volume of offerings in a remarkably smooth manner. An estimated $1,120 million of state and local securities reached the market, up from $890 million in January and from $620 million in February 1961. The largest new publicly offered flotation, consisting of two issues of 4⅛ per cent state turnpike revenue bonds maturing in 2002 and priced at par, moved to a premium of 102½ on the first day of sale.

Prices of seasoned corporate bonds held firm during most of the month, reflecting the same generally confident atmosphere that prevailed in the market for Treasury notes and bonds. In the market for seasoned tax-exempt securities, prices rose through much of the month, but then declined as dealers built up a very large inventory of recent offerings. The Blue List of advertised dealer offerings rose from the February 1 level of about $270 million to $530 million on February 19 and to a new record of $560 million on February 28. At the end of February, Moody's average yield on seasoned tax exempts stood at 3.08 per cent, down 4 basis points for the month, while the average of Moody's Aaa-rated corporate bonds remained unchanged at 4.42 per cent.

The Balance of Payments and International Financial Cooperation*

By Robert V. Roosa
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We are now thankfully, and at last, living in a highly competitive world. Together with the other free, democratic, capitalistic countries, the United States has begun over the past few years to experience some of the shocks of actually living in economic conditions which resemble, rather closely, many of the ideals which we have for generations been endorsing. Europe has for several years had greater mobility of labor than the nationalism of earlier times could ever have permitted, and at the same time a rate of economic growth that no one would have dreamed possible a decade ago. The constructive force of active competition in manufacturing and trade, both for us and for others, has been greatly strengthened by the striking adaptations to rapid technological advance that have occurred in Western Europe, Japan, and elsewhere. In the United States we seem to have come much closer to our aim for reasonable price stability. And for more than three years now there has been a free interconvertibility among the currencies of nearly all of the major industrial countries.

These are the kinds of conditions we want to live with; they are part of the framework for a vigorous, expanding, prosperous community of free nations. But they did not just happen; and we will not keep them if we ever relax into just taking them for granted. The base on which all our performance rests, of course, is the effort of the individual as laborer, farmer, employer, investor, and indeed, as public servant. What I want to center on today, though, is the part of government policy and action in helping to construct some of the new international financial arrangements, public and private, we will need to sustain the remarkable advances of these past few years in Western capitalism as an economic system. Even for much of the sphere of government, our own and others, I can scarcely begin a catalogue. But I can start at the center, the balance of payments, and work out from there into several areas of real significance for international financial cooperation:

> First, a cursory restatement of the links that remain between the old gold standard and the balance-of-payments disciplines, within a system of fixed exchange rates, which govern the world economy of the 1960's.
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> Then, a look at the present United States deficit and its counterpart, the surpluses of some of the European countries.
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> From this, a review of what has been done or can be done to improve the payments arrangements among all countries, the developed and the developing, in the non-Communist world.
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> And finally, a sweeping glance forward toward the outlines of the kind of international monetary system for which we may be heading.

* An address before the American Bankers Association Midwinter Trust Conference luncheon, New York City, February 7, 1962.

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The gold standard, as a concept and as a symbol, has always been a convenient abbreviation for the need that every country faces to keep its balance of payments in equilibrium within the context of fixed exchange rates. That is, whether a country formally adheres to the gold standard or not, it must have a reserve of some kind of internationally acceptable purchasing power—either gold, or dollars, or possibly pounds sterling, or an equally usable quick line of credit. Whenever its current receipts from sales or the inflow of capital do not equal its current outpayments, it has to draw on this reserve. Consequently, the size and ready usability of the reserve—together with the quick claims against it—must be watched continually as an indication of changes in each country's external economic strength or weakness.

No country can pursue policies indefinitely which consume its external reserves and draw down its potential credit abroad. Though the United States has for a long time been shielded from this hard fact, all of you know well that any country must, in time, if it is to retain contact with the world outside its borders, balance its international accounts and maintain some foreign exchange reserves. On the other hand, no country—and for that matter no bank, nor even any trust department—can afford to build liquidity indefinitely. Sooner or later the strong countries acquire all the liquidity they want, or at the least they slow down their accumulations, so that they can increasingly acquire other kinds of profitable assets. Once it has acquired substantial liquid reserves, the creditor country rightly encounters pressures to change its ways that are, in the end, just as strong and just as clear as those impelling the deficit countries to change. But for about a quarter of a century, until these past three or four years, it was only the United States among the leading countries which had been faced with the need to behave as a creditor country.

