

that I think it is a perfectly viable sort of situation. The problem really is the level at any one time. My argument would be that it is a little too big at the moment. But I would hope it would be as big very shortly as it is now, in a viable sort of way.

Representative REUSS. Could I have another minute or two?

Chairman PROXMIRE. Without objection, go right ahead.

Representative REUSS. To all this I say "Yes" to Mr. Butler and Mr. Machlup, but it seems to me you do not sufficiently differentiate between the mirror image of our deficits; that is, somebody else's surpluses. Foreign aid to Ecuador comes back to us. That is great. I am all for that. But keeping troops in surplus Germany? Just talking economically, I do not see how that bread on the water comes back to us in balance-of-payment terms.

Mr. MACHLUP. I think, sir, we should not decide our foreign policy in terms of balance-of-payments considerations. It would be a very severe restriction on our foreign policy if we always said "before you do anything, look whether our present balance of payments can afford it."

I cannot say as an economist whether it is the right policy or the wrong policy to keep troops in Germany. But if it is right for other reasons to keep troops in Germany, we should not say that the balance of payments is such that we cannot afford it.

It is a question of the foreign-exchange rate or, alternatively, it is a question of the rate of inflation here and the rate of inflation abroad, and these things can be adjusted.

Representative REUSS. While you may not want to stop doing a thing otherwise determined to be wise and necessary—

Mr. MACHLUP. Right.

Representative REUSS. From the standpoint of foreign policy because of its balance-of-payments impact, certainly the statesman making this decision should know what the balance-of-payments impact is; should he not?

Mr. BEHRMAN. Yes, sir.

Mr. MACHLUP. He should know what the impact is, but still he should also know what it is in relative terms. The present deficit in our balance of payments is only one-fifth of 1 percent of the gross national product. This makes a difference.

Mr. BUTLER. Somebody said it is a small thing but like an inch on the end of your nose.

Representative REUSS. In large part the recent proposals of the President seek improvement through measures involving private investment and private travel. In addition, the President has promised renewed negotiations with our NATO allies to minimize the foreign exchange costs of keeping our troops in Western Europe and in an altered context, dollar expenditures in Asia as well. The results of such negotiations will depend upon the cooperation of our allies; but if the private sector is to be asked to reexamine and curtail its plans there is an even greater obligation on Government to put its own part of the international accounts in the best possible order.

Dr. Joseph Aschheim, of George Washington University, has prepared a memorandum entitled "The Dollar Deficit and German Offsetting." His memorandum cannot help but throw light on the Government's place in the foreign exchange picture and thereby con-