

identifying those temporary causes that we were going to remove and how we were to remove them. That still remains the case.

The second contradiction is that we have just gotten through an extensive and difficult negotiation on the liberalization of trade, a major element in the balance of payments, and have been moving in the past several years in exactly the opposite direction on other aspects of the balance of payments through restriction of capital and now travel.

A third contradiction I see is a shift in the U.S. posture toward the adjustment process, depending on its own situation vis-a-vis the rest of the world, and that is the responsibility which we now say the surplus countries have to correct our deficit. This was a responsibility which we foisted on them and in fact continued for the first 20 years after World War II: to say that the deficit country had the major responsibility, and that we would help them out under certain circumstances if in fact they were pursuing policies which we approved.

In fact, we gave considerable aid as you know, Senator, to the European countries including aid to France during its pursuit of the war in Vietnam. In other words, we were willing to help though we were a surplus country, if in fact we approved of the policies of the other countries.

What some of them have been saying to us in effect is: "We are unwilling to help you because you are pursuing policies which we do not approve."

The fourth contradiction I see is that as the Council report states, countries whose competitive position and domestic demand levels are satisfactory may have deficits due to excessive capital flows. This is a phrase, "excessive capital flows," which Secretary of the Treasury Fowler has used in the past. I know no way of determining what an excessive capital flow is as compared to an excessive element in any other of the balance-of-payments items. That is, the balance of payments is a mixture of economic factors which meld together in a single balance, and I do not know precisely how one can be excessive as compared to another. This is a contradiction in the treatment of the elements of the balance of payments.

Finally there is a contradiction in what we say we want to do and what we are doing. As the report of the Council of Economic Advisers states, the United States must carry out its responsibilities as the major world bank. It reiterates again that the U.S. dollar is the key international currency, and yet it has been moving repeatedly to weaken the role of the dollar as Professor Machlup indicated with successive partial devaluations and now controls.

In fact, what we are saying is that the dollar is not strong enough to bear the burdens which it must bear if it is to be an international currency.

May I make one footnote on the controls, and that is that I hope that the committee has asked for the legal justification for the controls. They were imposed under the 1917 Trading With the Enemy Act. Incidentally there should be a correction there. My copy says 1947, it is the 1917 act which permits control of U.S. persons, companies, or subsidiaries involving financial transactions with an enemy country. I know no particular way, myself, how we can declare that all the banks outside the continental United States are enemy banks,