Under the theoretical conditions of the full gold standard, these offsetting adjustments by debtor and creditor countries in order to restore equilibrium could be direct and automatic. When gold left the debtor country, its internal monetary system contracted, interest rates rose, prices fell, and eventually sales abroad rose while imports declined until balance was restored. The creditor country, receiving the gold, had a corresponding rise in its internal money supply; its interest rates declined; its prices rose; its exports fell off; its imports went up; and eventually balance returned. This was, in its simplest terms, the old gold standard version of the balance-of-payments disciplines. Of course, things never did really work out in just that way. But what matters most for us now is that the world has for some time rejected the harshness of a system of correctives which presumed that creditor countries must undergo inflation, and debtor countries must create unemployment, to reach a suitable equilibrium. The solutions now must take a different form, but the balance-of-payments disciplines which must be served are still the same, and are still inescapable.

The difference now is that the world is finding new ways to serve these disciplines—ways that reflect the new conditions in which sustained economic growth, and the minimizing of cyclical fluctuations in business activity, are also important goals. And they must also reflect the other conditions which I mentioned a few minutes ago—those of price stability, of labor mobility, of aggressive and open competition in production and trade, and of currency convertibility. In a complex of such varied and such important conditions as these, there can be no single golden formula. There must be some reliance upon the judgment of men, expressed through governmental action, to help achieve a continuing reconciliation between the imperatives of the balance of payments, the competitive forces of the market place, and the other broad, vital objectives of modern economic society.

My own view is that there are two strong surviving attributes of the gold standards of earlier eras that must be continued, if the balance-of-payments disciplines are to be effectively fulfilled within the array of differing monetary and fiscal policies now pursued by the various countries. One is that a fixed link must be preserved between gold—the universal monetary metal of timeless acceptability—and at least one national currency. Since the mid-thirties, the dollar alone has served that function. It is essential that the United States continue freely buying gold, and selling it to the monetary authorities of the world, at the price of $35 per fine ounce. The second requirement, in my judgment, is that all leading countries maintain fixed (rather than variable) rates of exchange in relation to the dollar, with narrow permissible spreads around the declared par value—such as the 1 per cent, each way, established by the International Monetary Fund. There must be room for market forces to demonstrate, through small changes within such a band, whether a given currency is presently strengthening or weakening. But there must not be an escape hatch through which one country or another can seek temporary refuge from balance-of-payments disciplines by juggling its own exchange rate—beggaring its neighbors and disrupting the orderly processes of cost and price adjustment among the various products and services that are required for eventual balance-of-payments equilibrium.

A fixed price for monetary gold, and fixed exchange

rates, are essential. But, in place of the other automatic features of the old gold standard, there are now new arrangements for common appraisal and concerted action, centering in the International Monetary Fund. Other important supplements, arising from consultation among the leading industrial countries themselves, as well as from a variety of reinforcing bilateral arrangements, also offer new potentialities. But before turning to these, I think we can usefully look briefly at our own current balance-of-payments deficit and its counterpart, the European surpluses.

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On present estimates, the combined balance-of-payments deficits of the United States, the United Kingdom, and Canada were only slightly larger in 1961 than the combined surpluses of France, Germany, and Italy. Of course, all six countries, for reasons arising partly from their own domestic institutions, prepare their balance-of-payments records in different ways, so that little arithmetic exercises of this kind can be quite misleading. The United States method of balance-of-payments accounting—for a variety of reasons—takes no credit for any of the short-term claims of its nationals on foreigners in calculating its over-all balance-of-payments deficit. Unlike some other countries, we treat short-term foreign private capital inflows as part of our deficit rather than as an offset to the outflow of United States private capital. The rather paradoxical result is that the whole of our reported deficit is currently much larger than the sum of its parts (as reported in the surpluses of other countries).

