to me we would have to pay it now and find other ways of reducing our investments abroad to bring our balance of payments into closer balance.

I am sorry to take so long.

Chairman REUSS. Before leaving this fascinating subject of the effects of the British devaluation, it seems to me that, while the British devaluation may have some untoward effects on the British internal economy in terms of wages of labor, domestic inflation, and so on, from the standpoint of the United States and the dollar, the net effect of the British devaluation is good.

In the trade field, while initially there will be some swiping of American exports by lower-priced British exports, it should not be terribly great, and American industry ought to get some good by the added breath of competition. Ought not this to have a favorable effect on our wage-price structure? I should think so.

Secondly, if Britain had not devalued, and if the pound had continued under pressure, I would have thought that people would have been dumping pounds for dollars, and dollars would have gotten into central bank hands, and some of those central banks would have demanded more gold than they otherwise would have demanded, and the dollar would have been pretty soon less strong than it is today. So I would ask you gentlemen whether you would agree with my overall hunch that on balance the U.S. dollar is better off as a result of the British devaluation than would have been the case had no devaluation taken place.

Mr. BERNSTEIN. I would like to remind my friend, Sir Roy, that if the British balance of payments had been restored by the program that had been in effect, and restored to the extent that was needed, say, roughly $1 billion from the 1966 position, we would have felt the same effects on the U.S. balance of payments. It would have had to be at somebody's expense, and I have no reason for thinking that it would have been less at our expense under a deflation program that worked than under a devaluation program.

The real difference between the deflation and the devaluation is that it does raise the psychological difficulties. If this could happen to sterling, could it happen to the dollar? This question may arise in some minds.

Personally, I believe that while the initial impact is to make people worry and be frightened, in the long run, a strong sterling, a United Kingdom balance of payments which is in surplus, a United Kingdom economy which is not subject to repeated crises and which can run nearer its productive capacity, is a benefit to the whole world, because it stimulates world trade.

Much as I would have wanted to see the deflation program succeed, I think we have to accept the proposition that it was known to objective observers that the program was not going to work, I mean during the past few months.

The British had a right to try their program. I think the program had ancillary benefits in greater stability of prices and wages in the United Kingdom. It has released productive capacity for taking advantage of this export expansion. But I would not have wanted to see the United Kingdom struggling 2 more years to achieve through still greater deflation what I am hoping it will now achieve through the devaluation.