

**STATEMENT OF JURG NIEHANS, PROFESSOR OF ECONOMICS,
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Mr. NIEHANS. Mr. Chairman, it was with some hesitation that I accepted the invitation to comment on the state of the U.S. economy for my great respect for my American fellow economists makes it difficult for me to believe that I have to offer anything which they could not offer as well and perhaps better.

In any case, I shall concentrate on one or two aspects of the problem in which I can hope to have perhaps a fair chance to have some comparative advantage.

The American economy today has two overriding problems; one is the unsatisfactory rate of economic growth, the other is the deficit in the balance of payments, and the shaken confidence in the dollar.

None of these problems can be really solved without regard to the other. Whatever is done to balance international payments, there will be no confidence in the dollar if the domestic economy is stagnant.

If, on the other hand, domestic economic policy is at the expense of confidence in the dollar, the present international economic system would eventually collapse with dire consequences, for all Western economies, including the American one.

Unfortunately, the two ills have opposite cures. The classical prescriptions for stimulating the domestic economy would be easy money and easy taxes, implying possibly a budget deficit. The classical balance-of-payments policy, however, would be tight money and a stiff budget.

In such a dilemma there is obviously no perfect solution. The task of the policymaker is to devise an optimal compromise.

THE DIMINISHING AVAILABILITY OF MONETARY POLICY FOR DOMESTIC PURPOSES

The early 1950's witnessed a remarkable revival of monetary policy for domestic purposes, be it to combat inflation or to stimulate business. However, when most European currencies became convertible at the end of 1958, things began to change.

Capital was now moving freely from one country to another. Any tightening or easing of credit conditions for domestic purposes thus called forth large capital flows. When in 1960 Germany tried to restrict internal demand by tight money and high interest, she was at once faced with such an influx of foreign money that the hoped-for effects were largely nullified and she had to abandon the policy.

European countries were thus forced to recognize that under present conditions the scope of monetary and credit policy for internal purposes is very limited. A system of free international exchange and capital movements seems to be incompatible with primary reliance on monetary instruments to combat inflation or stagnation. I believe this experience is relevant for the American economy, too.

THE CHOICE OF AN OPTIMAL STRATEGY

Under these circumstances the most promising strategy seems to be as follows: