Historically, the role of reserves performed the function of providing an alternative to currency *and* goods. If the former was uncertain of value (lack of confidence) and goods were not desired, gold provided the alternative. Gold, then, was an acceptable import or export when goods were not and when some currencies were weak. Countries with weak currencies needed to hold gold for contingencies. Contrarily, as long as the British pound was considered sound, the level of reserves needed by England was quite small. And, if the U.S. dollar were "as good as gold" there would be little demand for gold save from private hoarders. So long as the dollar is sound and more desired than any other competing currency, the gold reserves *needed* by the U.S. are practically nil—witness the decade 1945 to 1955 when gold reserves were little called for. When the dollar is weak and there is lack of confidence, large reserves are needed—more than the U.S. can command without drastic shifts in economic policies which would be detrimental to all. Thus, the crux of the matter lies in the policies directed at maintaining the strength of the dollar, which cannot include controls, for they automatically attest to its weakness.

The *pressure* of the U.S. deficit, therefore, is intimately related to the domestic strength of the dollar, which is recognized by the Council in its stress on the necessity for firmer fiscal and monetary policies and its statement that the easing of monetary conditions in 1967 widened the deficit. If adequate domestic measures had been taken in 1966 and 1967, if the export drive had been expanded in 1965, rather than relaxed, and rather than waiting until 1968 to re-emphasize it; *and* if the gold reserves had been let go freely, rather than attempting to hoard them, the situation would be much improved today. Rather than make certain to maintain stability of the dollar and use the gold, we cried the weakness of the dollar when in fact it was strong. The U.S. Government has acted for 8 years as though the dollar would be weakened by a loss of gold, as though the gold were more precious than the dollar, and as though holding gold would somehow strengthen the dollar. It has been obvious to the rest of the world that these suppositions are not correct. The projected untying of the dollar from gold domestically is our own recognition of the fact that gold does not give strength to the dollar. Rather, the rest of the world voted for gold against the dollar, when it did, on the ground that the U.S. did not know how to manage its own economy so as to maintain the value of the dollar.

The Council attests to this point itself in noting that the worsened deficit in 1966 was a result of the foreign exchange costs of the Viet-Nam war, and "the strains placed on our domestic economy." (p. 169) These strains were exemplified in the increased import demand in 1966 and particularly in the last of 1967. It is interesting to note that among the "special factors" explaining the deficit are a $500 million loss because of Expo 67 and costs of the Mid-East crisis, but no mention is made of the $300–$500 million (annual) loss from the copper strike, which occurs from greatly expanded imports. But the Council does blame direct investment for an increase in the deficit on the grounds of only a slight increase in income from investment in 1966 and an inadequate return in 1967: "This disappointing performance reflected an actual decline in income from investments in Western Europe during the last two years, despite the further substantial buildup of assets there." (p. 170)

There is in the above statement a lack of recognition of the fact that voluntary controls existed on direct investment in 1965–67 and that companies retained earnings abroad in order to expand production rather than send dollars for new investments. This action built up assets but the return of *earnings* was determined first by factors abroad, which were not favorable, and is not the whole story on the payments accounts of direct investment. The avoidance of emphasis on the voluntary controls is evident also in the statement that direct investment outflows dropped in 1967 because of cyclical forces: "Along with other influences [not named], the cyclical forces contributed to an indicated total drop in U.S. direct investment outflow during 1967 of about $500 million." (p. 170). We have not had enough experience with large direct foreign investment outflows since World War II to know whether they are cyclically affected and whether, if so, they are affected more by the parent country cycle or that of the host country—and whether they shift among countries of destination according to the pattern of economic growth cycles. The evidence of the past decade provides little evidence of cyclical behavior, and to claim such a correlation at a time when companies were responding strongly to constraints by the Government which forced a reduction in outflow is certainly to focus on the wrong factors.