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THE INTERNATIONAL MONETARY CRISIS

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HARRY F. BYRD, JR., *Chairman*

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THE INTERNATIONAL MONETARY CRISIS

I. Introduction

Speculation against the dollar has risen to a fever pitch. The price of gold on the Paris Bourse hit $126 an ounce on May 15 and $111 in London on May 16. Currency speculation and the rush to gold may be irrational, but it is having a severe effect on the U.S. stock market and on the balance of payments. Between January 2, 1973 and May 25, the U.S. stock market dropped over 100 points. The bear market cannot be explained by the performance of the U.S. economy which was growing at the extraordinary rate of 14.3 percent in the first quarter. The degree to which market confidence is dependent upon a strong U.S. international position is reflected in the 29 point increase in the Dow-Jones industrial average on May 24 when the U.S. announced a significant improvement in its trade performance which, apparently over shadowed the news that several large banks increased their prime lending rates.

Mainly as a result of speculation against the dollar in January and February, the U.S. balance of payments deficit in the first quarter of 1973 reached the phenomenal height of $10.2 billion. As those figures were published, a new round of speculation against the dollar ensued which will undoubtedly make the second quarter's balance of payments look bad.

There appears to be a broad loss of confidence in the dollar and a rush to gold. The panic buying of gold may be viewed either as an irrational act which should be left alone, or as an attack against the American dollar which should be fought.

In response to the question: "Is there anything that the United States should or could do at the present time to calm the situation in the currency markets?", Under Secretary of the Treasury Paul Volcker recently stated: "The most fundamental thing we can do and the only thing really effective in the long run, is to deal with this inflationary problem at home and to deal with the balance of payments problem. I think we're working as hard as we can on those problems. . . . There is no financial legerdemain that I know of or sleight of hand that solves this problem unless we are dealing with those fundamentals."

Foreign holders of dollars as well as Ameicans are looking for tangible signs that the United States will get a grip on itself and "put its financial house in order." Under these circumstances, it would appear that the benign neglect philosophy in a crisis situation is more risky than a positive action program to fight the speculation.

The United States is not a helpless giant: there are measures we could take unilaterally and in concert with our allies to shore up the confidence

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in the American dollar which has been severely eroded by two devaluations in 18 months, a continuing large balance of payments deficit and attacks against the American dollar from certain countries and sources.

Thus, some of the key issues which this hearing should illuminate are:

(1) Can the United States afford to stand still and permit the gold price to hit ridiculously high levels, even if the speculation is irrational?

(2) If so, are we not going to witness a "double mirror effect" on our balance of payments—one large balance of payments deficit caused mainly by speculation will lead to a chain reaction causing other large balance of payments deficits?

(3) What are the alternatives?

(a) gold sales by the U.S.?

(b) a monetary conference?

(c) fund excess dollars by issuing long-term attractively priced securities?

(d) a special issue of IMF Special Drawing Rights?

(4) How long will it take before the two dollar devaluations bring about a significant improvement in the basic U.S. balance of payments deficit? Can we afford to wait?

(5) Where is the speculation against the dollar coming from—oil producing countries, banks, multinational corporations? Is there sufficient information on this?

(6) What will be the effect of growing dependence by western countries on Middle East oil as far as the international monetary system is concerned?

(7) What progress is being made in the long-term reform of the monetary system?

II. U.S. Balance of Payments Deficits

Unquestionably, fundamental reforms in the institutional arrangements governing monetary and trade affairs between nations are urgently needed. However, no reform will insure international monetary stability unless the balance of payments deficits of the United States come to an end. These deficits have lasted too long, have risen to extraordinary heights, and have undermined confidence, not only in the dollar but also in paper currencies generally.

The first order of business, it would appear, is for a positive program to eliminate U.S. balance of payments deficits. Two devaluations of the dollar in the past 18 months should, over a period of time, significantly improve the balance of payments position. Undoubtedly, the devaluations will increase the price of imports, help make American exports more competitive, attract foreign investment to the United States and make it more expensive to invest abroad. However, it also will increase the cost of imports which are considered inelastic, such as oil, and increase the cost of maintaining military bases and supporting operations in foreign countries. No one can say with any assurance that the two devaluations will restore equilibrium to the U.S. balance of payments and, if so, in what time frame? Given the present specu-

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lative fever, can the United States afford to wait until the devaluations have hopefully brought about the kinds of adjustment that are necessary? This is a crucial question.

There is no "scientific way" of assessing a "true value" of any currency; indeed the "true value" will change regularly, which is why some flexibility in exchange rates is needed. Psychology as well as underlying economic realities play a role in setting exchange rates, just as they do in setting stock prices. But can the currency of the largest country of the Western world, which also still serves as the world's reserve currency, be buffeted back and forth by speculators, without creating severe strains on the world's monetary and trading structure?

The dollar still serves as the world's reserve currency. That role will diminish over time through agreement, and if the United States eliminates its balance of payments deficits. The deficits have created international reserves for others. For the U.S. they are reflected in an increase in liquid liabilities to foreigners. At the end of February, 1973, liquid liabilities to all foreigners totaled $87.9 billion; liquid liabilities to foreign official agencies (mainly central banks) were $68.5 billion. Against this, the United States had reserve assets of only $12.9 billion, the gold portion of which $10.5 billion has been nonconvertible since August of 1971. (See tables 1, 2, and 3 in appendix B.)

Our liabilities to foreign official institutions constitute a significant portion of their reserve assets. The European Community held $57.3 billion in international reserves (including gold, Special Drawing Rights, reserve positions in IMF, and foreign exchange), while Japan had $16.5 billion. U.S. liquid and other liabilities to Western European official institutions totaled $40.8 billion in February and $17.9 billion to official institutions in Asia.

It is an inherently unstable situation to have a major portion of the world's international reserves held in a currency which is unstable, and not convertible. This is now the position of the United States dollar.

By history and circumstance, the dollar has been the world's currency, and that makes the United States, in effect, the world's banker. But when the creditors of a bank begin to lose confidence, they withdraw their deposits. Demand deposits of foreigners in U.S. banks have declined from $20.5 billion in 1965 to $7.8 billion in February, 1973. Foreigners have chosen to hold Treasury bills and have, in effect, financed about $31 billion of the Federal budget and balance of payments deficits since 1969 by bill purchases.

The question has arisen whether it would be useful to fund the short-term liabilities of the United States into long term assets—either in the form of attractively priced long-term security issues or special issues of the International Monetary Fund's special drawing rights (SDR's), as a short-term device to sop up excess liquidity abroad. Given the liquidity preference of foreigners this may not be feasible without at least a gold content guarantee. Is it worth it?

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Another measure which should be considered seriously is gold sales by the United States in short, quick bursts to fight the speculation against the dollar which may be as much politically motivated as it is economic. The speculators could be burned if the United States either alone, or in concert with other countries, intervened actively in the gold and foreign exchange markets to smash speculation whenever it got out of hand. Up until now, profits have been a fairly sure bet for speculators. It was clear that the deutschemark and the yen would be appreciated and the dollar devalued with the last round of speculation. Only by making speculation a losable proposition can governments effectively deal with it. Among other things flexible exchange rates are needed to increase the risk of loss in speculation.

Beating back the speculators is one thing. Ending the chronic balance of payments deficits is another. For longer term stability we need an equilibrium in our balance of payments problem. But after 20 years of deficits, equilibrium is obviously an elusive phenomenon. The devaluations should help, but we still have to examine our trade account in detail to determine where we are losing competitiveness, what might be done about it, and how to meet import competition on a sector-by-sector basis. Industry, government and labor will have to come together to develop an industrial strategy to meet foreign competition. It may not be a question of more subsidies but more effort and coordination. There are markets out there! And the two devaluations, the DISC legislation and the investment tax credit are aimed at making U.S. industries competitive in world markets.

