

payments. Such a concept of causation is too simple and one which the U.S. Government has refused to accept since 1945, throughout the Marshall Plan, and during its aid to developing countries.

While the U.S. accepted the burden of relieving the pressures of reconstruction, recovery, and more rapid growth from many countries over the world, it not once agreed that the pressures were generated in part by its own economic policies—even though at times U.S. growth rates were low and nearly stagnant. For it now to claim that others should assume some responsibility for U.S. deficits is a tactical switch and highly unrealistic politically. No government is yet ready to assume *responsibility* for what is happening in another economy or to the other's international payments. The causes are too complex and the remedies difficult to accept when they involve "donations" to another country. While they may agree not to fight to maintain their surpluses, even this agreement will be contingent on the circumstances. But the U.S. Government has been asking for more—a sharing of its burden, though there are no principles of burden sharing yet accepted.

The reason why the U.S. Government assumed the earlier responsibility of assistance to relieve others' deficits was that it approved of the objectives of those countries—including the French pursuit of the Viet-Nam war in the 1950's. Had it disapproved—as it sometimes did with the developing countries—it would have (and did) withhold aid. Other countries are saying the same thing to the U.S. now: "while payments are obviously two-way, we do not approve of the purposes of your expenditures."

Consequently, we have selected an element of payments to control—capital flows—which Europe has at times complained about and concerning which there is some question within the U.S. as to its usefulness. The rationale is that even "countries whose competitive position and domestic demand levels are satisfactory may have deficits due to excessive capital outflows." But where are the criteria of "excessive"? What capital flows are referred to?—short-term? flight capital? portfolio? direct investment? No distinction is made in the argument, and all are tarred with the same brush. I know of no reasoning that shows how capital movements may be "excessive" while outflows of funds on other accounts in the international balance are all "reasonable," and no effort is made in the report to explain the culpability of capital for the deficit.

But having asserted that capital movements are an appropriate subject of restriction,* especially when other countries do not behave properly, the Report turns to the record of U.S. international payments and the impact of the deficit. In brief, the policies to treat the deficit are aimed at making the dollar sound and returning it to that position of strength which will permit "the United States to carry out its responsibilities as the major world bank . . ." This role, however, is undercut by the necessity felt by the policymakers to achieve balance. They are going to demonstrate that "The dollar is a world currency" by prohibiting it from performing the functions of such a currency. At the same time, the Government proposes creation of SDR's which will supplement the role of the dollar, internationally. There is an underlying current that somehow the U.S. dollar can both be an international key currency and yet not have to bear the burden of being one—even permitting the authorities to place controls over its use, at times, despite the fact that such action denies it an effective role as a key currency. Thus we come into a strange world of controls for the purpose of strength—a tactic we strongly opposed on the part of others—and of a "world bank" which seeks to give up that role.

ADJUSTMENT PROCESS

Among adjustments to a deficit examined by the Council, little attention is given to the use of reserves. (Its discussion of removing the gold cover is in a later section of the Report.) There is even an implication that reserves should not be used in the statement that "every nation—particularly the one that serves as the world's bank—needs an adequate margin of liquidity" (p. 167). Further, the U.S. Government has tried for 8 years to prevent others from asking for gold while saying that the entire gold stock is there to back the dollar.

*I must raise a question concerning the legal basis of the present restrictions. They are imposed under the 1917 Trading With the Enemy Act, which grants power to control financial acts of U.S. persons, companies or subsidiaries involving "enemy" banks. I suggest that it is a strain of the word to declare *all* banks outside the continental U.S. as in enemy hands. And I hope that the Congress has asked the Attorney General for a copy of his opinion on this matter which he undoubtedly provided the President.