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I was most pleased to accept your invitation, but I was a bit puzzled as to what I could contribute to your discussions. I entered the Congress of the United States last year as a representative from the State of Massachusetts. Previously, I had been a lawyer and had been active in the local politics of my home district, which is located near Boston. When I entered the House of Representatives, I was appointed a member of its Committee on Banking, Currency and Housing, and I joined both of the sub-committees which deal with international economic policies. Our legislative jurisdiction includes all matters pertaining to the participation of the United States in the World Bank, in the other development banks, and in the International Monetary Fund. We also exercise control over the United States Export-Import Bank.

While these matters are important, our major responsibility is the regulation of the banks and financial institutions of the United States, including the Federal Reserve System. This encompasses, of course, the activities of foreign banks in the United States, as well as the activities of American banks abroad.

We are not economists, and are not versed in the specialized knowledge of banking and finance, as most of you are. Being a Congressman is quite an educational experience, but I make no pretense to an expert's understanding of all the issues that come before us. I think it will be most useful for me to discuss economic policies from the point of view of the attitudes of the Congress, which is sensitive to the political context in which economic policy is made. I would like to comment on some of what

I have learned about the role of Congress in setting economic policies, and to give you my sense of present attitudes in the Congress on a few of the important issues.

I have the impression that though many Europeans are quite knowledgeable about the political process in the United States, they may have a tendency to underestimate the power and influence of the Congress. In recent years the Congress often felt frustrated in its attempts to assert its will, particularly in matters of foreign policy. The bitter experience of Vietnam provoked it to assume a more critical and aggressive role in foreign policy. This attitude also extends to other areas, including the conduct of economic policy. Under our system of government, the first duty of the Congress is to exercise a continuing check on the activities of the executive branch, and to concur in its policy recommendations only after we have brought to bear our own independent judgment. Without our approval, the administration can do very little on its own. Against the active opposition of the Congress the administration can achieve almost nothing. The drive of the Congress to assert itself will persist, regardless who is elected President. The next administration will have to consult with the important Congressional committees at every stage in the planning and implementation of policy, if it is to govern effectively.

What does this mean for the conduct of economic policy? In our last election two years ago, we had an exceptionally large number of newly elected representatives to enter the Congress. In our election this November, we will probably have quite a few more new faces, since many of the older Congressmen are retiring. The new members entering Congress two years ago expressed considerable interest in working on economic issues, and most of them sought assignments to the Committees handling economic legislation. I expect the new members elected in November will share this concern. The recession of the past two years, and the inflation that preceded it, have forced Congress to pay more attention to economics. How well do we do our job? In the past, we were undoubtedly negligent, but our performance is improving.

A good example of our increased attention to economic policy is the recent Congressional attempt to exercise a systematic monitoring of monetary policy. One of the first issues I dealt with upon entering the Congress last year was a proposal of the Banking Committee to require the Federal Reserve Board to report to us,at regular intervals, on its plan for the conduct of monetary policy in the coming year. We passed this proposal last year, and we now require the Federal Reserve to give public testimony every three months on its plans for monetary policy. For the first time we now have specific quantitative projections ofthe Fed's policies. By forcing the facts and the debate into a public forum, with the latent threat that the Congress could assert its will more directly if displeased with the Fed, we think we have enhanced the prospects for a responsible monetary policy.

While this Congressional initiative on monetary policy is important, its impact is relatively modest in comparison with recent changes in the way we handle fiscal policy. Congress has always had the last word on fiscal policy. The President proposes a budget, and suggests changes in taxes, but the power to tax and to spend lies squarely in the hands of Congress. The President proposes a budget to meet two broad objectives: to fund specific programs of the government and to regulate the total amount of government spending, in relation to taxes, to stimulate or stabilize the economy.

A rational and coherent fiscal policy is possible only if there is a mechanism by which the Congress can relate the overall budgetary deficit or surplus to these macroeconomic objectives. But, until this year there was no procedure for gearing the budget to the economy. When the Congress received the President's budget, it would split the whole into its numerous parts and proceed to work its will on each item, in isolation, without relating it to the whole. There was no conscious, coherent effort to merge the parts back together to insure that the overall budget would promote our macroeconomic objectives. The final outcome was very haphazard, with the size and direction of fiscal policy a rather accidental, unplanned consequence of how the Congress acted on all the separate, individual items of the budget.