All the other accounts will have to be examined in detail, including the government accounts. It seems ludicrous that surplus countries should not pay their fair share of the foreign exchange costs of NATO or other security arrangements. Our aid programs also appear in need of a thorough overhaul. The catch-all euphemism of "less developed countries" is not only denigrating but inaccurate.

Some "less developed countries" like Brazil, Mexico, South Korea, Taiwan, and Hong Kong have had phenomenal growth records. And, the international reserves of "less developed countries" increased from $10.9 billion in 1960 to $35.8 billion in September, 1972, presently accounting for 24 percent of the world's reserve assets compared with 18 percent in 1960. The United States had basic balance of payments deficits with less developed countries of over $2 billion in each of the years 1971 and 1972, with government to government aid programs the largest contributor. The U.S. had a trade deficit with "less developed countries" of $0.9 billion in 1972, which would be much larger if aid-financed exports were excluded. This is not to suggest "less developed countries" are undeserving of aid, but that the catchall description may be inappropriate for policy guidance.

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III. Oil and the Monetary Crisis

Some "less developed countries" have enormous raw material resources which will earn for them billions of dollars of foreign exchange reserves over the next decade. Several Arab oil producing countries will earn more money than they can usefully employ for their own development. These countries will certainly have the potential for moving billions of dollars from one money market to another for economic or political reasons.

It has been reported that Arab *governments* did *not* speculate against the dollar last January and February but took a $300 million loss on their dollar holdings, while certain rich Arab individuals, who in some cases are reputed to have more money than their governments, might have made windfall profits. But however reliable the source, this is sheer hearsay. Beyond doubt is the fact that oil producing states, and wealthy individuals within those states, have a vast potential for speculation. By the end of the year four major oil producing states in the Arabian peninsula—Saudi Arabia, Kuwait, the Union of Arab Emirates and Quatar—will have accumulated reserves—mainly dollars—of about $9 billion. It is estimated that by the 1980's the figure could surpass $100 billion.

White House energy specialist James E. Akins estimated in a recent issue of Foreign Affairs the cumulative income of the Arab OPEC countries from 1973 through 1980 at over $210 billion. Assuming a 20 percent compounded growth in their expenditures for the same period, Arab budgetary expenditures would total less than $100 billion, leaving a balance of unspent reserves of over $100 billion by 1980. "What will be done with this money will be a matter of crucial importance to the world." writes Akins. "The first place for its use must certainly be in their own countries; the second must be the Arab world, which will not, as a whole, be capital-rich." [1] The fact is, no one really knows how they will spend their money, or whether they will have so much they will stop or slow down oil production from time to time. In a recent meeting in Kuwait it was suggested that Arabs float their riches from country to country, depending on how each country reacts to Arab problems.

The budgets of many of these states will be in substantial surplus because of the energy needs of the western consuming nations and the rising price of oil. For example, this year the Saudis are unlikely to be able to spend more than 60 percent of their $3.2 billion budget. By 1980, the Saudi monetary reserve position is estimated to be close to $50 billion. The same basic situation exists with respect to Kuwait, Ahu Dhabi and Quatar. The following table presents a range of estimates on projected monetary reserves. They might be conservative as the higher figure represents maximum projected production levels at a price tag (tax plus royalties) of $3.50 a barrel, which may well be too low.

[1] James E. Akins, "The Oil Crisis: This Time The Wolf Is Here" *Foreign Affairs*, April, 1973, p. 481.

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PROJECTED STATE MONETARY RESERVES OF THE FOUR MAJOR PRODUCING STATES OF THE ARABIAN PENINSULA

	Billions of dollars	
	1973	1980
Saudi Arabia	5.00	30.0–75.0+
Kuwait	3.50	7.0–10.0+
Abu Dhabi	0.27	5.0– 8.0+
Quatar	0.46	2.0– 2.5+
Totals	9.23	44.0–95.5

The lower figure for 1980 represents the minimum projected production levels sold at the price scales laid down by the 1971 Teheran agreement. The higher figure represents the maximum projected production levels at a price tag (tax plus royalties) of $3.50 a barrel.

Mr. Akins' estimates of oil production and revenues in a large group of Middle East and North African countries are shown on the next page for 1975 and 1980. These data are based on taxes and royalties in effect prior to the dollar devaluation in February, 1973. If the 1972 Geneva agreements on currency revaluation apply, the income figures should be increased by 8.5 percent. The revenue figures are annual and do not represent the cumulative income, which, as stated, Mr. Akins estimates at $210 billion between 1973 and 1980.

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ESTIMATED PRODUCTION AND REVENUE, 1975 AND 1980

[Stated in thousands of barrels per day; billions of dollars annually]

	Production		Revenue	
	1975	1980	1975	1980
Middle East:				
Iran	7,300	10,000	4.7	12.8
Saudi Arabia	8,500	20,000	5.4	25.6
Kuwait	3,500	4,000	2.2	5.0
Iraq	1,900	5,000	1.2	6.4
Abu Dhabi	2,300	4,000	1.5	5.0
Other Persian Gulf	1,800	2,000	1.0	3.2
Subtotal	25,300	45,000	16.0	58.0
North Africa:				
Libya	2,200	2,000	2.0	3.1
Algeria	1,200	1,500	1.1	2.3
Subtotal	3,400	3,500	3.1	5.4
Total	28,700	48,500	19.1	63.4

Source: James Akins, op. cit. pp. 479–480.

The Arab governments profess their interest in contributing to international monetary stability. A prominent Kuwaiti banker recently stated:

"*It is not in our inteiests to have currency crises. We know we cannot live without the iest of the world. But we are not going to accept any monetary solution that is short of partnership.*" [2]

The Committee of Twenty, an IMF group established to work out the reform of the international monetary system, has only one Arab member. The Arab States feel they are under-represented.

[2] The Economist, May 5, 1973, p. 39.

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A key figure in the world petroleum scene is Saudi Arabian Petroleum Minister Sheikh Almad Zaki Yamani, one of his country's most influential leaders. Sheikh Yamani has suggested that Saudi Arabia, by far the world's largest oil reservoir, may be willing to increase production to 20 million barrels a day by 1980 (from 7.2 million today) *but only if the United States creates "the right political atmosphere."* However, he has also stated that Saudi Arabia is already getting more money from oil than its small economy can absorb. *"If we consider only local interests," he said, "then we shouldn't produce more, maybe even less."* [3]

Oil as a weapon

What it all adds up to is that there is a sellers market for oil and, at this time in history, oil producing states are in a very strong bargaining position with the West, whose dependency on Middle East oil is growing daily. There have already been limited export boycotts. If the West is concerned about the extent of Arab oil producing states with respect to how they will use their money, it is understandable in the light of vitriolic anti-American press which keeps talking about using *"oil as a weapon"* in the battle against imperialism. Several Arab leaders have expressed their view. Kuwaiti ruler Shaykh Sabah as-Salim as Sabah has declared that *"his country will use oil as an effective weapon in the battle when the zero hour comes."* Cairo newspaper Al-Jumhuryah recently called for *"using the huge Arab funds deposited in European and U.S. banks as an effective weapon in the battle of the Arab destiny."* The use of these deposits, it said, "would be as effective as the oil weapon."

