Chairman PROXMIRE. In general, you and the Board feel that this two-price system is working reasonably well then?

Mr. MITCHELL. Yes, sir.

Chairman PROXMIRE. Let me ask you in connection with the gold situation, and I want to get back to another thing very quickly, but you did not refer to the Fed's international responsibilities at all, especially in reply to Senator Miller. But sometimes this has been used by those who are defending the Board's position, saying that you have to run contrary to what seems like a logical monetary policy to cope with domestic problems, because the balance of payments is so urgent.

Governor Robertson testified before the Senate Banking Committee that we ought to insulate the balance-of-payments problem with a comprehensive interest equalization tax, so that the monetary policy can always be consistently appropriate for the domestic situation.

Do you think this is feasible absent floating exchange rates; feasible with the present kind of a system we have?

Mr. MITCHELL. Well, just to take these answers up seriatum, the reason I did not say anything about it is I think domestic and international objectives both are working in the same direction.

Chairman PROXMIRE. Right now?

Mr. MITCHELL. Yes, right now.

Chairman PROXMIRE. But as I understand it, Senator Miller asked you your top priorities and you said your top priorities are employment and stability, domestic employment and domestic price stability. You left out of account at that point the balance of payments.

Mr. MITCHELL. Yes.

Well, the international situation can be disequilibrating to the domestic obectives all right, and I think my preferred method of dealing with this disequilibration on the capital flow side is with a tax rather than with the kind of voluntary programs we have at the present time.

But we must have domestic price stability. If the rest of the world has more price stability than we can maintain, then we are constantly getting into trouble on the trade side. So the domestic goals and the international trade goals are consistent.

But the capital flows can be a serious source of difficulty and I think if they are causing difficulty it is better to deal with them through a tax arrangement such as the interest equalization tax rather than the voluntary program we now have.

Chairman PROXMIRE. The economists whom I asked about this last week rather consistently indicated that they did not think this was sustainable, that the interest equalization tax would be self-defeating, that you would get into a position in effect of protectionism on your capital flows, that it just does not work out, that if you are going to do that you have to go with floating exchange rates or it just is too much of a short-term solution.

Mr. MITCHELL. Well, that is one of the other arguments, that if you want to free up monetary policy to deal with domestic situations, you need flexible exchange rates to go with that.

But that is not the only alternative. There are others.

One of the alternatives is using the tax system.

Chairman PROXMIRE. And you think that can be a long-term solution?