This process undermined any serious effort to control the growth or impact of the budget. It contained an inherent bias toward deficits in excess of macroeconomic needs. Every program that comes before the Congress for funding has its partisans; every desirable objective has its proponents seeking more money. Under the old procedure, nothing forced the spending on each competing program to be adjusted in relation to each other program, so that the whole of the budget carried the right of fiscal impact. Without this constraint, the tendency to err on the side of too much was all too human and all too political. As a consequence, the Congress tended to create additional difficulties for monetary policy. The Federal Reserve had to decide to finance these deficits through excessive monetary expansion, or to restrain monetary expansion and accept the risk of high interest rates. The Congress is learning, I think, that the forces fueling inflation are interrelated. Inflation is primarily a consequence of monetary policy, but monetary policy is partly a consequence of fiscal policy, so that a more rational control of the budgetary process is the necessary starting point for the control of inflation.

We have now successfully completed the first phase in the new process for setting a budget. The Senate and the House have agreed on an overall target for spending, and for anticipated revenues. The resulting deficit that emerges from these targets represents the degree of stimulus we think the economy needs. Now that we have decided on an explicit target for the budget, we must force ourselves to live with this decision. All of our budget decisions on the various individual programs must be compatible with this overall target. We must vote again, in the fall, to reconcile any discrepancies which emerge. The political pressure will be very strong to discipline ourselves to live within these levels. This is an election year in the United States, and the mood of the electorate, despite our recent recession -- or, perhaps, because of it -- is rather wary of our tendencies to spend too much. The Congress is a very sensitive barometer of attitudes of the electorate. Most of the new members who entered Congress at the last election are anxious to convince their constituents that they are going to keep the budget under control. I am persuaded the Congress is finally in a position to conduct a rational and coherent fiscal policy, free of its past inflationary bias.

The Congress also has a considerable role to play in international economic policy. Congressional attitudes in this realm are not easy to characterize. Much has been written in the United States about a growing mood of isolationism. But this can be misleading. Consider, for example, the question of foreign aid. In political terms, foreign aid is probably the most unpopular program that comes before us. A recent public opinion poll in my own district asked whether the respondent thought the government should spend more, less, or about the same on a number of programs. On foreign aid, only 3.7% thought more should be spent, while 76.7% thought less should be spent. This was by far the most negative response toward any program. Nonetheless, the Congress has recently restructured the American aid program, and reaffirmed its support for economic assistance.

Many of the traditional supporters of foreign aid in Congress had become very critical of the way it was used, or misused, for political purposes. Foreign aid legislation included both military and economic assistance, but many of us felt the two should be judged separately. There was also the feeling that economic aid should be more explicitly directed to projects benefiting the poorest people in the recipient countries. Our new foreign aid legislation puts much greater emphasis on programs such as food and nutrition, disaster relief, population planning, and agricultural assistance to small farmers. It also divorces economic from military assistance, so we can vote on the two issues separately. Many thought this would endanger economic aid, since they doubted it could survive without the votes of those willing to accept it only in order to get the military aid programs they wanted. But, in fact, the opposite occurred. Once it was freed of the political controversies surrounding military aid, the economic aid package attracted much larger support than had been expected, and passed the House by a very sizeable margin. Similar sentiments prevailed in the Senate, which also passed the legislation with increased support.

This episode is evidence, I think, that the Congress is willing to sustain enlightened foreign economic policies. We are not on the verge of a neo-isolationism. We witness, however, a heightened appreciation that America's entanglements in the world economy are not unambiguously beneficial. Nothing is free, of course, and the benefits of economic interdependence can be purchased only at some cost. Unfortunately, in the past few years the costs of interdependence seem to have made a greater impression on public opinion than the benefits.

The counterpart to political isolationism is economic protectionism. I would define protectionism very broadly to include all policies designed to reduce the costs of interdependence. In the traditional sense this means, of course, protection from foreign competitiors. But it also means protection from all forms of foreign penetration of, and influence on the domestic economy. The American consumer has learned that foreign demand for our farm products can mean higher food prices. We will once again face demands for controls over our agricultural exports if foreign demand should cause our prices to increase substantially. I cannot promise how Congress will react, but many of us realize that such action is self-defeating.

The impact of interdependence has also been felt in international finance. The Congress has, on the whole, strongly supported the administrations's policies on international monetary reform. The world of floating exchange rates, which few of us pretend to understand completely, has been widely accepted by the American business community. In the Banking Committee we have heard testimony from many firms engaged in international trade, and they have uniformly approved the flexibility of the new system. But one suspects this approval stems from the boost American exports have been given by a depreciation of the dollar, compared to its level in 1971. One wonders what messages we would hear from them if the dollar should appreciate significantly, and damage their exports. Though the system is fairly tranquil now, from an American point of view, there is some danger that future monetary disturbances will generate political pressures from the business community for greater exchange rate stability. I can't predict how the American government would respond, but I feel our growing economic interdependence could, in the future, prove painful enough to call forth cries for relief.

