

Consequently, watching interest rates, either on the upside or the downside can be very misleading as to the adequacy of monetary policy.

Representative REUSS. Mr. Culbertson, I would like to resume our earlier discussion. With respect to the balance-of-payments disequilibrium, in which this country is involved, you stated that it is up to the United States to exercise some leadership with our friends and allies abroad, and not to act as if this were something we could solve all by ourselves. You particularly mentioned that other nations must ease their import restrictions on our goods. That is perhaps the single most constructive way of breaking out of our balance-of-payments difficulties, is it not?

Mr. CULBERTSON. In a sense, that is true. Almost anything you could do has a bad side to it as well as a good side. If we have a situation of imbalance, if we can asymmetrically make an adjustment in trade and exchange restrictions that goes in the right direction, toward easing, and that corrects the imbalance, there is no bad side to it, except that it does force some structural adjustment on the countries involved. It seems to me that especially insofar as the imbalance has arisen out of the postwar transition period, the recovery—with our help—of Europe, and the development of a new structure of costs and industrial capabilities, a combination of U.S. deflation with maintenance by other countries with trade and exchange restrictions is simply an intolerable combination of policies.

Representative REUSS. This, however, is close to describing the fact, is it not?

Mr. CULBERTSON. I should say so. It is very difficult to summarize the level of trade and exchange restrictions, but there are many countries in the world that have more severe ones than we do, and I think there is a considerable amount of room for adjustment in the right direction. In achieving this, clearly the responsibility of leadership must fall upon this country.

The surplus countries are not likely to take the initiative to a sufficient degree. Perhaps to get the job done would take a good deal of pushing. I think what is really required is the understanding on the part of our leadership that this is the right thing to do, that we should be contributing to building up a set of rules of the game that makes sense and is viable and will continue to work. A set of rules, according to which the surplus nations do not adjust, and deficit nations suffer protracted unemployment, is not going to last.

Representative REUSS. The fact is, is it not, that this country has not called our friends and allies to their higher duties in the premises?

Mr. CULBERTSON. I don't know what they do in the closed rooms, but the public statements of our people don't give the impression that they are carrying the ball in the right direction.

Representative REUSS. Would you agree with me that the State Department, for example, which is in charge of our foreign relations, has tended to be very polite and not sufficiently aggressive in its remonstrances to those countries with which we deal?

Mr. CULBERTSON. I couldn't say anything specific, sir. I can only go on the basis of the public statements that I have seen of our leaders in the area of financial policy. Judging from them, I feel we have not exercised the strong leadership in this area that is called for.