tion around that, nonetheless the fact is that we will be witnessing a return flow of dollars to Europe where in many cases the likelihood is greater that there will be a flow into central bank hands.

Professor Kindleberger, don't be misled, by the way, about Electricite de France. The whole notion of borrowing in dollars by an agency of the French Government, at a time when they are not gaining dollars through their central bank in any other way, has two interpretations.

Senator JORDAN. Thank you.

To what extent would the continuous year after year lack of balance of the Federal budget have to do with the undermining confidence in the dollar, and thus affect the balance of payments? Professor Kindleberger.

Mr. KINDLEBERGER. Well, sir, I think on the whole this is not a major factor. There was a time when European countries through the Working Party No. 2 of the OECD in Paris were urging that we pursue the tax reduction, which finally occurred in 1964. This was at the working level if you like. They were all technical economists and they thought we ought to have had a bigger budget deficit at that time. But whether private bankers are moved by this kind of consideration I don't know, since while my acquaintance is positive it is not widespread, but I think we are all Keynesians now and I think that wise policies, applied at the right time, such as a tax reduction in 1964, but a tax increase in 1966, this is the kind of policies which gains respect in the international capital markets, and with foreign governments. I think that it is not really so much the appearance of a deficit in 1966 that worries them. It is the fact that we were so slow in reacting to the inflationary strain on the economy, in one way or another.

Senator JORDAN. Do you agreee in substance?

Mr. ROOSA. Yes; I do.

Senator JORDAN. Thank you, Mr. Chairman.

Representative REUSS. Senator Symington?

Senator SYMINGTON. Thank you, Mr. Chairman. Mr. Secretary, it is good to see you again. I would ask, do you think repeal of the 25 percent gold reserve would improve international respect for the dollar?

Mr. ROOSA. I think it will improve confidence in the U.S. commitment to maintain a fixed $35 price for gold, which is an undergirding for the entire world monetary system as we have it now. In that sense it improves respect.

I think it must be coupled with the recognition that anything that has brought us to the point where this becomes necessary is in itself evident that we have been at fault, and we are not going to reacquire full respect easily. It is a little like the position of the property poor wealthy man, who has gotten deeper and deeper into debt without having the liquidity to go along with it. He has finally reached a point where he says, "All right, I will take a major step. I am going to—in that analogy—I am going to borrow $100,000 to make sure I have really got something in the checking account," and people say, "Well, thank goodness he is beginning to do something. He can meet his bills. He isn't going to be a kind of property poor deadbeat. But on the other hand he has not yet reached the stage of providing secure confidence."