The United States has a number of policy dilemmas it must face up to in this area, which are not a proper subject of this paper. But the key point is that unless cooperative solutions are found reasonably soon with respect to the reform of the international monetary system and to the Middle East boiling pot, the United States and the Western world may not only find themselves with an energy shortage, but with continuous monetary crises.

Before discussing the postwar evolution of the monetary system it appears useful to review some of the lessons of history which are quite relevant to the present situation.

IV. The Lessons of History

In the system as it has evolved, gold has become a pillar of stability and faith in the dollar is on the wane. There are some voices who would have us return to a gold standard. This is unfortunate as the "disciplines" of the gold standard could never be appreciated by the workingman who must undergo most of the disciplining. Historically, gold has been used as money, either for trading purposes or as a reserve asset. The United States wants to move away from gold as the core of the international monetary system based on reserves and par values. But it is extremely difficult to convince

[3] Washington Post, April 19, 1973, p. 25.

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creditors that another structure should be built based on managed currencies or SDR's, when the "managers" are mismanaging.

Some foreign countries, such as France, are insisting that the United States restore convertibility into gold before beginning serious trade negotiations. They perhaps do not appreciate that "disciplining" the United States by gold purchases is unacceptable to the American people if it means growing unemployment. There is no magic alchemy in gold. Under the gold standard as it existed before 1914, countries in deficit were forced to deflate, while surplus countries were not under the same compulsion to inflate. It was a brutal way to achieve international balance.

Disquieting Similarities.—In a widely discussed commencement address at Columbia University on June 1, 1965, The Honorable William McChesney Martin, then Chairman of the Board of Governors of the Federal Reserve System, spoke of "disquieting similarities" between today's monetary crisis and those of the twenties and thirties. The entire speech is worth rereading and is reprinted as Appendix A.

Viewing the twenties from today's vantage point, one can see that drastic measures would have had to be taken to avert disaster. At the time, this was not evident to anyone. In the buoyant twenties depressions were considered a thing of the past. Speculation was rampant. Surplus countries (at that time the United States was in surplus) did not allow the expansion of income and prices but pursued a monetary restraint program and tariff increases which caused gold to pour in. The payments surplus countries, mainly the United States and France, tended to hoard gold and forced severe adjustments on countries like England where unemployment ranged from 10 to 17 percent throughout the twenties. In France, gold was largely sterilized in the Central Bank, and in the United States credit expansion was restrained by the Federal Reserve maintenance of a level of gold reserves approximately twice the legal limit.

Today, the U.S. balance of payments crisis revolves around the growth of short-term liabilities relative to U.S. gold reserves. The immediate problem is how to get rid of the overhang of indebtedness. In the critical early thirties, European central banks were holding, as today, large balances of foreign exchange which had accumulated over a considerable period. The total of short-term international indebtedness had reached about $10 billion by the end of 1930. But under the impact of the depression, sweeping withdrawals of short-term credits put terrific pressure upon the central banks. There was no IMF upon which central banks could fall back upon for credit. Large holders of foreign exchange were converting their balances into gold. Central banks sought emergency credits from the Bank for International Settlements (BIS). Although its resources were insufficient, certain credits were arranged with a gold-exchange guarantee.

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1931 was a fateful year in the history of international finances. In May of that year, the Austrian Credit-Anstalt collapsed. In June President Hoover called for a one-year moratorium on intergovernmental debt payments. In July an international conference was called which met in London, but the acute financial crisis could not be stayed. In September, 1931, sterling fell and this led almost immediately to the suspension of gold. By the end of 1931, sixteen countries had either abandoned gold or introduced rigorous exchange controls. Foreign exchange was allocated for the necessary imports of raw materials and import quotas were imposed on specific goods. Countries made bilateral clearing arrangements to help balance trade between two countries.

Private hoarding of gold became widespread. Central banks also intensified their hoardings. In the first six months of 1932, European central banks converted $700 million of their dollar holdings into gold. The third Annual Report of the BIS in 1933 said:

> "*Central banks should combat any conception that gold is properly employable as a store of wealth, or that its primary object is to assure internal convertibility of notes so that all who will may hoard gold coin on demand, to the detriment of the public good and the general economic welfare.*"

That statement would fit perfectly in an annual report of the International Monetary Fund for 1973.

Foreign exchange holdings declined drastically after the fall of sterling. In 1929–30 aggregate official foreign exchange holdings amounted to about $11 billion. By the end of 1932, they had dwindled to about $1 billion, while the aggregate gold stock was nearly $12 billion.

By the end of 1931, only eight countries were still on the gold standard, ten were operating on a controlled flexible exchange rate basis and the rest introduced exchange controls.

The United States abandoned gold in April, 1933, but under the Gold Reserve Act of 1934, the dollar was again linked to gold and devalued. In July, 1933, the "gold bloc" was formed with six countries—France, Belgium, Holland, Italy, Poland and Switzerland—declaring firm adherence to the gold standard. The world was then fragmented into blocs. The players were different then, but the effect was the same. Shortly thereafter, the British Commonwealth countries issued a declaration calling for international action to reduce interest rates, undertake capital expenditures and raise wholesale prices.

In July, 1933, the famous London Monetary and Economic Conference was held with 64 countries represented. The Conference report contained five resolutions calling for:

(1) Currency stabilization;

(2) Gold to be re-established as *the* means of exchange value;

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(3) Economy of gold by keeping gold out of circulation and reducing gold minimum ratios to 25 percent;

(4) Central banks collaboration, and

(5) International cooperation to stabilize cyclical fluctuations.

Should a monetary conference be held in 1973, one would expect points, (1), (2), and (5) to be agreeable to the United States and most other countries with an emphasis on a reduced role of gold, and paper currency reserves and increased use of SDR's and IMF credit facilities. But the London Conference did not end the crisis nor did it end the "blocism" that had developed.

The gold bloc countries suffered gold losses intermittently beginning in 1933, and by 1936 they devalued. The French devaluation was welcomed by the United States and the United Kingdom and both countries agreed beforehand that they would take no countermeasures. The three countries declared they would support the exchanges so as to forestall any speculative short-term capital flows. The other countries joined this tripartite monetary agreement and, six countries (France, the United States, United Kingdom, Belgium, Holland and Switzerland) cooperated to support the new rate structure. This close collaboration in monetary policy represents a highly significant development, but not all the players joined.

Germany became the leading proponent of bilateral bargaining and clearing agreements. The "Schachtian bilateral system," named after the German Finance Minister Dr. H. Schacht was aimed at achieving balance. However, it led to a most complicated system of exchange controls. Germany's economy however grew stronger while its neighbors, still laboring under the discipline of the gold exchange standard, continued to stagnate in depression.

Lessons from the Thirties.—During the thirties, countries were basically in retreat. They were attempting to protect their gold holdings by various restrictive devices. They were distrustful of foreign exchange, and attempted to get out from under their short-term liabilities. Surplus countries protected their surpluses while deficit countries, fighting deficits and inflation, failed to inflate their economies through expansionary-measures. The result as we all know was economic misery on a world-wide scale.

History should not repeat itself. There is a commitment to full employment and a knowledge of how to get the economies off dead center. The more difficult problem appears to be controlling inflationary pressures in advanced countries and achieving steady, even growth. The danger of severe recession or depression appears remote for the United States, but less remote for countries who depend more heavily on foreign trade in an environment in which currencies are gyrating. It was this latter concern which motivated the founding fathers of Bretton Woods to opt for a fixed exchange rate system.

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V. The Post-War Monetary System

Fixed exchange rates provide certainty and stability so that international traders and investors will know in advance just what a transaction will be worth. However, there are serious disadvantages in such a system which will be discussed.

