

wherever possible. The private sector can do a great deal to benefit the balance of payments, and indeed has been a big income producer throughout this entire period.

A tax increase in this respect would be one of the best things that we could undertake to do, and despite the fact that its effect would be to a great extent psychological, it is worth something, because confidence is a very important factor at the present time—given the very delicate nature of our balance-of-payments problem, as Mr. O’Leary indicated.

So that I would feel that one of the first and immediate steps we could undertake would be the tax increase.

Secondly, I would certainly back away from any indication of further controls. The controls area that we have entered into is extremely dangerous. Controls can have perverse effects frequently that are unforeseen at the time those controls are put into effect.

I just might mention one area alone. Foreigners hold something in the neighborhood of about \$13 billion of portfolio and long-term investments in the United States. And if they at any time suspected that those dollars might be blocked in the United States, if we move toward controls, you could get a rather rapid pull-out of funds of that sort.

So, the controls area has some great danger attached to it.

Representative BROCK. I am sorry I am going to have to interrupt. My time has expired. If you have further comments, gentlemen, I would be very grateful if you would submit them for the record.

Chairman PROXMIRE. Congressman Reuss?

Representative REUSS. Thank you, Mr. Chairman.

I would like to pursue monetary policy, which all of you can address yourselves to.

It seems to me there are three views of monetary policy floating around—there may be more.

One is Professor Milton Friedman’s view—to put an educated horse in charge of the Fed and have him create money at the rate of 3 percent a year. That is considered by many a little too mechanical.

Then you have the view of the Joint Economic Committee, in which there is a considerable agreement between Republicans and Democrats—though, as you would expect, Democrats would be 1 percent more liberal in the money created, and Republicans 1 percent more conservative. But, allowing for that, and putting the two parties together, our Joint Economic Committee advice, which nobody much takes, is to create money at the rate of 2 to 5 percent a year; in years of slower growth and greater unemployment, aiming toward the high side of monetary creation, and in years of inflationary pressures, to create money on the low end of the register. Beyond that, we admit our incapacity, in the present state of the art, to come to grips with such criteria as interest rates, bank credit, and so forth.

Then you have the third group, the Federal Reserve, which, unless you gentlemen can give me a better definition of it, seems to be largely anti-Friedmanite. Mr. Friedman is sort of a red rag to the bull. The one thing the Fed does not want to do is to seem to be doing what Mr. Friedman advocates. Thus, as Mr. Olsen pointed out, in the period April 1966 to January 1967, the Fed created money at a negative rate, minus 1 percent, and then in the next period, January to August