on the pipe that Dr. Machlup talked about, and would lead sort of inevitably to successive crises and perhaps even to a world financial collapse at some point. I think this would be the worst possible thing to do.

Another alternative would be to raise the price of gold. This has been suggested by various sources. I think again I would agree with Dr. Machlup that this would be a great mistake. It would flood the world with liquidity. While in theory central banks could sterilize this, it seems to me that the temptation to inflate further would be irresistible. This would apply to the United States as well as to other countries that hold a lot of gold. A rise in the price of gold would reward some people whom I do not think it is in the interests of the United States to reward, and possibly penalize in some sense some people who have supported us.

I think there is no way to be completely sure that an increase in the price of gold might not set off a set of competitive devaluations, and beggar-thy-neighbor policies. I doubt that this would happen, but one cannot rule out the possibility.

Another alternative is to suspend our commitment to buy and sell gold at $35 an ounce. While, as I have said earlier, I think the best alternative is to do what we have to do to defend and develop and perfect the present system, keep the price of gold at $35 an ounce, I think if we do not pursue these policies, the best alternative would be to suspend our commitment to buy and sell gold at $35 an ounce. I think this would put the question to other countries as to what their policy should be. If they chose to let the dollar float or to let it devalue against their currencies, they would give our exporters a very great advantage, and would hamper their own exporters. I think their decision would have to be that they would peg their currencies to the dollar, to present exchange parities. I think this would be a viable system for the world financial structure. However, I think it is a less good system and a more risky system than the one we have now. I think again about all it does is to buy us some time. It does not relieve us from the charge of getting our balance of payments back into balance at some point.

I think this is the essential thing. I think we can do this. If we do it, we can contribute incredibly to the future prosperity, growth, and high employment of the world economy. If we do not do it, whatever gimmicks we invent are going to be very harmful to the cause of high employment and prosperity throughout the world.

Thank you very much.

Chairman PROXMIRE. Thank you, Mr. Butler. Thank you for your concise statement.

(The prepared statement of Mr. Butler follows:)

PREPARED STATEMENT OF WILLIAM F. BUTLER

Mr. Chairman and members of the committee, I appreciate very much this opportunity to appear before you to discuss the balance of payments and policies with respect to gold.

Let me try to make it completely clear at the outset that I believe firmly that the existing gold-exchange standard is the most efficient, equitable and powerful international monetary system in the world's history. It has served the world well, and has made a most significant contribution to the unprecedented growth in world production, trade and investment in the postwar era. I believe our objective should be to preserve the present system, while working to improve it by