Bretton Woods System.—The international monetary system which evolved after the Bretton Woods Conference in 1944, was essentially a par value, reserve oriented system, with the dollar playing a crucial role as the center of the system. The main features of the system were:

(1) Fixed par values, adjustable only when absolutely necessary or forced by speculation;

(2) The use of currencies, particularly the dollar as reserve assets;

(3) Convertibility of official dollar holdings into gold.

Gold was the common denominator of all currencies, although they were directly tied to the U.S. dollar.

There was a bias in the Bretton Woods system against letting the exchange rates adjust in small but frequent quantities. Deficit countries were faced with an inordinate degree of responsibility to eliminate deficits while surplus countries were under no such compulsion. The United States dollar was so central to the system that this country felt a moral obligation not to devalue the dollar. Thus, we were put in the intolerable dilemma of having to correct a balance of payments deficit without devaluing the dollar or deflating the economy, while maintaining a "leadership" position in world affairs. Adjustment was a one-sided affair. Treasury Secretary Shultz said in his September, 1972, IMF speech:

> "*Resistance of surplus countries to loss of their surpluses defeats the objective of monetary order as surely as failure of deficit countries to attack the sources of their deficits. Any effort to develop a balanced and equitable monetary system must recognize that simple fact: effective and symmetrical incentives for adjustment are essential to a lasting system.*"

The President's International Economic Report of March, 1973, pointed out that:

> "*One of the ironies of the Bretton Woods system is that the exchange rigidities which were built into the system to avoid the political and economic problems encountered in the postwar period created political and economic problems of their own.*"

Domestic deflationary policies for balance of payments reasons, and a loss of competitiveness in industries in countries maintaining an overvalued currency, were among the serious economic and political problems resulting from the biases of the Bretton Woods system.

New Economic Program.—The rules of the game under the Bretton Woods system were changed when President Nixon announced his New Economic Program on August 15, 1971.

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The President's program had two interrelated objectives in mind: (1) to correct the overvaluation of the dollar to reestablish the competitiveness of U.S. products in world markets, and (2) to reform the international monetary system to ease the continuing burdens on the United States and to serve better the economic needs of the entire world.

In order to obtain these objectives, the President:

(1) Suspended the convertibility of the dollar into gold, special drawing rights, or other reserve assets and allowed the dollar to "float" in exchange markets;

(2) Imposed a 10 percent import surcharge on all dutiable imports;

(3) Excluded foreign capital equipment from the proposed tax credit for investment;

(4) Proposed the Domestic International Sales Corporation (DISC) to stimulate U.S. exports;

(5) Asked Congress to reduce foreign aid appropriations by 10 percent.

VI. Reform of the International Monetary System

Since August 15, 1971, we have had two official dollar devaluations, currencies are still floating and dollar-gold convertibility remains "suspended."

The world is now on a floating dollar standard. Currencies are still tied to the dollar but in a more flexible way.

The key issue now is "where do we go from here"? At present there are no internationally-agreed upon ground rules. The Group of Twenty experts are trying to establish a new framework. Clearly we cannot return to the Bretton Woods system. As a practical matter we probably could not maintain rigidly fixed exchange rates even if we wanted to, with all the speculative capital crossing national frontiers. It has been estimated that multinational corporations hold many billions of short-term dollar assets, as do foreign branches of U.S. banks. The Arab oil producing countries, as noted, are also large dollar holders and are capable of triggering off massive speculation.

In a very real sense the international monetary system (and the trading system) is at a critical juncture. There are, as previously stated, no agreed-upon rules governing the world's finances. There is no longer a dominating central power keeping the system afloat. Confidence, that precious commodity that can only be achieved through proven performance, is lacking. The performance of major countries in the system does not engender confidence.

Restoring Confidence.—It would appear that the first priority for monetary authorities is to act boldly and decisively to restore confidence in paper currencies. An agreement by major countries to commit themselves to eliminate entrenched deficits and surpluses may be called for. Cooperative measures to intervene in the exchange markets and to fight gold speculators may also be helpful. Controlling and attacking the underlying causes of

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domestic inflation is obviously of paramount importance in restoring confidence in a nation's ability to discipline itself. In that respect, the United States seems to be going downhill in 1973 as the wholesale price index in the first quarter increased by the phenomenal annual rate of 21.1 percent!

Governments must also commit themselves to long-term reform of the international monetary system. More flexibility in the exchange rates between currencies and a gradual increase in the role of Special Drawing Rights are key ingredients as well as reformed trading rules to assist in the balance of payments adjustment process are needed. Surplus countries must surely recognize that persistent surpluses will certainly contribute to a collapse of the monetary system as will persistent deficits. It is in their self interest to avoid this by unilateral liberalization of imports if necessary. A trade negotiation cannot be divorced from the goals of the monetary system.

If the United States succeeds in eliminating its chronic balance of payments deficits confidence in the dollar will improve as will the prospect for lasting reform in the monetary system. In the meantime, however, some funding of short-term U.S. liquid liabilities may be in order.

There is a general consensus among private experts on the broad outlines of international monetary reform. The impasse appears to exist at the government level. The U.S. has made a proposal (See Appendix C). Europe however appears to be concentrating on its own "monetary union" and Japan on trade and investment issues. There is a possibility that all major economic issues—trade, investment and monetary—may be combined in a major negotiation. Such a negotiation may prove unwieldy at best unless the three major world centers—the U.S., the European Community, and Japan agree beforehand on general principles.

Principles of a New International Monetary Order: The Economist's View.— Private experts from these countries met in Washington to consider long-range issues. The report [4] suggested the following guidelines:

A reconstruction of the system should provide for adjustments in par values in smaller and more frequent steps and in accordance with agreed rules. These rules, whatever form they take, should bear equally on surplus countries in upvaluing their currency and on deficit countries in devaluing theirs. The rules should be framed so as to make clear beyond all doubt that the level of employment—that is, the number of jobs available—must be governed by domestic economic policy and not by the manipulation of exchange rates.

The reconstructed system would provide for a resumption of convertibility of the dollar and would deal with the problem of the existing overhang of dollars. If this were not done, there could be no guarantee that exchange rate adjustments could take place in small steps. Par values would be established in terms of IMF units, no matter how convertibility of the dollar and other currencies was assured.

[4] *Reshaping the International Economic Order:* A tripartite Report by twelve economists from North America, the European Community and Japan, Washington, The Brookings Institution, 1972.

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Provision should be made for the funding of the existing holdings of reserve currencies, including sterling. There are several ways in which this could be done, all of them involving exchange for claims against the IMF or reserve positions with the Fund. There might, for example, be a fresh issue of SDRs to the depositors of reserve currencies with the Fund. Another method would be an exchange into deposit liabilities with the Fund. Under this arrangement, the deposits of dollars by the monetary authorities would create deposit liabilities of the Fund expressed in IMF units. The Fund would exchange the received liquid dollars into long-term obligations of the United States, also expressed in Fund units. The deposits with the Fund would carry interest at a rate similar to that provided for the SDRs (which, however, might be increased above the present 1.5 percent a year), and the U.S. obligations held by the Fund would carry interest close to the current market rate.

One further question to be decided is whether conversion should be voluntary or mandatory. It may be preferable to remove the dollars with one clean sweep; on the other hand, freedom of choice is not a bad principle if it can be upheld without danger. But any dollars from existing official balances that are not funded when the opportunity is offered may have to remain inconvertible and without exchange-value guarantee.

