our balance-of-payments situation. This is shown by the assumption that the way to get rid of an offending item is to subtract it without regard to effect on other items and without regard to future impacts. I recommend to your committee's attention the testimony of Professors Fritz Machlup and Jack N. Behrmaan, which I heard on February 19 before the Joint Economic Committee. This shows that rather than blaming any "plague" for our troubles we should examine the undesirable side effects of our own action.

The Secretary of the Treasury told your committee on February 5 that "the U.S. must seek a solution to the payments imbalance through the expansion of the world economy, rather than the severe contraction of its own, and, consequently, the world economy." Then he proceeds to propose contractions of our economy. Others say they are trying to "defend" the dollar; then they proceed to undermine it, sometimes in the interest of the defense of the contrived role of gold, masquerading as a "defense of the dollar."

The February number of the MORGAN GUARANTY SURVEY (published by the Morgan Guaranty Trust Company of N.Y.) carefully specifies "devaluation of the dollar in terms of gold" when they talk about the possibility of increasing the price of gold, which is a commodity resting on the U.S. Treasury prop of a fixed price it could not earn in a free market. (According to Otmar Emminger's statement, reprinted in the February 25 Washington Post, "the present arrangements provide the speculators with a cheap one-way option," referring to the fact that the gold market is not free, since any falling price is made impossible by our Treasury's standing offer to pay $35 an ounce come what may. Dr. Emminger, an official of the German Central Bank, knows what he is talking about, but typically he plays down the offense against the dollar which is widely prevalent and encouraged by public officials supposed to be defending it.) The true devaluation of the dollar has to do with the exchange rate with other currencies and this is not the same as devaluation of the dollar in terms of gold, or what amounts to the same thing, raising the price of gold in terms of dollars. Everybody knows that the value of the dollar within the domestic economy has to do with its purchasing power of the goods and services people normally want to buy, but many seem to forget about it when they turn to the international field, and rivet their attention to gold, which hardly anybody wants, but about which persistent gold speculators are incredibly stupid.

Anyone who bought gold in 1954 would hold now approximately one-fifth of the amount of wealth that he would have if he had bought instead American stocks in the New York Stock Exchange in an average combination, the Dow Jones combination. This was pointed out by Prof. Fritz Machlup of Princeton University, before the Joint Economic Committee on February 19. Even if he had invested in Treasury bills, which are the lowest yielding assets, in the last 10 years the value of his holdings would have gone up by 20%, while held in gold, they would have gone down in the same proportion, according to Mr. Wm. F. Butler, Vice President of the Chase Manhattan Bank, who agreed with Prof. Machlup. Then Prof. Jack N. Behrman, of the University of North Carolina joined the fray by pointing out that if the U.S. had sold all our gold to the rest of the world for francs, lire and pounds we would, holding these, even with the various devaluations, now hold $20-billion worth of assets. We could then have met all our deficits out of interest. In other words, these experts were saying that to get rid of the gold is the best business. The widespread fear about "the drain on U.S. gold" is not based on hard facts.

According to page 77 of the Joint Economic Committee Hearings on the January 1965 Economic Report of the President, Mr. Ralph Young, Secretary of the Federal Open Market Committee, then sitting beside Federal Reserve Board Chairman William McChesney Martin, wrongly stated that we would violate our agreement with the International Monetary Fund, if we lowered the price of gold. Letters to me from the Treasury Department and from the Legislative Reference Service of the Library of Congress show he was wrong. We should not let the gold speculators "get away with murder" (which is what Senator Proxmire, in a letter to me, said he had let Mr. Young get away with) thinking that the only direction the price of gold can move is up. As stated by Howard S. Piquet, of the Legislative Reference Service of the Library of Congress, in "Some Consequences of Dollar Speculation in Gold," in the Joint Economic Committee's 1962 compilation of studies, Factors Affecting the U.S. Balance of Payments, page 319, "Gold is a commodity, and the same reasoning applies to it that applies to wheat. The U.S. Treasury (not by statute, but by administrative practice) supports its price at $1 per 0.89 gram."