

but I am sure that the Attorney General has made such determination which is satisfactory to the administration. I hope the committee asks for that justification.

Let me turn now to the adjustment process, and how we apparently are handling it, as compared to the ways in which Professor Machlup pointed out. One of the ways of handling a deficit is to employ reserves, and by employing reserves I mean permitting them to flow out to meet the deficit.

This is a role which we have almost denied gold. We have stated that we would use the gold to meet deficits, but have acted repeatedly to indicate to the rest of the world that we feel very very badly if we use gold, if we lose it, and, therefore, have signaled to the rest of the world that we ourselves consider that gold is more valuable than the dollar.

Now, of course, Congress has before it a bill to remove gold from the dollar, and again in a sense we are contradicting ourselves. We are saying we really do not need it to back the domestic currency, but we do need somehow to hold it—not to be given up but to be held in order to strengthen the dollar internationally. Not even the Europeans accept this particular construct of the relationship between gold and the dollar; and, in fact, the reason why they have voted for gold and against the dollar is not because there is any particular relationship between the two, but because they distrust the United States handling of the dollar more than they distrust the value of the gold in the world market.

Let me turn now to some of the specific factors which the Council mentions as being the cause of the deficit and, therefore, subject to some kind of correction. They indicate some special factors, the \$500 million loss for Expo 67; they mention the cost of the Middle East crisis. They do not, so far as I could find anywhere in the report, mention the copper strike and its effect of \$300 million to \$500 million cost of additional imports on an annual basis. It has not run to that yet. It has not been a full year but on an annual basis it would run between \$300 million and \$500 million of imports of copper.

They do go on to blame, however, direct investments, asserting that there has been a disappointing performance on the part of the return of earnings, in 1966–67, particularly; but so far as I could read in the report, they do not mention that the return of earnings was affected by the voluntary constraint program. In fact, the earnings themselves are dictated more by foreign factors than by anything the companies can do.

Additionally, they indicate that there are cyclical forces which contributed to an indicated total drop in U.S. direct investment outflow during 1967 of about \$500 million. I have been studying direct investments now for about 15 years, and I know of no evidence which indicates that there is a cyclically affected flow of direct investment from the United States to the rest of the world.

On the contrary, our experience is too short. We have only about 15 years of experience in outflows, and this is not enough to tell us about the cyclical effects on direct investment, and we certainly know nothing about the shifts from one country of destination to another according to economic cycles, and we know very little about the cyclical effects of the U.S. economy itself on an outflow of direct investment. So, I would like to throw some doubt on that proposition.