For the appropriate degree of flexibility of exchange rates, a variety of techniques may be used. The main principle is that exchange rates are matters of international concern, and that such concern may relate not only to proposed changes in par values but also to failures of countries to make adjustments when they may be internationally helpful. This implies that the initiative for adjustments of par values may sometimes have to come from trading partners and from international organizations and that there should be a presumption of slow and orderly change rather than of prolonged rigidity.

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APPENDIX A

DOES MONETARY HISTORY REPEAT ITSELF?

Address of Wm. McC. Martin, Jr.,
Chairman, Board of Governors of the Federal Reserve System,

Before the

Commencement Day Luncheon
of the Alumni Federation of Columbia University

June 1, 1965

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DOES MONETARY HISTORY REPEAT ITSELF?

Address of Wm. McC. Martin, Jr., Chairman, Board of Governors of the Federal Reserve System

When economic prospects are at their brightest, the dangers of complacency and recklessness are greatest. As our prosperity proceeds on its record-breaking path, it behooves every one of us to scan the horizon of our national and international economy for danger signals so as to be ready for any storm.

Some eminent observers have recently compared the present with the period preceding the breakdown of the interwar economy, and have warned us of the threats of another Great Depression. We should take these warnings seriously enough to inquire into their merits and to try to profit in the future from the lessons of the past.

And indeed, we find disquieting similarities between our present prosperity and the fabulous twenties.

Then, as now, there had been virtually uninterrupted progress for seven years. And if we disregard some relatively short though severe fluctuations, expansion had been underway for more than a generation—the two longest stretches of that kind since the advent of the industrial age; and each period had been distorted in its passage by an inflationary war and postwar boom.

Then, as now, prosperity had been concentrated in the fully developed countries, and within most of these countries, in the industrialized sectors of the economy.

Then, as now, there was a large increase in private domestic debt; in fact, the expansion in consumer debt arising out of both residential mortgages and installment purchases has recently been much faster than in the twenties.

Then, as now, the supply of money and bank credit and the turnover of demand deposits had been continuously growing; and while in the late twenties this growth had occurred with little overall change in gold reserves, this time monetary expansion has been superimposed upon a dwindling gold reserve.

Then, as now, the Federal Reserve had been accused of lack of flexibility in its monetary policy: of insufficient ease in times of economic weakness and of insufficient firmness in times of economic strength.

Then, as now, the world had recovered from the wartime disruption of international trade and finance, and convertibility of the major world currencies at fixed par values had been restored for a number of years.

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Then, as now, international indebtedness had risen as fast as domestic debt; recently, in fact, American bank credits to foreigners and foreign holdings of short-term dollar assets have increased faster than in the closing years of the earlier period.

Then, as now, the payments position of the main reserve center—Britain then and the United States now—was uneasy, to say the least; but again, our recent cumulative payments deficits have far exceeded Britain's deficits of the late twenties.

Then, as now, some countries had large and persistent payments surpluses and used their net receipts to increase their short-term reserves rather than to invest in foreign countries.

Then, as now, the most important surplus country, France, had just decided to convert its official holdings of foreign exchange into gold, regardless of the effects of its actions on international liquidity.

Then, as now, there were serious doubts about the appropriate levels of some existing exchange rate relationships, leading periodically to speculative movements of volatile short-term funds.

And most importantly, then as now, many government officials, scholars, and businessmen were convinced that a new economic era had opened, an era in which business fluctuations had become a thing of the past, in which poverty was about to be abolished, and in which perennial economic progress and expansion were assured.

If some of these likenesses seem menacing, we may take comfort in important differences between the present and the interwar situation.

The distribution of our national income now shows less disparity than in the earlier period; in particular, personal incomes, and especially wages and salaries, have kept pace with corporate profits, and this has reduced the danger of investment expanding in excess of consumption needs.

Perhaps related to that better balance, the increase in stock market credit now has been much smaller.

Instead of a gradual decline in wholesale prices and stability in consumer prices, there has now been stability in wholesale prices though consumer prices have been creeping up.

The worst defects in the structure of commercial and investment banking and of business seem to have been corrected—although we are time and again reminded of our failure to eliminate all abuses.

The potentialities of monetary and fiscal policies are, we hope, better understood—although the rise in government expenditures even in times of advancing prosperity threatens to make it difficult to be still more expansionary should a serious decline in private business activity require it.

In spite of the rise in the international flow of public and private credit and investment, business abroad appears in general to be less dependent upon American funds. The recent restraint on the outflow of U.S. capital has had little effect on business activity abroad, in contrast to the paralyzing effect of the cessation of U.S. capital outflows in the late twenties.

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While the cold war makes for sources of friction absent in the twenties, we are no longer suffering from the cancer of reparations and war debts.

We have learned the lessons taught by the failure of trade and exchange restrictions, and of beggar-my-neighbor policies in general, although the temptation to backslide is ever present.

We have become aware of our responsibility for helping those less developed countries that seem willing and able to develop their economies—although the poor countries still are not becoming rich as fast as the rich countries are becoming richer.

The International Monetary Fund has proved to be a valuable aid to a better working of the international payments system.

A network of international, regional, and bilateral institutions and arrangements has reduced the danger of lack of international financial communication.

And finally, the experience of the twenties has strengthened the resolution of all responsible leaders, businessmen and statesmen alike, never again to permit a repetition of the disasters of the Great Depression.

But while the spirit is willing, the flesh, in the form of concrete policies, has remained weak. With the best intentions, some experts seem resolved to ignore the lessons of the past.

Economic and political scientists still argue about the factors that converted a stock-exchange crash into the worst depression in our history. But on one point they are agreed: the disastrous impact of the destruction of the international payments system that followed the British decision to devalue sterling in September 1931. At that time, sterling was the kingpin of the world payments system, exactly as the dollar is today. While changes in the par values of other peripheral currencies affected mainly or solely the devaluing countries themselves, the fate of sterling shook the entire world.

This is not wisdom of hindsight. Only a few weeks before the fateful decision was taken, the most eminent economist of the day stated that "for a country in the special circumstances of Great Britain the disadvantages (of devaluation) would greatly outweigh the advantages" and he concurred with his colleagues in rejecting the idea. His name was John Maynard Keynes.

And soon afterwards, another great British economist, Lionel Robbins, declared that "no really impartial observer of world events can do other than regard the abandonment of the Gold Standard by Great Britain as a catastrophe of the first order of magnitude." This was long before the final consequences of that step had become apparent—the political weakening of the West which followed its economic breakdown and which contributed to the success of the Nazi revolution in Germany, and thus eventually to the outbreak of the Second World War and to the emergence of Communism as an imminent threat to world order.

As if neither Keynes, the founder of the anti-classical school of economics, nor Robbins, the leader of the neo-classical school, ever had spoken,

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some Keynesian and neo-classicist economists—fortunately with little support at home but with encouragement from a few foreign observers—are urging us to follow the British example of 1931 and to act once more in a way that would destroy a payments system based on the fixed gold value of the world's leading currency. In doing so, they not only show that they have not learned from monetary history; they also impute to our generation even less wisdom than was shown in the interwar period.

The British Government in 1931, and the U.S. Administration in 1933, can rightly be accused of underestimating the adverse international effects of the devaluation of the pound and the dollar. But at least they had some plausible domestic grounds for their actions. They were confronted with a degree of unemployment that has hardly ever been experienced either before or after. They were confronted with disastrously falling prices, which made all fixed-interest obligations an intolerable burden on domestic and international commerce. They were confronted with a decline in international liquidity, which seemed to make recovery impossible.

Neither Keynes nor Robbins have denied that, from a purely domestic point of view, there was some sense in devaluation. In the United States of 1933, one worker out of four was unemployed; industrial production was little more than half of normal; farm prices had fallen to less than half of their 1929 level; exports and imports stood at one-third of their 1929 value; capital issues had practically ceased. In such a situation, any remedy, however questionable, seemed better than inaction.

