Chairman PROXMIRE. Thank you, Mr. Moorhead. Congressman Rumsfeld.

Representative RUMSFELD. Mr. Chairman, I apologize to our three distinguished guests for being tardy. I had a meeting of the Science and Astronautics Committee.

I understand, Dr. Wallich, that you indicated that you favored removal or reduction of the gold backing now required on Federal Reserve notes. Is that correct?

I would also like to have comments from the other two gentlemen on this question.

Mr. WALLICH. Yes. That is something I think we ought to do. The true purpose of the gold reserve is to be used for international payments and to back the dollar internationally. The domestic backing has lost much of its original significance, which was to convert notes into gold coin.

It serves an indirect purpose in restraining fiscal and monetary policy, but that same purpose is served by using it exclusively for international purposes. The Government is on notice that when we run out of this reserve, we will be in a pretty desperate situation with devaluation or tight exchange control our only alternatives.

I would not say that removing the limit does not take some constraint off the Government. The fact that they are moving toward a limit rather than being able to operate against a $13 billion reserve does create some added pressure to put the balance of payments in order. I don't think that that gain is worth the drawbacks that we have from maintaining the limit. It raises a doubt in the mind of the world as to what will happen as we approach the limit. Will we pull the plug on the dollar and devalue, or will we remove the limit?

Since in practice I feel very confident that we would remove the limit if we got close to it, we might as well remove it now that we are still $3 or $4 billion away from it.

Representative RUMSFELD. Thank you.

Is that roughly the view of our other guests?

Mr. LEKACHMAN. I agree with Mr. Wallich in general and in particular I think on this issue, an unusual position for one economist to find himself in with another.

I think that quite rightly Mr. Wallich pointed to the fact that the limitation has lost its meaning. We don't have an internal gold standard. This was one principal meaning of this. And I think also on the specific point that we would create an unnecessary crisis for ourselves if we retained the limit as we approached the point where our flexibility came into question.

It would be a wholly unnecessary financial crisis, and we have enough unavoidable ones without adding one that we needn't face at all.

Mr. COLM. This is a strange case of consensus among three economists.

Representative RUMSFELD. Thank you. I would also like, if we could have in the closing minutes here, another comment from each of you. We have had testimony from among others, Walter Reuther, to the effect that escalator clauses are not inflationary. I would like a