Statistics aside, however, we have been undergoing far too long a balance-of-payments deficit that is far too large. It is of little avail either to the British or ourselves to find temporary respite through passing our deficits back and forth between each other. It is useful, though, in appraising our own prospects, to pay some attention to the sources and the durability of the European surpluses. This is particularly relevant since the United States is itself, and has been almost uninterruptedly, a large creditor country too, so far as the trade and services accounts are concerned. We are in trouble partly because we continue to perform, on a substantial scale, the role of a good creditor country, while the newer creditor countries have until quite recently either been too awed by their new strength, or too uncertain of its continuation, to follow our earlier example.

As they do, through extending more foreign aid, through prepaying debts owed to us, through offsetting more of our military outlays by compensating arrangements, through opening up their markets, and through removing the restrictions that many of them still retain on the outward flow of their own capital, they will be giving further evidence of the two theses that have run through my remarks thus far:

(1) that the adjustment process toward balance-of-payments equilibrium, though no longer of the old gold standard form, still does require change and adaptation by both the deficit and the surplus countries; and

(2) that the process requires, increasingly, the exercise of positive judgment and action by governments, and perhaps more particularly by their financial officials, on the basis of extensive cooperation and joint analysis of many interrelated problems.

Yet the underpinning for all successful cooperation must still be aggressive and effective corrective action on the part of the deficit countries themselves. That ranks first among the various implications of international financial cooperation that I am discussing here. That is why, regardless of all the essential action which the surplus countries can undertake (and such action is essential), the United States Government has given the highest priority to reducing the net outflow of dollars for our military effort, for our aid, and for our other governmental operations, while expanding in every practicable way the program for stimulating the export performance of American business. We must sell abroad, on commercial terms, enough to pay for all of our imports, for all of the governmental programs which prudence commands, and at the same time support the unrestricted flows of capital that our national interest requires. That is the only fundamental solution to the balance-of-payments problem which is also consistent with all of our other goals—market freedom, growth, stability, steady prices, currency convertibility, and expanding commerce among all of the free nations.

It is the urgent need to strengthen our balance of payments that underlies, of course, the President's effort to modernize our tariff procedures through the proposed Trade Expansion Act of 1962. That same need also explains the determined effort to promote productive investment in the United States through depreciation reform. It motivates the formulation of a balanced Federal budget for the fiscal year 1963, in order to create an atmosphere of business confidence conducive to even greater competitive effort in the years ahead, and to avoid the drain which Federal budget deficits might otherwise place upon the supply of capital and savings available for new investment. It underscores the need to continue our present efforts to maximize the use of our foreign aid money in the United States, and to minimize the dollar outflow for maintaining our military forces overseas. It explains the intensified pro-

motion of export markets through all available means.

Most notably and recently, the export drive has been sparked by the opening, just two days ago, of the Foreign Credit Insurance Association, which supplements the export credit insurance already available through commercial banks, in conjunction with the Government's Export-Import Bank. By utilizing the facilities of fifty-seven associated private insurance companies, also in cooperation with the Export-Import Bank, the new Association will guarantee (for a fee) the political and commercial risks of extending short-term credits to buyers in other countries.

Even more important for the longer run, both in terms of domestic growth and of balance-of-payments equilibrium, will be the recognition by labor and by management of the guidelines presented two weeks ago in the Annual Report of the Council of Economic Advisers, for relating changes in wages and prices to productivity over the years ahead. These clearly stated principles (pages 185 to 190, in case you have not seen them), and the Council's straightforward handling of their possible statistical ambiguities, represent in my judgment the most promising advance yet made in this country toward assisting (without controlling or regulating) the processes of collective bargaining. They should help all responsible citizens to proceed, not only in wage bargaining but also in price determination, along lines that can and will serve best the general interest of the public as a whole. As acceptance of these principles spreads, and if their significance can actually be amplified through a succession of specific settlements, the United States will not only gain greatly in its internal affairs but will also have passed a most crucial milestone on the road toward lasting equilibrium in its balance of payments.

Meanwhile, the Government's present attack on the balance-of-payments deficit is proceeding aggressively on all other fronts. The net dollar drain for military purposes —which was reduced substantially last year—will be cut by at least a third this year. With only one third of our economic aid now flowing out on an untied basis, we are determinedly at work to reduce that fraction to one fifth (leaving the remainder to go largely to countries and purposes that are likely to result in spending here, in any case). And we are negotiating actively with various creditor countries for the further prepayment of the large debts still owed to us.