In the Britain of 1931, things were not quite as bleak as in the United States of 1933; but fundamentally, the economic problems were similar. Ever since 1925, the British economy had failed to grow, and by 1931, one out of five workers had become unemployed, exports—far more important for the British economy than for our own—had declined by nearly one-half, and most observers believed that over-valuation of the British pound was largely responsible for all these ills. Can anybody in good faith find any similarity between our position of today and our position of 1933, or even the British position of 1931?

In 1931 and 1933, an increase in the price of gold was recommended in order to raise commodity prices. Today, a gold price increase is recom-. mended as a means to provide the monetary support for world price stability In 1931 and 1933, an increase in the price of gold was recommended in order to combat deflation; today it is recommended in effect as a means to combat inflation. In 1931 and 1933, an increase in the price of gold was recommended as a desperate cure for national ills regardless of its disintegrating effect on world commerce; today it is recommended as a means to improve integration of international trade and finance. Can there be worse confusion?

True, most advocates of an increase in the price of gold today would prefer action by some international agency or conference to unilateral action

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of individual countries. But no international agency or conference could prevent gold hoarders from getting windfall profits; could prevent those who hold a devalued currency from suffering corresponding losses; could prevent central banks from feeling defrauded if they had trusted in the repeated declarations of the President of the United States and of the spokesmen of U.S. monetary authorities and kept their reserves in dollars rather than in gold. To this day, the French, Belgian, and Netherlands central banks have not forgotten that the 1931 devaluation of sterling wiped out their capital; and much of the antagonism of those countries against the use of the dollar as an international reserve asset should be traced to the experience of 1931 rather than to anti-American feelings or mere adherence to outdated monetary theories.

But most importantly, no international agency or conference could prevent a sudden large increase in the gold price from having inflationary consequences for those countries that hoarded gold, and deflationary consequences for those that did not. And the gold holding countries are precisely those whose economies are least in need of an inflationary stimulus since they are most prosperous—not prosperous because they are holding gold, but holding gold because they are prosperous; in contrast, those that do not hold gold are most in need of further expansion. Hence the inflationary and deflationary effects of an increase in the price of gold would be most inequitably and most uneconomically distributed among nations.

If we were to accept another sort of advice given by some experts, we might repeat not the mistakes of 1931–33 but those of earlier years. We are told that a repetition of the disaster of the Great Depression could be averted only, or at least best, by returning to the principles of the so-called classical gold standard. Not only should all settlements in international transactions between central banks be made in gold; but also the domestic monetary policy of central banks should be oriented exclusively to the payments balance, which means to changes in gold reserves. Whenever gold flows out, monetary policy should be tightened; whenever it flows in, it should be eased.

This is not the place to discuss whether this pure form of gold standard theory has ever been translated into practice. I doubt that any central bank has ever completely neglected domestic considerations in its monetary policy. And conversely, we do not need to adhere to an idealized version of the gold standard in order to agree that considerations of international payments balance need to play a large role in monetary policy decisions. But even strict adherence to gold standard principles would not guarantee international payments equilibrium. As a great American economist, John H. Williams, put it in 1937:

> "For capital movements, the gold standard is not a reliable corrective mechanism. . . . With capital the most volatile item in the balance of payments, it is apt to dominate and to nullify any corrective effects

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which might otherwise result from the gold standard process of adjustment. . . . It is surely not a coincidence that most booms and depressions, in the nineteenth century as well as in the twentieth, had international capital movements as one of their most prominent features."

Even countries that advocate a return to gold standard practices do not practice what they preach. Gold reserves of some Continental European countries have been rising strongly and continuously for many years, and according to the rules, these countries should follow a clearly expansionary policy. But in order to offset inflationary pressures, they have done exactly the opposite—and who is there to blame a country that wishes to assure domestic financial stability even at the expense of endangering equilibrium in international payments?

But obviously, if we permit one country to violate the rules of the gold standard in order to avert domestic inflation, we must also permit another country to violate those rules in order to avert domestic deflation and unemployment. In other words, we must agree that a country may be justified in avoiding or at least modifying a tightening of monetary policy even though its gold reserves are declining, if otherwise it were to risk precipitating or magnifying a business recession.

True, this deviation from gold-standard rules could be carried too far. Domestic developments might be taken as a pretext to avoid an unpopular monetary move, although the payments situation would seem to demand it and although the action would be unlikely to be damaging to the domestic economy. But the possibility of abuse and error is inherent in all human decision, and just as no sane observer would ascribe infallibility to the decisions of central bankers, neither should he ascribe infallibility to a set of rules. Few experts today would want to argue that it was right for the German Reichsbank in 1931, in the middle of the greatest depression that ever hit Germany, to follow the gold standard rules by raising its discount rate to 7 percent merely in order to stem an outflow of gold; or that it was right for our own Federal Reserve to take similar restrictive action for the same reason, in the fall of 1931.

And just as the success of monetary policy cannot be guaranteed by an abdication of discretion in favor of preconceived gold-standard rules, it cannot be guaranteed by following the advice of those who would shift the focus of policy from national agencies to an international institution. Surely, international cooperation should be encouraged and improved whenever possible. And the functions of the International Monetary Fund might well be enlarged so as to reinforce its ability to act as an international lender of last resort and as an arbiter of international good behavior.

But no institutional change can exclude the possibility of conflicts between national and international interests in specific circumstances. Moreover, there is no reason to believe that such conflicts would necessarily be resolved more wisely, more speedily, and with less rancor and dissent if they were

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fought out in the governing body of some supra-national bank of issue rather than by discussion and negotiation among national authorities.

It is true that such discussion and negotiation may prove fruitless and that inconsistent decisions may be taken on the national level. But similarly, lack of consensus within a supra-national agency may result in a paralysis of its functions, and the effects of such paralysis could well be worse than those of inconsistent national actions.

If then we doubt the wisdom of the three most fashionable recent proposals—to increase the dollar price of gold, to return to pure gold-standard principles, or to delegate monetary policy to an international agency—what should be our position? And what is the outlook for solving present and future difficulties in international monetary relations, and thus for avoiding a repetition of the disasters of 1929–33?

In my judgment, it is less fruitful to look for institutional changes or for a semi-automatic mechanism that would guarantee perennial prosperity than to draw from interwar experience some simple lessons that could save us from repeating our worst mistakes.

First, most observers agree that to a large extent the disaster of 1929–33 was a consequence of maladjustments born of the boom of the twenties. Hence, we must continuously be on the alert to prevent a recurrence of maladjustments—even at the risk of being falsely accused of failing to realize the benefits of unbounded expansion. Actually, those of us who warn against speculative and inflationary dangers should return the charge: our common goals of maximum production, employment, and purchasing power can be realized only if we are willing and able to prevent orderly expansion from turning into disorderly boom.

Second, most observers agree that the severity of the Great Depression was largely due to the absence of prompt antirecession measures. In part, the necessary tools for this were not then available nor were their potentialities fully understood. Today it is easy to understand where observers went wrong 35 years ago. But it is less easy to avoid a repetition of the same mistake; we always prefer to believe what we want to be true rather than what we should know to be true. Here again, we need most of all eternal vigilance. But we must also be ready to admit errors in past judgments and forecasts, and have the courage to express dissenting even though unpopular views, and to advocate necessary remedies.

Third, and most importantly, most observers agree that the severity of the Great Depression was due largely to the lack of understanding of the international implications of national events and policies. Even today, we are more apt to judge and condemn the worldwide implications of nationalistic actions taken by others than to apply the same criteria to our own decisions.

