

of the international balance of payments by utilizing a comprehensive interest equalization tax, something of that kind.

At any rate, you may disagree with the device, but to find a way to insulate it from international considerations so it would be much easier for the Federal Reserve Board to concentrate on the domestic objectives, if they could ignore the balance of payments.

Now, you have two obviously conflicting objectives. You could have a kind of situation where you have deflation here but continued adverse balance of payments.

Do you think there is a constructive way and a practical way in which we can insulate other than exchange rates, exchange rate fluctuations; is there any other way that we can insulate our monetary policy from the international balance of payments?

Mr. CHRIST. There are several ways in which we can attempt to insulate it, but it seems to me every one, except permitting the exchange rate to change, gives up an important objective.

We could impose a large tax on capital outflows, as Governor Robertson proposed, but I think this would be a mistake. I think that it would grossly distort resource allocation. It would also build up a severe balance-of-payments problem some time in the future when our foreign earnings would not increase any more because we would not be able to make investments abroad in the future, and I do not think it is wise to interfere with current trade either by imposing large tariffs or quotas.

I do not think it is a good idea to have exchange control, rationing the amount of foreign currency that people are allowed to have.

I do not see that the present foreign exchange rate is sacred, and I do not see why we must maintain it.

Chairman PROXIMIRE. You feel a logical, sensible, practical answer is just to permit the exchange rate to float.

Mr. CHRIST. Yes.

Chairman PROXIMIRE. I see, Mr. Selden, you seem to agree with that.

Mr. SELDEN. I certainly do.

Chairman PROXIMIRE. Do you agree?

Mr. DEWALD. I am not sure. I think it is an empirical question, and you cannot really answer this question until you measure the benefits of fixed exchange against the costs, and there are allegedly benefits that I, at least, would espouse.

People can make plans to trade on the basis of fixed exchange rates. Presumably the reason why fixed exchange rates make sense is associated with the fact that they stimulate trade, permit specialization and exchange, and increase the standard of living.

The peculiarity of the present situation is that fixed exchange rates are defended by policies that reduce standards of living by preventing trade and specialization.

I think that, even though it is a bit of a play on words, it is possible that we could insulate the rest of the world from us and defend the fixed exchange rate system better if we emphasized domestic stability instead of the on again, off again kinds of policies that we have had; that is, if we put domestic policy goals first, it is not inconceivable that the fixed exchange rate system would stand better than it does presently.