These measures and policies are all aimed at restoring balance in our basic accounts—that is, covering all of our imports, everything the Government has to spend abroad, and our net outflow of long-term investment. It was this basic deficit that reached $4.3 billion in 1959, dropped to $1.9 billion in 1960 as exports rose dramatically while imports declined and the economy went into recession, and has apparently dropped further on the strength of trade factors to about $1¼ billion in 1961 (before allowing for debt prepayment, which reduced the figure to about half of that amount, or $600 to $700 million). To continue progress in 1962, as our surging economy draws in more and more imports, will be difficult; it will require all of the vigor that the exporters of America can exert, alongside the determined governmental efforts which I have just reviewed. But the place to look for evidence that the underlying correctives are still at work will be mainly in the record of our commercial exports, that is, after deducting all exports dependent upon our own aid program. For, if these exports can continue to expand, there will be a continued and strengthened basis for that confidence of others in our capabilities which has so much to do with the movements of short-term capital in and out of the United States.

It is these short-term capital movements to which we should now turn, both in rounding out a quick view of our present balance-of-payments position and in preparing the way for some discussion of those aspects of international financial cooperation which I personally find most interesting—the various forms of payments arrangements, and the consultative facilities, which we have introduced or expanded during the past year.

The outflow of short-term capital in 1961 (including that elusive statistical aberration, the "errors and omissions") will probably prove to have been almost as large as in 1960. It looks as though it will have accounted for roughly three quarters of the total deficit in the United States balance of payments. What does this mean? Is it evidence of declining confidence in the dollar? Or, if not, does it imply possible trouble ahead? What can we learn at this stage, before the detailed data have been completed and disclosed, from an analysis of that experience?

Four characteristics of the outflow of short-term funds this past year stand out. First, they did not reflect a flight from the dollar; there was a gain, not a loss, of confidence in our determination and ability to hold the value of the dollar. That is confirmed by the shrinkage of our gold loss to one half that of 1960, as central banks added to their holdings of dollars by amounts nearly equal to their purchases of gold from us. It is further confirmed by the fact that foreign private holdings of dollars rose, perhaps by as much as three quarters of a billion dollars, whereas in 1960 they had actually fallen. What this meant was that in 1960 the entire outward flow of dollars had been unloaded upon the central banks which were engaged in supporting their own exchange parities with the dollar.

A second factor, which partly accounted for the willingness of private recipients to retain the dollars they received, was the removal of much of the interest rate advantage in moving short-term funds abroad. Short rates here were held much higher than in any previous recession-recovery period since the war. Some key rates abroad were lowered. And after giving effect to the costs of forward cover, there was from April onward no obvious advantage in shifting, so far as the customary money market instruments were concerned. But investors will be investors, and some Americans, at any rate, sought out the more unusual, perhaps I should say exotic, forms of short-term paper abroad in order to better their yields—thereby adding to our over-all balance-of-payments deficit.

Although neither confidence factors nor the more simple forms of interest rate arbitrage had much to do with our short-term outflows this year, various aspects of commercial banking operations did—these are third in my list of four characteristics. Loans for the financing of foreign trade—the most normal and healthy component of short-term capital outflows—rose sharply. The increases to Japan alone accounted for more than two fifths of the entire recorded short-term capital outflow during 1961. If the new facilities for export credit insurance serve their purpose, this kind of short-term capital outflow will probably continue, though no doubt the special needs of Japan have been nearly satiated for the present.

But there is another commercial banking component of the outflow, which also loomed large during 1961, and which seems quite different in nature. Foreign commercial banks, some of them functioning in New York through their agencies, have taken advantage of a favorable competitive position costwise to attract American deposits and in turn lend these proceeds in the call market in New York and in other ways. This shift, involving in many cases no net movement of funds out of the United States, gives rise to added short-term claims on the United States. These added claims are part of our recorded balance-of-payments deficit. But there is no offsetting credit for the claims by the original depositor on the foreign banks. Whether or not all of this is good banking, or good for banking, it has the statistical result of increasing our recorded balance-of-payments deficit.

