Regarding the proposal for a wider band of exchange-rate fluctuations, the present Articles of Agreement permit a margin of 2 percent, that is, 1 percent up and 1 percent down. Practically no member of the Fund makes use of this permission; they have set narrower limits for themselves. In other words, a permissible margin is not a prescribed margin. Hence, if Professor Mundell has said that he would not want a wider band for all countries, this is really not very relevant.

What we seek is a permission of 4 or 5 percent up and down, and we leave it then to each country whether it wishes to make use of it or not. Even with a permissible fluctuation of 5 percent up and down, a nation may decide to let its exchange rate move only three-fourths of a percent up and three-fourths of a percent down, just as most countries do today.

Incidentally, it may be worth noting that the Swiss now use a wider band than the Monetary Fund permits. This is sometimes given as a reason—not, I believe, a strong reason—for the Swiss not to join the Fund; the real reason has to do with their neutrality and other matters. But if the Swiss can use a wider band than the 2 percent, there is really no reason to be squeamish about the proposal for widening the band. It would help a great deal if there were a general permission for having a wider band. It would help very much in remedying the present balance-of-payments situation of the United States.

Not that I disagree with Bernstein about the inflation in the United States being the chief cause for the present difficulties. But, I would say, if we were able to stop inflating faster than other nations, we would probably narrow the present gap in our payments by about 50 percent, but we would not completely close it. This is the reason why we should resort to the use of a wider band of exchange-rate deviation from parity. It would help us restore balance in international payments.

Mr. Chairman, I conclude with an endorsement of your proposals on all counts.

Chairman REUSS. Thank you.

Senator Proxmire?

Senator PROXMIRE. Professor Machlup, you said earlier that the international balance-of-payments program of the administration is, as you put it, for the birds, and I am wondering what you include in that program? Do you include, for example, the fiscal action which the administration felt was a very important part of it, that is the tax increase and the spending cut? Do you include the agreement which the Secretary of the Treasury reached at Rio and in Sweden on SDR's? Would you exclude that part of it and if you excluded it, why? Why do you zero in on the rest of it and why do you call the whole thing for the birds?

Mr. MACHLUP. Well, Mr. Chairman, what has been called the President's balance-of-payments program, which was announced in January 1968, was a program of four or five points that had to do with direct investment by large corporations, with foreign lending by commercial banks, with tourist expenditures, and with, I forget——

Senator PROXMIRE. Government investments abroad and also Government personnel abroad, troops abroad, State Department personnel, and so forth.