second steps toward exchange control. That is the danger. That is where your psychological factor enters in a major degree.

I think the most damaging single thing this country can do is impose controls on overseas investment. This is the most profitable aspect of our entire international program. We simply must address ourselves to the public rather than to the private sector, in our international dealings.

Mr. O'LEARY. Let me just make this point. You cannot underestimate the nervousness that exists.

People keep calling me about what is going to happen. And I know on the day of the state of the Union message there was a rumor in the financial district that the President was going to announce that night that the price of gold would be increased to $70 an ounce. This was a pervasive rumor. It was a crazy thing. My reaction was, How crazy can you get? But the fact is that there is an irrationality about this.

And within the last couple of weeks, there was a very strong rumor around in the financial community that the Canadian dollar was going to have to be devalued. There is a very nervous situation here. I do not think we ought to underestimate it. Part of the dimension is the very thing you are talking about.

Representative BROCK. But, you do remember that their nervousness is largely a matter of private sector nervousness. The people who hold large quantities of dollars—some $14 billion—which can be used to call gold—you are talking now about gold as a commodity itself—those dollars are held in central banks. You have only seven or eight central bankers that are in a position to call any quantity of gold from this country. These are awfully sophisticated men. They may reflect the psychology that exists in that country, but not to the extreme swings.

Mr. HART. They cannot quite ignore it. The central banker is a trustee. And, however much he may hope we can hold out, if he is afraid that he cannot take out what belongs to his constituents because somebody else will get there first, he may have to move.

Representative BROCK. I am not arguing on the psychology of the tax increase. I have heard it expressed too many times to not admit it is there. But, I am saying I think the adverse psychological effect of our balance-of-payments program, the emphasis upon the private sector, investment, tax rebates and so forth, is equally adverse as the refusal to enact a tax increase.

Mr. O'LEARY. Absolutely.

I think we did the right thing in announcing the $3 billion program. I supported it, even though I had some reservations about it. But, at the same time, I think you have to recognize that the ramifications of it are hard to figure.

I was in London at the time this was announced, and they were trying to figure out what the impact on Britain was going to be. To me it was a rather surprising line of reasoning. They said that the direct impact of controls over capital investment will not be very great, but the indirect effect will be very, very great. Their reasoning was that U.S. companies would now have to borrow heavily in the Euro-dollar market and thus drive interest rates up. The British argued that this would make the 8-percent bank rate there relatively