

capacity, go along with large wage increases and speculate in goods, land and securities. Such a boom would come to an end at some point, as booms always do. But with the erosion of confidence, the ensuing slump might prove quite difficult to deal with. If we fund federal deficits of \$20 billion or more in a period of high employment, it seems to me that we are seriously constricting our ability to deal with any recession by applying the procedures of the new economics. The long-run costs of inflationary policies in terms of unemployment seem to me to be far more serious than any short-term effects from policies directed toward price stability.

The international costs of a failure of the United States to bring domestic inflation under control and correct the imbalance in our international payments could prove even higher. The stability of the world financial structure rests essentially on confidence in the dollar. This confidence is engendered in part by our commitment to buy and sell gold at \$35 an ounce, and in longer part by the stability and strength of the dollar. Dollars are held and used widely around the world because their purchasing power has dropped less in the past decade than any other major currency. The only international asset that can compete with the dollar is gold, and gold can compete only because of the speculative possibility of an increase in its price because of a failure of the United States to put its house in order.

If confidence in the dollar should be severely shaken, and I do not believe it has been as yet, my fear is that we might run into a world-wide economic crisis. There could be a world-wide rush to liquidity which could only lead to a downward spiral of production, employment and trade. The results could be a return to the controls and restrictions which contributed so much to the stagnation of the 1930's.

It is my firm belief that we can avoid these undesirable consequences if we move to deal decisively with the problems we confront. I believe we need to act on three broad fronts:

First, we must reduce the federal deficit sharply by a combination of rigorous restraint on spending and a tax surcharge;

Second, we must restrict the rise in money and credit to a rate which is in line with the potential real growth of the economy;

Third, we must reduce our overseas military expenditures.

These are not easy steps to take. Yet I believe the costs and travail involved in taking them will prove incomparably less than will our failure to do so. Prompt and resolute pursuit of these policies can get domestic inflation under control and pave the way for an end to our balance-of-payments deficit, once there is an end to the fighting in Vietnam. I do not believe such policies need lead to an intolerable increase in the unemployment rate. Nor need they lead to any abatement in the war against poverty—with resolution, there is ample room to cut back government programs of lesser priority.

In short, of all the alternatives facing the nation, I believe the course I have just outlined is far and away the best one. Let me try to embellish that conclusion by discussing some of the alternatives.

One, which I have considered above and rejected, is to slide further down the path of direct controls and restrictions. This is, in my judgment, the clear path to worldwide stagnation.

A second alternative which is receiving wide attention is that of increasing the price of gold. It is argued that such action would bring a quick and easy solution to our current problems. The speculators would cash in their gold and retire to the wings awaiting another crisis. Confidence in the dollar would be restored as the nominal value of our gold stock increased. No one would be upset, the argument runs, since all major nations would follow our lead in marking up the price of gold.

My personal view is that there are a number of serious drawbacks to any increase in the price of gold:

(1) It would take a big increase—possibly a doubling of the price as many have suggested—to convince speculators that the new price would be held for many years.

(2) A doubling of the price of gold would add at one stroke a plethora of liquidity to nations holding large gold reserves, a category which includes the United States. While in theory central banks could sterilize this liquidity, I fear that the temptation given sovereign governments to inflate would prove irresistible. If the United States continued to follow inflationary policies, it would only be a matter of time before the dollar came under pressure again.

(3) An increase in the price of gold would reward Soviet Russia, South