We cannot help noting, however, the necessity of Government controls on direct foreign investment as an interesting commentary on the haste of American profits to seek an ever-higher rate of return, in the midst of developing inflation at home. Actually, it now begins to appear that this program has less resistance as a result of investment abroad, perhaps having run most of its course before the restrictions were imposed. In contrast, the net balance on foreign investment income now has attained a level such that it has given considerable improvement in the balance-of-payments problem. Although it may be true that we cannot assume the same improvement increments in future years, there does not seem to be any reason to believe that this factor will recede very quickly.

The overriding issue in the balance-of-payments problem lies in the fact that, presumably, we have been importing too much. Ironically, a larger factor in this has been the importing of I O U's—"exports" of capital which have given others claims on us. In a free market for international exchange, this should have meant that there was a growing demand for foreign claims in order to pay for foreign debts, and a consequent premium for exporters who provide the major source of such foreign claims. Of course, when it becomes too expensive to liquidate debts through the exchange system, there are, as there have been, gold payments.

This increasing pressure has suggested that a freeze on gold and "freely fluctuating exchange rates" would correct the import situation. We now have, for practical purposes, the gold freeze. The objections to a proposal for freely fluctuating exchange rates center around problems of uncertainty, disturbance to trade and investment relationships, and requirements of shifts of resources among industries which export and those which compete with imports. Most of these arguments are invalid from an economic point of view. The only ultimate remedy in a world economy in which gold no longer is an adequate medium of exchange is freely floating exchange rates.

However, inasmuch as our international trade still only amounts to 5.3 percent of GNP, other international considerations may be regarded as more pressing. Under freely flexible exchange rates, much importing would likely be cut off. The present domestic inflation, as a matter of fact, receives some relief from imports. On the other hand, we feel some approach to flexible exchange rates will have to be made in the not-too-distant future.

Summary

In summary, it is our view that the "fine tuning" which is called for under a gradualistic approach to deflation ought to concentrate on the profit-push phenomenon, and its insidious ally, the new boom in corporate investment. Coupled with such an approach must be a serious and searching restructuring of the entire Federal tax-levying mechanism, with a view to long-range revision of the distributive shares of our national income.