Recognition of the close ties among the individual economies of the free world leads to recognition of the need to maintain freedom of international

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commerce. This means not only that we must avoid the direct controls of trade and exchange that were characteristic of the time of the Great Depression. It means also that we must avoid any impairment of the value and status of the dollar, which today acts—just as sterling did until its devaluation in 1931—as a universal means of international payment between central banks as well as among individual merchants, bankers, and investors.

If the dollar is to continue to play its role in international commerce, world confidence in its stability must be fully maintained; the world must be convinced that we are resolved to eliminate the long-persistent deficit in our balance of international payments. The measures taken in accordance with the President's program of February 10, 1965, have so far been highly successful. But some of these measures are of a temporary character, and these include the efforts of the financial community to restrain voluntarily the expansion of credit to foreigners. We should not permit the initial success of these efforts to blind us against the need for permanent cure.

Some observers believe that our responsibility for maintaining the international function of the dollar puts an intolerably heavy burden on our monetary policy; that this responsibility prevents us from taking monetary measures which might be considered appropriate for solving domestic problems. I happen to disagree with that view. I believe that the interests of our national economy are in harmony with those of the international community. A stable dollar is indeed the keystone of international trade and finance; but it is also, in my judgment, the keystone of economic growth and prosperity at home.

Yet even if I were wrong in this judgment, and if indeed an occasion arose when we could preserve the international role of the dollar only at the expense of modifying our favored domestic policies—even then we would need to pay attention to the international repercussions of our actions. We must consider these international effects not because of devotion to the ideal of human brotherhood, not because we value the well-being of our neighbors more than our own. We must do so because any harm that would come to international commerce and hence to the rest of the world as a result of the displacement of the dollar would fall back on our own heads. In the present stage of economic development we could not preserve our own prosperity if the rest of the world were caught in the web of depression. Recognition of this inter-dependence gave rise to the Marshall Plan—in my judgment the greatest achievement of our postwar economic policy.

It should not have taken the Great Depression to bring these simple truths home to us. Today, as we approach the goal of the "Great Society"—to make each of our citizens a self-reliant and productive member of a healthy and progressive economic system—we can disregard these truths even less than we could a generation ago. By heeding them instead, we will have a good chance to avoid another such disaster. If monetary history were to repeat itself, it would be nobody's fault but our own.

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APPENDIX B

STATISTICAL MATERIAL

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INTERNATIONAL STATISTICS

TABLE 1.—U.S. BALANCE OF PAYMENTS, 1946–72

[Millions of dollars]

Year or quarter	Merchandise [1,2]			Military transactions			Net investment income		Net travel and transportation expenditures	Other services, net	Balance on goods and services [1]	Remittances, pensions, and other unilateral transfers [1]	Balance on current account
	Exports	Imports	Net balance	Direct expenditures	Sales	Net balance	Private [3]	U.S. Government					
1946	11,764	−5,067	6,697	−493	([8])	−493	750	6	733	114	7,807	−2,922	4,885
1947	16,097	−5,973	10,124	−455	([8])	−455	997	50	946	−45	11,617	−2,625	8,992
1948	13,265	−7,557	5,708	−799	([8])	−799	1,177	85	374	−27	6,518	−4,525	1,993
1949	12,213	−6,874	5,339	−621	([8])	−621	1,200	73	230	−3	6,218	−5,638	580
1950	10,203	−9,081	1,122	−576	([8])	−576	1,382	78	−120	6	1,892	−4,017	−2,125
1951	14,243	−11,176	3,067	−1,270	([8])	−1,270	1,569	151	298	2	3,817	−3,515	302
1952	13,449	−10,838	2,611	−2,054	([8])	−2,054	1,535	140	83	41	2,356	−2,531	−175
1953	12,412	−10,975	1,437	−2,615	192	−2,423	1,566	166	−238	24	532	−2,481	−1,949
1954	12,929	−10,353	2,576	−2,642	182	−2,460	1,899	213	−269	0	1,959	−2,280	−321
1955	14,424	−11,527	2,897	−2,901	200	−2,701	2,117	180	−297	−43	2,153	−2,498	−345
1956	17,556	−12,803	4,753	−2,949	161	−2,788	2,454	40	−361	47	4,145	−2,423	1,722

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1957	19,562	−13,291	6,271	−3,216	375	−2,841	2,584	4	−189	72	5,901	−2,345	3,556
1958	16,414	−12,952	3,462	−3,435	300	−3,135	2,416	168	−633	78	2,356	−2,361	−5
1959	16,458	−15,310	1,148	−3,107	302	−2,805	2,658	68	−821	62	310	−2,448	−2,138
1960	19,650	−14,744	4,906	−3,087	335	−2,752	2,825	16	−964	77	4,107	−2,292	1,815
1961	20,107	−14,519	5,588	−2,998	402	−2,596	3,451	103	−978	30	5,599	−2,513	3,086
1962	20,779	−16,218	4,561	−3,105	656	−2,449	3,920	132	−1,155	115	5,126	−2,631	2,495
1863	22,252	−17,011	5,241	−2,961	657	−2,304	4,056	97	−1,312	178	5,957	−2,742	3,215
1964	25,478	−18,647	6,831	−2,880	747	−2,133	4,872	3	−1,149	142	8,568	−2,754	5,814
1965	26,438	−21,496	4,942	−2,952	830	−2,122	5,274	21	−1,318	301	7,098	−2,835	4,263
1966	29,287	−25,463	3,824	−3,764	829	−2,935	5,331	44	−1,380	286	5,170	−2,890	2,280
1967	30,638	−26,821	3,817	−4,378	1,240	−3,138	5,847	40	−1,763	334	5,136	−3,081	2,055
1968	33,576	−32,964	612	−4,535	1,392	−3,143	6,157	63	−1,565	302	2,425	−2,909	−484
1969	36,417	−35,796	621	−4,856	1,512	−3,344	5,820	155	−1,784	442	1,911	−2,946	−1,035
1970	41,963	−39,799	2,164	−4,852	1,478	−3,374	6,376	−115	−2,061	574	3,563	−3,208	356
1971	42,770	−45,459	−2,689	−4,816	1,922	−2,894	8,952	−957	−2,432	748	727	−3,574	−2,847
1972 [12]	47,391	−54,355	−6,964	−4,716	1,153	−3,563	9,211	−1,803	−2,589	795	−4,913	−3,737	−8,651

See footnotes at end of table.

