Africa, the leading gold-producing nations, as well as central banks which have shifted from dollars to gold, and speculators and hoarders. It does not seem to me to be in the interests of the United States to give such nations or individuals a windfall gain. Moreover, those nations which have cooperated by holding dollars would be penalized—certainly a most unjust reward.

(4) There is no way to be completely sure that an increase in the price of gold would not set off a round of competitive devaluations and beggar-thy-neighbor trade restriction policies.

It seems to me that an increase in the price of gold is another palliative, like direct controls, rather than a solution to our basic problems.

A third alternative would be to go off the international gold standard by suspending our commitment to buy and sell gold at $35 an ounce. If we do not display the wisdom and fortitude to deal with our problem of domestic inflation and curtail our international commitments, we may be forced to contemplate this alternative.

As I have said earlier, I hope things will not come to such a pretty pass. It is my firm belief that the best course for the nation, both domestically and internationally, is to do what is required to set our balance of payments right.

If we do not pursue the responsible fiscal and monetary policies necessary to work back to a viable balance-of-payments position. I would argue that we should choose the third alternative I mentioned—suspending our commitment to buy and sell gold at $35 an ounce. Since it is not in the interest of the United States to raise the price of gold, and since no one can force us to take such action, I believe we should, and would, cut loose from gold. In that unfortunate event, we could maintain the present exchange parities with other currencies. We could use IMF credits, swap arrangements or sales of part of our remaining gold stock to finance any payments deficits. Other nations would have a powerful incentive to keep the dollar from depreciating in terms of their own currencies.

The main point I am trying to make is that the United States has alternatives other than simply raising the price of gold, a move which to me does not appear to be in the best interests of the nation or the world. Our best alternative in my view is to do what is necessary to bring our balance of payments back into balance, and I believe we can do this with policies which are also needed to ensure domestic prosperity. Lacking such responsible policies, I would maintain that it would be better to suspend gold purchases and sales and maintain the present parity of the dollar than to raise the price of gold.

Finally, it seems to me to be in the best interests of the United States and other industrial nations to cooperate in the task of preserving the present system of international finance and adapting it to the future requirements of supporting world prosperity and progress.

Chairman PROXMIRE. Our last witness this morning is Professor Behrman.

STATEMENT OF JACK N. BEHRMAN, PROFESSOR OF INTERNATIONAL BUSINESS, UNIVERSITY OF NORTH CAROLINA

Mr. BEHRMAN. I appreciate this opportunity to give to the Joint Economic Committee some of my views and particularly the control schemes which have been worked out on capital investment. While I am interested in the other aspects I will focus on this, if you will, Senator.

By way of introduction I see five contradictions which have developed in U.S. economic policies over the past several years. The first is that we have been talking about temporary solutions to problems which we have not identified the temporary causes of, and I think this is the point Mr. Machlup was making.

We have stated that the controls would be temporary, but as I indicated in 1965 when the voluntary controls came out, nobody was