

it requires no great wisdom to conclude that all will be well if balance and confidence are restored. The cheapest advice is to say that restoring balance will restore confidence and that therefore no more is needed than to remove the continuous overspending, overlending, and overinvesting by the United States.

External balance does not guarantee confidence in the sense of maintenance of a given volume of foreign dollar holdings. The foreign demand for dollar balances depends chiefly on the volume of dollar transactions for which working balances are needed. Any measures or policies that reduce the volume of foreign trade and payments may well reduce the foreign demand for private dollar holdings, and thus lead to further conversions and to American gold losses, even if the payments deficit (on liquidity basis) is reduced or removed. Moreover, "overspending, overlending, and overinvesting" are relative magnitudes, and absolute reductions in foreign spending, lending, and investing need not reduce, and may even increase, the relative oversize of the particular items in the balance of payments.

What can really be done to achieve a cure of the chronic imbalance of payments and to safeguard against crises of confidence?

Restoring Balance: Direct Controls

There are several ways of dealing with a deficit in the balance of payments: to finance it, suppress it through restrictions, try to remove it through real or financial correctives, or restore balance through real adjustment.

After 18 years of financing the deficit, the time has come to end it. Picking some conspicuous deficit items in the balance of payments, the United States has decided to "take action" against these items, partly by means of direct controls and prohibitions. The government hopes the country will save at least \$1 billion by a "mandatory program" to restrain direct investment abroad and to bring home larger portions of foreign earnings from past investments; another \$500 million by a "tightened program" to restrain foreign lending by banks and other financial institutions; another \$500 million by reducing "nonessential travel outside the Western