The fourth factor to be mentioned here has worked both ways on our short-term capital movements over this past year—perhaps not accounting for any great part of the final total for the year as a whole, but going far toward explaining some of the variations we have had from quarter to quarter in our over-all short-term flows. This is the reverse influence upon us of disturbing economic or political developments abroad. In March, when the German mark and the Dutch guilder were appreciated, a wave of rumors began to spread concerning other possible currency moves. The position of the United States had just been so resolutely restated by the new Administration that this wave passed us by, and tended to center, so far as drains were concerned, upon the pound sterling. But after the British government initiated a vigorous new program in July, and borrowed $1½ billion (plus a $500 million stand-by) from the International Monetary Fund, the flows turned sharply around. Much of our rather large outflow that will soon be published for the fourth quarter of 1961, including (as already announced) a sizable part of our gold sales, is attributable directly or indirectly to the gratifying improvement shown by the British pound—the only other currency now used extensively as part of the monetary reserves of other countries.

There was, of course, another wave of unsettlement through the foreign exchange markets, that associated with the events in Berlin, triggered particularly on August 13. For a brief time this, too, sent some funds moving. But perhaps because the British position with respect to governmental action affecting the balance of payments was then somewhat comparable to ours of the spring, the greater part of any initial flows benefited the British reserves rather than our own. Fortunately, Berlin soon subsided as a factor in the exchanges, but it did play a large part in holding our net outflow of short-term capital in the third quarter to an unusually small figure.

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Both of these dramatic events—the sterling strain early in the year and the Berlin crisis of the summer—taking place within a structure of convertible currencies, gave rise to immense shifts of short-term capital. The fact that these movements were contained within orderly patterns, and their potentially disruptive influences were avoided, can and should be attributed in considerable part to the implementation during the year of several new approaches to international financial cooperation. All of these steps had been in the making since the return of convertibility at the beginning of 1959. It was no doubt the pressure for action, first stimulated by the events of last March, which brought the new arrangements more quickly and effectively into functioning form. But they had their origin in a new spirit of international cooperation, a spirit fostered by the existence of convertibility and the widening recognition of the responsibilities which its preservation imposes upon all of the leading industrial countries. There were four important kinds of innovations during 1961—innovations which helped greatly to check any cumulative speculative distortions in the structure of the world payments system.

The first of these came to be called the "Basle Agreements". The governors of the various leading European central banks attend each month in Basle the meetings of the Bank for International Settlements (meetings to which senior representatives of our own Federal Reserve System have always been invited and which, for nearly two years now, they have attended regularly). It was at such a meeting last March, when massive money flows around Europe had been set off by the German and Dutch currency revaluations, that the governors of the central banks receiving large inflows undertook to lend them back to the Bank of England, from which most of the drains were flowing. Thus the potentiality of a currency crisis was avoided and time gained for the orderly development of measures to strengthen the British balance of payments and attract a return flow of funds to the United Kingdom.

Although the United States was an active participant in many of the deliberations, it was not in a position to lend substantial amounts back to the United Kingdom because no substantial inflows here had occurred. We did have another direct and important interest, however. Virtually all of the funds withdrawn from London took the form either of gold or of dollars, apparently somewhat more of the latter. If these dollars were to remain long in the hands of central banks which normally maintained high gold ratios, or if any of the central bank holders had entertained any serious concern over the position of the dollar, the next round of consequences following the initial strain upon the British would have been a resumption of our heavy gold outflow.

In fact, the United States received a small gold inflow during the second quarter. To be sure, that mainly represented a redistribution of some of the gold which the British had already paid out. But it was also symbolic evidence that the new spirit of mutual understanding and responsibility, developed not only in the meetings at Basle but in others that I will describe in a moment, had begun to affect the actions of central banks and governments. It had become apparent to them that they, too, had an important share in maintaining the conditions of stability in the international monetary system.

It was in these circumstances that the United States Treasury began, for the first time in more than a generation, to conduct operations in foreign currencies through the good offices of its fiscal agent, the Federal Reserve Bank of New York. We began with the German mark and then the Swiss franc, the two currencies toward which the great bulk of the short-term movements of dollars had gone from the United Kingdom. As the events slip further into the background and the possibilities for speculative inference recede, we are taking steps to describe fully these and other later operations in our various official publications. For now, it is sufficient to stress that the second powerful innovation of 1961, in helping to calm potential unsettlement in the sensitive markets of a convertible world, was the active entrance of the United States into the markets for several of the other leading currencies of the Western world. It is with great anticipation that we in the Treasury now look forward to the early entry of the Federal Reserve System itself, operating for its own account, into the area of foreign exchange operations. Certainly we have already found our own operations helpful in 1961, even when operating on the very slender resources available to the United States Treasury for these purposes.

