

Chairman PROXMIRE. My time is up.

Congressman RUMSFELD, you are next. We will come back to Congressman Boggs.

Representative RUMSFELD. Let me clarify one thing, Mr. Machlup. In your statement, page 27, where you discuss these five approaches to solve the problem.

Mr. MACHLUP. Yes.

Representative RUMSFELD. I take it from the remark you made earlier in your statement, it could almost be said that liquidity and adjustment are to be considered together?

Mr. MACHLUP. The problems, you mean?

Representative RUMSFELD. Yes, the problems.

Mr. MACHLUP. The three problems. Unfortunately they were not considered together in official negotiations. They should have been considered together.

Representative RUMSFELD. This is your position with respect to your recommendations?

Mr. MACHLUP. At this stage we must take it for granted that we have not dealt with the adjustment problem and the confidence problem, and hence, we must now ask what we can do. On page 27, I have listed the five approaches to solve the confidence problem. The confidence problem means the danger of massive changes from dollars into gold that threaten to wipe out a large amount of world monetary reserve.

Representative RUMSFELD. First, let me say, I thought all the statements were excellent and I appreciate the time you gentlemen have taken. In each case your statements have been properly on a broader subject than the one I am going to raise, but I would like to have each of you comment on the proposal for removal of the gold cover, and with specific reference to what the possible results might be in the event it is done or it is not done, once it comes before the Congress. What I am asking is, do you see any particular impact in the event that Congress considers it and decides against it?

Mr. MACHLUP. If you want me to start the ball rolling, I think the removal of the gold cover for the Federal Reserve notes is an absolute necessity, if we are all looking at the problem intelligently. We should have done it years ago. It is a complete anachronism to hold gold behind banknotes. It is something which people in the 19th century insisted upon. For that period it was a proper requirement.

In the 20th century, or at the present time, for anyone to insist on a gold cover for banknotes is ridiculous. We should send him back to school. It is absolutely silly, this whole thing, and I do pray you, sir, that you convince your colleagues that they should not prolong something that belongs, from our point of view, to the Dark Ages.

If gold is of any use, it is to send it to foreign countries when they want it. This is the main use of gold. There is, of course, also an industrial use, and I hope the time will come when the governments will be willing to hand all their gold over for industrial uses.

Chairman PROXMIRE. Mr. Butler?

Mr. BUTLER. I would say that I agree completely with that statement. To the extent we can trade gold for useful things, I think we should do it.