

so that if we want an inflow of capital, our interest rates are a little higher, all things considered, than interest rates abroad, a little lower if we can stand an outflow.

I asked Mr. Robertson about this, because I was very concerned, and this has been a great concern of our committee. So often at times there have been conflicts between our balance-of-payments position on the one hand, and the needs of our domestic economy.

Obviously, we cannot have a situation where we have unemployment, and a kind of need to stimulate the economy on the one hand and an adverse balance-of-payments situation which would suggest that we ought to have monetary restraint and high interest rates.

Under these circumstances which do we do?

Governor Robertson's position is that we should never govern our monetary policy with respect to international balance of payments, that we should insulate ourselves by using, he suggested, a very comprehensive equalization tax. Some economists have questioned this and said you cannot do it. If you are going to do that, you are going to have to have a floating exchange rate, a flexible exchange rate. That is the only way you can in the long run.

My question of you then, do you think it desirable that you ask the monetary authorities to try and serve these two masters, or do you think you should give priority to the domestic economy and try, in one way or another, to insulate our balance of payments by such a device as interest equalization tax more comprehensively applied?

Mr. GAINES. Well, my comments were directed to the future actually rather than what has been the case in the past.

If in the future we continue to have the type of aberrations in fiscal policy, and either compensating or complementary aberrations in Federal Reserve policy that lead to the types of economic movements we have had and therefore to the very broad swings in short-term interest rates, we just won't be able to permit our money market to be tied intimately to the international monetary market, because rates internationally have not moved over the wide ranges that our own domestic rates have moved over.

If, however, your purpose is achieved in the monetary policy area of a more stable year-to-year policy, and if simultaneously we have more responsible fiscal policies in the future than we have had, I think we can foresee a time when the variations in our economic growth rate from one year to the next are likely to be rather minor, and therefore one in which interest rate fluctuations properly can be minor from one period to the next.

This would be most desirable, of course, from almost any point of view. But one consequence of it would be that we would then become full participants in the huge international money market that has been developed.

Our market is now closely linked to the Euro-dollar market, but it tends to be a one-way sort of linkage because of the restraints on credit flows out of this country. We are not in a position at the moment to feed dollars abroad when our rate structure would suggest that.

Rates of interest in any given maturity in the Euro-dollar market are almost identical to rates of interest on domestic CD's of the large banks in the United States, after one allows for the added costs of the reserves on these CD's. In other words, the operation of the large