

increased price, and if they monetize their assets you will have a very powerful inflationary factor in the world economy.

Now, that is the crossroads. Do you take the paper-gold route, or do you take the gold route? And, I would rather not, if you don't mind, Senator, discuss the probabilities of which route will be taken.

But let me just say that if you take the gold route, to pursue that a little further, my guess is that the first effect would be disruption and a paralysis to world trade as the arrangements were being put together, and that this would be followed by definite inflationary effects.

These are the consequences.

What I am anxious to see is that we avoid the conditions that will precipitate the gold drain that will start all of this. And I see no hope for doing that until somehow we can break, as I say, this impasse between expenditure policy and tax policy.

Senator MILLER. I appreciate that answer. I would just make this observation. If the Congress doesn't see fit to follow your very well reasoned recommendations here, it looks to me like it is just going to be a question of time before all of the free gold runs out, and we are going to be reached with that problem that you just outlined a little later—maybe another couple or 3 years. But, I think we are really just buying time right now.

I appreciate your going into this. It will be helpful, I am sure, in my consideration of what to do on this.

Mr. SAULNIER. If I may add one point, Senator. I personally believe that a failure to take this step—which, mind you, I recommend very reluctantly—that a failure to take this step will have the effect of bringing a lot closer to us the point at which we will become inconvertible, our dollar will become inconvertible, into gold.

Senator MILLER. I understand.

I thank the chairman very much.

Chairman PROXMIRE. Thank you.

Our next witness is a very good friend of the committee, and a man who has won the admiration and respect of the Appropriations Committees in the House and Senate for his remarkable ability as Budget Director, now a senior fellow of the Brookings Institution, and professor at the University of Maryland, Mr. Charles L. Schultze.

**STATEMENT OF CHARLES L. SCHULTZE, SENIOR FELLOW, THE
BROOKINGS INSTITUTION, FORMER DIRECTOR OF THE BUREAU
OF THE BUDGET**

Mr. SCHULTZE. Thank you, Mr. Chairman.

Both the President's Economic Report and the hearings of this committee have primarily focused upon one central economic policy question.

Chairman PROXMIRE. If I may just interrupt for a minute. We do want to have the chance to ask questions. There will be other members of the committee here. If at any time you would like to abbreviate your remarks, the full remarks will be printed in toto in the record. But, go right ahead.

Mr. SCHULTZE. I shall take that as both permission and a suggestion.

Chairman PROXMIRE. Exactly the way it was intended.