The third innovation is still not formally completed, but it was the subject of continuing negotiations from the early spring until the end of December in 1961. I am referring, of course, to the decision taken by the Executive Board of the International Monetary Fund on January 5 of this year to provide for supplemental stand-by resources of $6 billion to be loaned by ten industrial countries. This was another of the needs which became so clearly evident at the frequent discussions among the financial officials of various affected countries that began to take place in the early months of 1961. For in the new world of convertibility, uses abound for other convertible currencies; not all drawings on the International Monetary Fund, by the larger or the smaller countries, need be made in dollars. The practices of the IMF had already begun to recognize this, and its supplies of some of the other strong currencies were rapidly dwindling. Thus, where there might indeed be a general need for an over-all increase in the Fund's resources, to keep pace with the continual expansion of its useful activities, the clearest need was to replenish its supply of the newly convertible currencies of the other leading industrial countries.

As you know, proposals respecting the United States participation in these new arrangements were sent to the Congress by the President on February 1. We are hopeful that action can be completed by the necessary number of participating countries before the middle of this year. The stand-by resources are designed, particularly, for use in the event of massive movements of funds, such as those which affected the pound sterling last spring. It is significant that when the British drawing actually was made in August, in order to restore British reserves and permit them very largely to repay the central bank credits of the Basle Agreements, roughly two thirds of the initial drawings were made in currencies other than the United States dollar. The same proportion is being preserved under the stand-by arrangements.

But I said there were four main avenues of innovation and development—the first was that among the central banks; the second, our own entry into the foreign exchange markets of the world; and the third, expanded use of the International Monetary Fund. The fourth is the growing reliance which all of the leading industrial countries in Western Europe can now place upon the Organization for Economic Cooperation and Development—the OECD. At the suggestion of the United States, at the first meeting of the Economic Policy Committee of OECD held last April, two special working parties were established, one to deal with the problems of growth, the other with the monetary, financial, and balance-of-payments problems of common interest. My own involvement has been heaviest with this second group. And I can indeed affirm, despite the stresses of incessant trans-Atlantic journeys to attend meetings held at intervals of four to six weeks in Paris, that the progress achieved has already amply repaid all of our efforts.

For, at these meetings, active financial officials from the capitals of each of ten participating countries are present, full of the current problems confronting them and eager to analyze together the financial forces at work which affect the balance of payments of any or all of the participating countries. Not much can or should be said, on a current basis, concerning the work of a committee of this kind. It is a pioneering experiment; it is being conducted with the flexibility and the uninhibited freedom of inquiry that is appropriate to such an experiment. The aim is understanding, not negotiation from prepared positions, and least of all the semantic exercise of preparing communiques. But the results of 1961—not only in terms of what has occurred at the meetings, or in the parallel discussions which the meetings make possible, but also in broadening our immediate awareness of what is going on abroad as we work out our own domestic financial programs—assure great potentialities for the future of this regular, frequent, face-to-face contact for international financial consultations. They enlarge, they supplement, but they do not in any way replace or supplant, all of the other existing forms of contact and exchange through the staffs permanently assigned to the various international institutions in the economic and financial fields.

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These remarks have ranged widely over our balance of payments and the growing and related role, not only for last year and for this year but more importantly for the future, of international financial cooperation. Step by step, the fresh approaches which began at Bretton Woods in 1944, and carried us through nearly fifteen years of postwar inconvertibility, are now being reshaped for a world in which the currencies of the principal industrial countries have assured convertibility, at fixed rates of exchange.

