Mr. DESPRES. Yes; I am saying that. I am saying that not only American direct investment abroad, but American international lending——

Representative ELLSWORTH. Yes.

Mr. DESPRES. On quite a flexible basis——

Representative ELLSWORTH. Yes.

Mr. DESPRES (continuing). Is important, and that the international arrangements would not substitute for the American lending and investing. It would not be a sufficient substitute.

Representative ELLSWORTH. You are saying that really this concern about creating a new artificial asset, so people would have something else than dollars, sterling or gold, to put in their reserves, is really another way of just papering over what you regard as a very serious situation, and that ideally we shouldn't be worried about creating this new artificial asset.

What we should be doing is worrying about changing everybody's attitude, ours and everybody else's, toward the role of the United States in the financial world as it exists today. Is that what you are saying?

Mr. DESPRES. That is correct, and I think that if we changed our attitude about gold, other countries would change their attitude about gold.

Representative ELLSWORTH. I understand.

Mr. DESPRES. Fundamentally, I regard the dollar as the most desired, inherently the internationally most desired form of asset, and that gold is valued because we stand ready to buy it. Just as used to be the case for the price of wheat before wheat got in short supply, we are propping gold.

Representative ELLSWORTH. Let me ask a question to clarify something in my own mind. Would you explain to me or attempt to, so that even I can understand it, what exactly is the direct link between our having a deficit in our balance of payments on the one hand, and on the other hand our ability to engage in this financial intermediation function that you have talked about as a direct investor and as a lender.

Mr. DESPRES. Yes.

Representative ELLSWORTH. In other words, why is it necessary for us to have a balance-of-payments deficit in order for us to perform that function?

Mr. DESPRES. The United States typically has a surplus on current account, net exports of goods and services. If our lending and investing abroad precisely equaled the surplus on current account, then one could say that the function of the lending and investing was exclusively to effect real transfer of goods and services to other countries and one could call this, if one wanted, a position of balance.

What I am really saying is this: that American lending and investing abroad performs two functions. One, it finances real transfer of goods and services. Two, it is a trade in financial assets. It enables foreign countries to get financial claims of the type that they desire, while we provide financing to permit investments that go forward abroad. We not only export a part of our savings to the rest of the world but our financial markets help other countries to mobilize their savings for investment use.