Finally, I would like to offer some observations on the question of foreign investment in the United States. Some Americans have expressed fear that the increase in foreign investment in the United States will lead to per icious foreign control over key sectors of our economy. I want to assure you that these sentiments are not shared by most Americans, do not portend any serious amendment of our commitment to an open economy, and that the Congress will not heed them. I hope you understand that, in the United States, an important role of the Congress is to provide a forum for the expression of minority views, however transient or extreme. Every group can make itself heard, and usually find someone to champion its cause. But the Congress moves with great caution and deliberation. Its instincts are generally conservative. After providing an outlet for the voicing of some complaints, it usually operates as a brake on precipitate action. This was particularly noticeable on foreign investment. A couple of years ago Congress responded to the growing concern over foreign investment in the United States by commissioning a broad study of the whole question, which has just now been completed by our Departments of Treasury and Commerce. The administration has stoutly opposed any serious restrictions on foreign investment, and I'm convinced that the overwhelming majority of the Congress concurs. We will remain an open economy, and will welcome all kinds of foreign investment, without discrimination. Indeed, we are eager to attract it. Recently we have been considering a legislative proposal that would affect foreign investment in the banking sector. I think we have proposed a sensible reform of our banking laws on this matter. Some foreign banks have not been entirely pleased with these proposals. Permit me to explain why I think they are fair and equitable.

This past week in the Banking Committee we have been debating some proposals for regulating the operations of foreign banks in the United States. We have what we call a "dual banking system". This means that banks can be chartered and regulated either by the individual states or by the federal government. But we prohibit American banks from operating in more than one state. This prohibition does not, however, apply to foreign banks. As a consequence, there is discrimination in our treatment of foreign investment, in the banking sector, but discrimination in <u>favor</u> of the foreign investor. On grounds of equity we could argue that this discrimination should be abolished. But the sense of the Committee is not to tamper with this freedom. We are more concerned about the questions of regulation, and of monetary policy. On these issues we want to tighten the controls we can exercise over the operation of foreign banks.

Our hybrid system of partially overlapping state and federal regulatory powers and agencies generates much confusion. It weakens the exercise of coherent, rational regulation of the entire banking system. We have not yet succeeded in making much progress on reforming the whole system of regulation, but I think we can make a modest beginning with our proposals on foreign banks. Our present intention, in the legislation the Committee is debating this week, is to subject all foreign bank operations to the regulatory powers of the Federal Reserve Board, even though the foreign bank's branches in the U.S. may still be chartered under state law, and need not join the Federal Reserve System. Our own state banks -- banks chartered under state law -- need not join the Fed, and are subject only to the regulation of the state banking authorities. Generally speaking, the State authorities may be more lax in the exercise of their regulatory powers, so many banks may prefer state to Federal Reserve regulation. Requiring foreign banks to submit to Federal Reserve regulation could seem discriminatory, but it is a logical consequence of the freedom they now have and will have -- a freedom denied American banks -- to operate branches in several states. Since they tend to operate all their branches and agencies as one integrated unit, it makes sense to subject the whole operation to regulation at the national level, by the Federal Reserve. This is fair, and will help us insure that foreign banks do not misuse the considerable freedoms they enjoy.

They will also be subjected to the monetary controls of the Federal Reserve, in the form of reserve requirements. Our state chartered banks, when they do not belong to the Fed, are subject only to the reserve requirements imposed by their separate states. Since these tend to be lower than those of the Federal Reserve, it might appear discriminatory to force foreign banks to accept the Fed's reserve requirements, when they are chartered under state law, while allowing domestic state banks to escape. But foreign banks operating in the U.S. are generally very big operators indeed. They enjoy the freedom to operate in more than one state, and they can draw on the assets of their parent banks abroad. We feel it is important, in order to make the monetary policy of the Federal Reserve more effective, that banks this big and this important, which have a major impact on international financial flows, -- that these banks should adhere to the reserve requirements of the Federal Reserve.

These are the most important of the changes we are now contemplating. They are still along way from completion, but I think the prospects are good that the House will pass a bill incorporating these proposals. It would then require the approval of the Senate, and the President, before becoming law. I can't predict the final outcome, but that is the direction we are now headed. If offers, I think, another assurance that the United States, while recognizing the special character, and special problems, often connected with foreign investment, will continue to treat the foreign investor fairly and equitably.