am surprised none of you gentlemen have espoused the position taken by Governor Robertson. He appeared before the Senate Banking Committee last week. He said in his view we should completely ignore the balance-of-payments policy when it comes to monetary policy. Our monetary policy should be completely based on our domestic economy and the needs of the domestic economy. He said you can ignore the balance of payments and do it with an interest equalization tax and that is what we should do, that you cannot solve both problems at the same time. If you do, you are going to have a monetary policy that is going to conflict with your domestic needs that are much more important; there is going to be slow growth or you need more growth and it is going to be inflationary.

Mr. MODIGLIANI. I think you raised this international aspect, so I was responding to you.