

their own policies, which impresses me as being both knowledgeable and self-righteous in view of the dearth of more concrete assistance.

Kennedy Round

The reference by the Council to the Kennedy Round should recall to attention how little has thus far been accomplished by the Trade Act of 1962, for which (as I said at the time) exaggerated claims were made.

Council's misplaced emphasis in re balance of payments

I disagree entirely with the Council's whole approach to the balance-of-payments problems, now and earlier. By definition, all countries of the world cannot simultaneously have a favorable balance of payments. Many countries desperately need, for their very survival, to improve greatly their unfavorable balance-of-payments position. The United States is in no such circumstance. To the contrary, I believe that we should run, for many years ahead, a larger unfavorable balance of payments than we have been running in recent years, with ever-increasing stress upon investment in the underdeveloped countries. Because the Council misinterprets this fundamental goal, its entire analysis and policy recommendations fall short.

Even if I were wrong as to the desirability of the United States increasing its unfavorable balance of payments, this much seems certain: The Council's long overemphasis upon the need to reduce this unfavorable balance, insofar as it has led the Council to sacrifice domestic employment and growth, has been utterly pennywise and pound foolish. And the Council has even selected the wrong means to achieve its own mistaken aims. To illustrate, differential interest rates have not been the main explanation of the flow of investment capital from the United States to developed countries overseas. One of the main explanations, as I foretold, has been the fiscal policies which yielded so much more to U.S. domestic investors than they could use at home that they sought highly profitable investments overseas. In addition, policies different from those recommended by the Council, and more conducive to maximum employment and production and optimum economic growth in the United States, would have induced more investment capital to be used here—and without relative overinvestment—than has actually been the case.

The gold supply of the world has been increasing at less than 1 percent a year, while monetary expansion needs to increase at 4 to 5 percent a year to support appropriate expansion of economic activity. This being the case, we should take gradual but firm steps to disengage from the extent to which we tie our own credit structure and our international economic and financial policies to the stock of gold. We must gradually surmount this costly anachronism.

Beyond all this, if set forth in a proper manner, with due weight to short-range and long-range factors, we are hardly running an unfavorable balance of payments even now.

The urgent need today is for a sufficient improvement in the international mechanism of finance and exchange to service these various considerations, somewhat along lines that the Federal Reserve System was initially brought about improvements on the domestic scene when first enacted. I am glad to note some improvement in