

TABLE 2.—FOREIGN TRADE AND VARIOUS FOREIGN BALANCES AS PERCENT OF GROSS NATIONAL PRODUCT OF THE UNITED STATES, 1950-66

Year	GNP	Goods and services, excluding military expenditures			Financial transfers	Transfer gap	Liquidity deficit
		Exports	Imports	Balance			
1950.....	100	4.8	4.0	0.8	2.1	1.2	1.2
1951.....	100	5.7	4.2	1.5	1.8	.3	0
1952.....	100	5.2	4.0	1.2	1.8	.6	.3
1953.....	100	4.7	3.8	.8	1.5	.7	.6
1954.....	100	4.9	3.6	1.2	1.8	.5	.4
1955.....	100	5.0	3.7	1.2	1.7	.5	.3
1956.....	100	5.6	3.9	1.6	2.2	.5	.2
1957.....	100	6.0	4.0	2.0	2.3	.3	+.1
1958.....	100	5.2	3.9	1.3	2.1	.9	.8
1959.....	100	4.9	4.2	.7	1.7	1.0	.8
1960.....	100	5.4	4.0	1.4	2.1	.7	.8
1961.....	100	5.5	3.9	1.6	2.0	.4	.5
1962.....	100	5.4	4.0	1.4	1.8	.4	.4
1963.....	100	5.5	4.0	1.5	2.0	.5	.5
1964.....	100	5.9	4.1	1.8	2.2	.4	.4
1965.....	100	5.7	4.3	1.4	1.8	.4	.2
1966.....	100	5.8	4.6	1.2	1.5	.3	.2

Chairman PROXMIRE. Thank you, Professor Machlup.
Mr. Butler?

**STATEMENT OF WILLIAM F. BUTLER, VICE PRESIDENT AND
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Mr. BUTLER. Dr. Machlup has made many of the points that I have made in my paper.

It seems to me that our balance-of-payments situation is an extremely serious one at the moment, that we have to move to deal with it. In my terms I think there are four ways one can move. The first way is through the rule of controls, which is the rule we have adopted. I agree with Dr. Machlup that controls do not solve balance-of-payments problems. At best they buy time to work on more fundamental problems. I think if we use this time wisely to adopt responsible monetary and fiscal policies, to check inflation at home, which I think we need to do for both domestic and balance-of-payments reasons, then the price paid through these direct controls may be justified, and the so-called temporary controls may prove truly temporary. There is an old saying that there is nothing so permanent as a temporary tax, but I hope that these balance-of-payments direct controls can be made temporary.

I think that the best course for the United States and for the world is for us to cure domestic inflation by holding down spending, raising taxes, and reducing the increase in the supply of money and credit to viable proportions, and in addition reviewing and reducing our overseas Government commitments. I think that if we pursue these policies, we would help ourselves domestically and one could see an end to our balance-of-payments difficulties, with a cessation of fighting in Vietnam.

I think this is by far the best course for the United States to pursue, and a key element of this proposition is that we should maintain the price of gold at \$35 an ounce.

If we do not pursue these policies, we have some other alternatives. One is more controls, which I think would be only putting the finger