

devalue in about the same proportion and in a short time we would accomplish nothing.

Mr. DAY. I don't agree that the effects would be nothing. The total liquidity would be increased because each lump of gold would be worth more in terms of every national currency. At the same time, one of the effects will be to help the Soviet Union, which is questionable to say the very least. I don't agree that the effects would be zero. The effect in changing the relative exchange rates of the dollar and other currencies might well be zero, although it seems to me quite possible that if the United States should devalue the dollar, some of the continental countries might not follow the whole of the way.

They might realize their own balance-of-payments position was strong and might see prestige advantages of not going as far as the other countries in devaluation, and the net effect might be some relative exchange rate change.

This is a possibility. The basic thing is that I would not recommend devaluation of the dollar in the present situation. I see very strong arguments against it. But at the same time, promises not to do it are of a certain limited value. In particular, because of the point Mr. Lolli made that one of the great European fears is not actual direct devaluation, we know that this would have to go through a long legislative process. The fear is that the U.S. Treasury would cease to convert dollars into gold of foreign central banks.

Senator PROXMIRE. I have before me the Survey of Current Business latest statistics on U.S. balance of payments. It is very difficult for me to understand why people are so deeply concerned with our so-called adverse balance of payments. As I look at it, with the possible exception of Mr. Day, you gentlemen have been hitting so hard, the need of higher interest rates to protect our balance of payments seems to have been greatly reduced by the fact that the net outflow of short-term capital in the first half of 1962 was \$300 million. A very sharp drop. In spite of the fact there is still the interest rate differential, as you gentlemen have documented so well this morning, between our interest rates and the interest rates abroad.

Then, as you go further into the balance of payments, it is clear we have a \$4.8 billion surplus on trade. We have a \$1.7 billion surplus on services. The only place where we don't have a surplus is because of our military outlays, our economic grants, and our loans.

In the area of foreign aid and troops abroad—this is within the complete control of our own Government. This is for the purpose, very largely, of protecting the whole free world, including the countries which you gentlemen represent.

Under these circumstances, it would seem to me, since it is under the control of our Government, since, as Mr. Day has indicated this morning, we might wisely follow a policy of reducing our commitments abroad, it is difficult for me to see why there is this very serious problem involved, especially since we have \$16 billion worth of gold, a large proportion of all the gold in the world, more than twice as much as any other country has, and since we can easily knock out the backing for our currency, why is there this problem?

Mr. NIEHANS. There are two points I would like to make. First, we could argue among ourselves whether the dollar was shaky or not. I believe it is not. I agree with what you just said, at least in outline.