The emerging pattern has at its center, of course, the International Monetary Fund with a membership now of seventy-five countries and resources, on hand or on call, soon hopefully to exceed the equivalent of $21 billion—distributed among all manner of currencies, both the weak and the strong. Operating within the framework of Fund practices are the central banks or treasuries of the various member countries—all of them also engaging, for their day-by-day affairs, in a network of contacts with each other, and concentrating in a thick web of interrelations among the financial institutions, both public and private, of the leading industrial countries. Somewhere in the middle stands the United States, with the largest holdings in the IMF, with some two fifths of the world's known monetary gold reserves, with $50 billion of other financial assets or resources in other countries, and with short-term liabilities of some $18 billion to foreigners (about equally divided between official and private foreign accounts), and buying and selling gold at the fixed price of $35 per ounce.

Clearly the strong performance of this country is crucial, for us and for the international monetary system. That is why the first order of priority in the Government's financial program (and in the President's own thinking and concern) has been, and continues to be, the restoration of equilibrium in our balance of payments. That is why, too, we have turned our attention so concertedly to the strengthening of the payments arrangements that can best surround the dollar, and strengthen or complement the underlying supporting role of the IMF itself, through the years ahead. For convertibility brings problems with its opportunities, and it will not be protection enough for the system as a whole to have a strong dollar and a sturdy Fund. There must be a growing set of relationships and understandings among the other leading countries which are strong enough to assume some responsibility for the defense of the system as a whole against the capricious raids of speculators or the pressures set off by threats to political or economic stability in various parts of the world.

It is with a view to these longer run requirements that the United States has moved energetically toward developing, in the living context of today's problems, an experimental approach toward various ways to spread among other currencies some portion of the burden that has for so long been borne by the dollar alone. That is the most obvious, and compelling, requirement. But beyond that, in a variety of ways, we have learned much, and have hopes that the machinery of payments arrangements will profit much, from the close working relations developed

during the past year with Germany, Switzerland, Italy, Holland, France, Sweden, and several of the other countries represented at Basle and in the OECD.

The outlines of what may emerge can barely be sketched now. But the promise lies in the high degree of understanding, and the close integration of common action, that has emerged in the face of the various tests presented by the events of 1961. The answer will not be found, I feel sure, in any drastic rewriting of the codes or procedures of international monetary behavior. It will, instead, emerge, step by step, from the kind of experimentation that has marked the evolution of joint operations in various currencies, the imaginative lending of funds among central banks and between governments, the extensive use of the resources of the International Monetary Fund, notably in support of sterling, and the introduction of facilities for new forms of frequent and intimate consultation on emerging problems and appropriate action. This is the pragmatic course from which all of our lasting banking institutions have evolved. We have much to do now in developing international arrangements to match the effectiveness, and the flexible adaptation to local conditions, that has been achieved in the domestic monetary systems of most of the leading industrial countries of the world.

The essence of all these new developments is understanding, but there must all along be an intermixture of hard negotiations and determined actions. For both, the United States is not yet adequately prepared. It is not enough for a few representatives of government to eat, sleep, and dream the balance of payments and its implications for the American economy; there must be a spreading, permeating consciousness of the balance of payments and its significance throughout the business and labor communities.

The buffeting which the United States has undergone over the last few years has led to many good results. Everyone who travels from Washington out through the country returns with a sense that the country as a whole is indeed aware of our balance-of-payments position and senses its significance. That is the essential beginning. But we will not have reached the stage in which we can, in the best, responsible democratic manner, adequately discharge our responsibilities as first among the leading countries until the typical labor leader, or the typical business executive, in this country can analyze the main lines of economic development in balance-of-payments terms in the same taken-for-granted manner that characterizes his counterpart in the other industrial countries with whom our contacts must now be so much closer, in our convertible currency world.

My observation is not meant as a complaint. For so many generations the United States has been able to live without direct concern for its external economic affairs that we have not been forced by the events of daily experience to develop the same consciousness of export markets, or of foreign trade finance, or of the effects of capital flows, that have been, equally for generations, the everyday concern of people in the European countries, whether they are in business, in finance, in trade unions, or in government.

That is why I have had the temerity today to speak so long and to try to touch upon so many aspects of our balance-of-payments position when I was given the opportunity of appearing before this captive audience of bankers. For it is among bankers as in no other single group in the country that a genuine understanding of the elements in our balance of payments has been, for a much longer period, an essential part of the stock in trade. And I think it will fall upon bankers to carry a major part of the effort toward broadening and deepening the general public knowledge of all the questions that we have been reviewing here today.