Possible devaluation of the British pound is very much in the air.

Gold hoarding all over the world is so widespread that only $250 million of the $2 billion in new gold produced last year went into official reserves. Because of heavy gold conversions, the U.S. balance-of-payments deficit last year made almost no contribution to world liquidity.

High interest rates all over the industrial world reflect an inadequate supply of capital to meet the needs of our industrial civilization, while the capital shortfall for the less developed world is estimated at $5 to $20 billion a year.

The annual meeting of the full International Monetary Fund and World Bank will convene here in Washington the end of this month, and the overriding subject will be the timing of an international monetary reform plan designed to provide additions to world liquidity.

In the face of these conditions, our hearings today take on more than the usual academic interest.

1. In their report of August 25, the Deputies of the Group of Ten repeatedly emphasized the reliance of the whole industrialized world on the U.S. dollar. The report explicitly stressed this point at least 10 times. Devaluation of the British pound, if it comes, must not be allowed to affect the strength and prestige of the U.S. dollar.

For political as well as economic reasons, the British pound is in serious trouble. The monetary system can take devaluation in stride if it does not set off a wave of devaluations by other countries and if it does not trigger a flight from the dollar into gold. It is vital for the administration to begin now to make clear that devaluation of the pound would not have the slightest effect on the basic strength of the American economy and of the U.S. dollar.

2. In that same report, the Deputies stressed on at least eight separate occasions that the international monetary system cannot continue to rely on new gold production alone for legitimate increases to world liquidity. It is now clear that the need for a new and better system for creating periodic additions to world liquidity is immediate and not remote. Failure to move promptly to provide a new reserve asset for this purpose will have a deflationary impact on the world economy. In fact, nations have already begun to compensate for the lack of such additions to liquidity by the use of restrictive monetary and trade policies.

3. Domestic inflation in the United States has for months clearly indicated a need for fiscal action including elimination of low-priority Government spending. The administration's almost exclusive reliance on monetary policy has undercut our lectures to other nations about the importance of using fiscal policy in the adjustment process. It has also contributed to the worldwide upsurge in interest rates.

I hope all the witnesses will address themselves to these issues as well as to full development of their own views and programs.

Chairman Reuss. Thank you, Mr. Ellsworth. Senator Proxmire?

Senator Proxmire. I have no opening statement.

Chairman Reuss. When the witnesses were invited, they were told that they could, if they wished, present an opening prepared statement. I believe Mr. Mundell does have a prepared statement which he has been kind enough to hand me, and without objection that statement in full will be placed in the record. I would like Mr. Mundell to proceed, if he will, to summarize, or otherwise give us the