

Representative REUSS. Mr. Behrman, would you agree that, though you manage the domestic economy ever so well, nevertheless the trade, investment, and tourism accounts—the conventional accounts, so-called—are not likely to yield a sufficient surplus to enable us to live in the imperial military style to which we are currently accustomed?

Mr. BEHRMAN. Mr. Reuss, I would say that if that volume of expenditures continues to increase as it has in the short term recently, that we could get into serious trouble. I would argue, however, that we could sustain some pressure had we done what your prescription states, that is, to maintain inflationary levels in the United States less than had occurred in Europe in the past 2 years, 1966–1967, as the importance of which was stressed even by the Economic Report of the President; the inflation had a very strong impact on the balance of payments.

Representative REUSS. Although you yourself did a pretty good job of debunking that when you pointed out the effect of the copper strike and the effect of steel purchasing and so on?

Mr. BEHRMAN. Certainly, they had an effect, but there is also an inflationary impact in the sense that the export surplus declined because of imports.

Let me put it this way. My first point is that even if we are in trouble, controls won't do the trick.

On the second point, I have to agree with you, we can get ourselves in deeper trouble if we continue to accelerate Government expenditures which have no payback whatsoever.

But the third point is that, if the United States were doing what you prescribe, and I think this is an absolute necessity, the dollar would be held abroad in larger amounts than it has been in the past, the dollar would have supplied international liquidity which the SDR was to supply, we could afford assistance to less developed countries—private investment has a quicker payback there than my table indicates—and the gold outflow would have been less because the dollar would have been a stronger dollar.

Further, I would say that we would be in an even stronger position today had we not cut back the export drive in 1965–1966 which we did, and had we not been giving signals to business all along that you may export but you may not follow it with an investment. But the data show quite clearly I think that investments pull exports and that in fact the same industries are both high exporters and high investors. They are the technologically advanced industries. There is almost a cyclical development as an industry goes overseas with exports: as your new items begin to die a bit in terms of their usefulness in the United States, you begin to pick them up in investments abroad, so that there is a pull two ways. Exports will mean investments later, if exports do go up; and investments pull exports.

So expansion would put us in a better position than the controls have done and will do; even if we have the pressures you talk about from military expenditures, we would be in a better position to reverse our current policy.

But I would have to agree with you that we can put ourselves into great difficulty if we continue public expenditures abroad with fiscal irresponsibility at home.

Representative REUSS. Thank you. Now, let me turn to Mr. Machlup, who like myself does not believe that merely ridding our domestic