

economy of inflation, desirable though that is, will in and of itself cure our balance-of-payments troubles, and I gather that Mr. Butler and Mr. Behrman do not hold out that hope either.

Let me ask Mr. Machlup this. Even if we went to your fourth alternative of a gold conversion account in the IMF, and thence to less rigid exchange rates, wouldn't the United States still have a problem if it persisted in its grandiose, swollen, meddlesome, costly political-military adventurism around the world? If we are going to spend \$4 billion-plus in military adventures alone, do you think that we are likely to be able to recoup offsetting surpluses in our conventional balance-of-payments account?

Mr. MACHLUP. Yes, sir; I believe this is possible. Don't forget that \$8 billion is only 1 percent of our gross national product. For a long time this 1 percent figure has been mentioned as the minimum foreign aid that a nation should grant. So, I definitely believe that we ought to be able to afford it. It is only a question of the relation between the income and price level here and the income and price levels abroad. That relation will be the strategic variable in allowing the adjustment of the trade balance to the financial transfers.

Representative REUSS. Aren't you advocating something awfully mercantilist though? Here you want the United States to run stupendous surpluses on trade.

Mr. MACHLUP. Yes, I do; but it would not be mercantilist.

Representative REUSS. You said in your paper that the Europeans are not going to do idiotic things, that they are pursuing anti-inflationary policies, some even more successfully than the United States. But let us assume we all manage our economies successfully and do not have inflation at home. Do you really expect that the United States can run trade surpluses of almost infinite amount?

Mr. MACHLUP. This is not so much of a trade surplus compared with the gross national product.

Representative REUSS. Is that the proper thing to compare it with?

Mr. MACHLUP. I think it is.

Representative REUSS. I should think it is the amount of trade done in the world.

Mr. MACHLUP. I think it is the proper thing, and I think it is likewise for the rest of the world to make these comparisons. It is quite true that some other nations have not made enough appropriations for foreign aid, though others have been doing better than we.

Now, there is no doubt that some nations of Europe have been very much in surplus on current account, much more than they should have been, compared with their outflow of capital. So, I think they will have to get used to smaller current-account surpluses. But they may continue to have current-account surpluses because, after all, it is the developing world that will have the current-account deficits.

Mr. BUTLER. Could I add a point which may be useful? I mean this is not a sort of mercantilistic approach. We are trying to run a surplus to finance what we give away in support of the defense and economic development of the free world. If we ran a surplus to pile up gold or to pile up reserves then it would be mercantilistic, but what we are trying to do is to run a surplus big enough to support this outflow. This does not necessarily, well, it does not reduce world production and trade. It indeed enhances world production and trade, so