

Federal Reserve Board indicated, this is one of the choices we might be faced with very shortly, is not being able, or at least putting a moratorium on redeeming the Euro-dollars for gold? What happens to the world trade pattern?

Mr. KINDLEBERGER. I have testified at some length on that in the Senate, and I would be pleased to go on at some length.

I said my views are idiosyncratic. That is, they are not widely shared. On the other hand, I happen to think the dollar is more important than gold. The dollar is the productive capacity of the country, and not the gold we happen to have. And I think the United States is a bank and not a firm, that the U.S. dollars owned by foreign countries are basically wanted by them as money, and that the world is supported by dollar balances of foreign countries and not by the gold supplies.

This is, as I say—well, it doesn't follow exactly the line that many countries take.

I believe, in other words, in the dollar reserve standard, and that the world is on a dollar standard, not on a gold standard, and that there is no necessity to redeem them in gold. We could pay out gold continuously, but it would survive as long as we keep our productive capacity. We could redeem those, if need be, in goods and services, which are produced cheaply and effectively.

What we must do, I think, is control inflation, at least down to the level at which inflation is received in Europe, and I would like to get a gain on that, but I am not at all as worried as Chairman Martin is on convertibility.

Mr. BATTIN. I wish I could share your views, but our trading partners would rather have our gold than our dollars.

Mr. KINDLEBERGER. Not all. If you would let me suggest this, I think the history of recent weeks has made it perfectly clear that the French need dollars more than they need gold.

Mr. BATTIN. Yes. Based on the two-price gold system developed here a couple of months ago, what would happen if the United States didn't pass a tax bill and reduce spending, as we have been encouraged to do by our trading partners?

Mr. KINDLEBERGER. I think that is an important thing.

Mr. BATTIN. I do, too.

Mr. KINDLEBERGER. I said in my statement that I think the balance of payments in accounts is what is called the "network balance," that is, the current balance surplus, less Government grants. But the notion we had of the balance-of-payments deficit in 1964, I won't accept that.

We had an export surplus of \$8.4 billion, and if you deduct Government grants and loans, and so forth, which should be regarded as assets, it was \$4 billion. So the notion that the dollar was weak in 1964 is to my mind simply a myth, cultivated by many, but I don't agree.

Mr. BATTIN. May I ask you one other question? You are suggesting a comparison of steel, that the Japanese could produce it and ship it here at a lesser price than we can. And perhaps the answer is we should go out of steel production and utilize our resources to greater advantage.

Would this recommendation not have to be based on the assumption that we live in a utopian world that one section of the world