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TABLE 1.—U.S. BALANCE OF PAYMENTS, 1946–72—Continued

Year or quarter	Long-term capital flows, net: U.S. Government [4]	Long-term capital flows, net: Private [5]	Balance on current account and long-term capital	Nonliquid short-term private capital flows, net [5]	Allocations of special drawing rights	Errors and omissions, net	Net liquidity balance	Liquid private flows, net [5]	Official reserve transactions balance	Changes in liabilities to foreign official agencies, net [6]	Changes in U.S. official reserve assets, net [7]	U.S. official reserve assets, net (end of) period
1946				−253	...	155					−623	20,706
1947				−236	...	861					−3,315	24,021
1948				−131	...	1,115					−1,736	25,758
1949				158	...	717					−266	26,024
1950				75	...	−124					1,758	24,265
1951				−227	...	354					−33	24,299
1952				−41	...	497					−415	24,714
1953				183	...	220					1,256	23,458
1954				−556	...	60					480	22,978
1955				−328	...	371					182	22,797
1956				−479	...	390					−869	23,666
1957				−174	...	1,012					−1,165	24,832
1958				−145	...	361					2,292	22,540
1959				−89	...	260					1,035	21,504
1960	−889	−2,100	−1,174	[9] −1,405	...	−1,098	[9] −3,676	[9] 273	−3,403	1,258	2,145	19,359
1961	−901	−2,181	4	[9] −1,200	...	−1,054	[9] −2,251	[9] 903	−1,348	742	606	18,753
1962	−892	−2,607	−1,003	[9] −657	...	−1,206	[9] −2,864	[9] 214	−2,650	1,117	1,533	17,220
1963	−1,150	−3,357	−1,292	[9] −968	...	−455	[9] −2,713	[9] 779	−1,934	1,557	377	16,843
1964	−1,349	−4,470	−4	−1,642	...	−1,048	−2,696	1,162	−1,534	1,363	171	16,672

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1965	−1,532	−4,577	−1,846	−154	....	−476	−2,477	1,188	−1,289	67	1,222	15,450
1966	−1,469	−2,555	−1,744	−104	....	−302	−2,151	2,370	219	−787	568	14,882
1967	−2,424	−2,912	−3,280	−522	....	−881	−4,683	1,265	−3,418	3,366	52	14,830
1968	−2,159	1,198	−1,444	230	....	−399	−1,610	3,251	1,641	−761	−880	15,710
1969	−1,926	−50	−3,011	−640	....	−2,470	−6,122	8,824	2,702	−1,515	−1,187	[10] 16,964
1970	−2,018	−1,398	−3,059	−482	867	−1,174	−3,851	−5,988	−9,839	7,362	2,477	14,487
1971	−2,378	−4,079	−9,304	−2,386	717	−11,031	−22,002	−7,763	−29,765	27,417	2,348	[11] 12,167
1972[12]	−959	−632	−10,243	−611	710	−2,951	−13,093	1,461	−11,632	11,441	191	13,150

[1] Excludes military grants.
[2] Adjusted from Census data for differences in timing and coverage.
[3] Includes fees and royalties from U.S. direct investments abroad or from foreign direct investments in the United States.
[4] Excludes liabilities to foreign official reserve agencies.
[5] Private foreigners exclude the International Monetary Fund (IMF), but include other international and regional organizations.
[6] Includes liabilities to foreign official agencies reported by U.S. Government and U.S. banks and U.S. liabilities to the IMF arising from reversible gold sales to, and gold deposits with, the United States.
[7] Official reserve assets include gold, special drawing rights, convertible currencies, and the U.S. gold tranche position in the IMF.
[8] Not available separately.
[9] Coverage of liquid banking claims for 1960–63 and of nonliquid nonbanking claims for 1960–62 is limited to foreign currency deposits only; other liquid items are not available separately and are included with nonliquid claims.
[10] Includes gain of $67 million resulting from revaluation of the German mark in October 1969.
[11] Includes $28 million increase in dollar value of foreign currencies revalued to reflect market exchange rates as of December 31, 1971.
[12] First 3 quarters on a seasonally adjusted annual rates basis (except reserve assets are end of December).
[13] Includes increase of $1,016 million resulting from change in par value of the U.S. dollar on May 8, 1972.

Sources: Department of Commerce (Bureau of Economic Analysis) and Treasury Department.

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TABLE 2.—U.S. RESERVE ASSETS, 1946–72

[Millions of dollars]

End of year or month	Total reserve assets	Gold stock [1]		Special drawing rights [3]	Convertible foreign currencies [4]	Reserve position in International Monetary Fund [5]
		Total [2]	Treasury			
1946	20,706	20,706	20,529			
1947	24,021	22,868	22,754			1,153
1948	25,758	24,399	24,244			1,359
1949	26,024	24,563	24,427			1,461
1950	24,265	22,820	22,706			1,445
1951	24,299	22,873	22,695			1,426
1952	24,714	23,252	23,187			1,462
1953	23,458	22,091	22,030			1,367
1954	22,978	21,793	21,713			1,185
1955	22,797	21,753	21,690			1,044
1956	23,666	22,058	21,949			1,608
1957	24,832	22,857	22,781			1,975
1958	22,540	20,582	20,534			1,958
1959	21,504	19,507	19,456			1,997
1960	19,359	17,804	17,767			1,555
1961	18,753	16,947	16,889		116	1,690
1962	17,220	16,057	15,978		99	1,064
1963	16,843	15,596	15,513		212	1,035
1964	16,672	15,471	15,388		432	769
1965	15,450	[8] 13,806	[6] 13,733		781	[6] 863
1966	14,882	13,235	13,159		1,321	326
1967	14,830	12,065	11,982		2,345	420
1968	15,710	10,892	10,367		3,528	1,290
1969	[7] 16,964	11,859	10,367		[7] 2,781	2,324
1970	14,487	11,072	10,732	851	629	1,935
1971	[8] 12,167	10,206	10,132	1,100	[8] 276	585
1972	13,150	10,487	10,410	1,958	241	464

[1] From 1956 through January 1972, includes gold sold to the United States by the International Monetary Fund (IMF) with the right of repurchase, and beginning 1965 also includes gold deposited by the IMF to mitigate the impact on the U.S. gold stock of purchases by foreign countries for gold subscriptions on increased IMF quotas.
[2] Includes gold in Exchange Stabilization Fund.
[3] Includes initial allocation on January 1, 1970 of $867 million, second allocation on January 1, 1971 of $717 million, and third allocation on January 1, 1972 of $710 million of special drawing rights (SDR) in the Special Drawing Account in the IMF, plus or minus transactions in SDR.
[4] Includes holdings of Treasury and Federal Reserve System.
[5] The United States has the right to purchase foreign currencies equivalent to its reserve position in the Fund automatically if needed. Under appropriate conditions the United States could purchase additional amounts equal to the United States quota.
[6] Reserve position includes, and gold stock excludes, $259 million gold subscription to the Fund in June 1965 for a U.S. quota increase which became effective on February 23, 1966. In figures published by the Fund from June 1965 through January 1966, this gold subscription was included in the U.S. gold stock and excluded from the reserve position.
[7] Includes gain of $67 million resulting from revaluation of German mark in October 1969, of which $13 million represents gain on mark holdings at time of revaluation.
[8] Includes $28 million increase in dollar value of foreign currencies revalued to reflect market exchange rates as of December 31, 1971.

Note.—Gold held under earmark at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States.

Sources: Treasury Department and Board of Governors of the Federal Reserve System.

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TABLE 3.—U.S. LIQUID AND OTHER LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS, AND LIQUID LIABILITIES TO ALL OTHER FOREIGNERS

(In millions of dollars)

End of period	Total	Liquid liabilities to IMF arising from gold transactions [1]	Liabilities to foreign countries: Official institutions [2]: Total	Liquid: Short-term liabilities reported by banks in United States	Liquid: Marketable U.S. Treasury bonds and notes [3]	Liquid: Nonmarketable, convertible U.S. Treasury bonds and notes	Nonmarketable, nonconvertible U.S. Treasury bonds and notes [4]	Other readily marketable liabilities [5]	Liquid liabilities to commercial banks abroad [6]	Liquid liabilities to other foreigners: Total	Short-term liabilities reported by banks in United States	Marketable U.S. Treasury bonds and notes [3, 7]	Liquid liabilities to nonmonetary international and regional organizations [8]
1959	19,428	500	10,120	9,154	966	...	...	...	4,678	2,940	2,399	541	1,190
1960 [9]	20,994	800	11,078	10,212	866	...	...	...	4,818	2,773	2,230	543	1,525
	21,027	800	11,088	10,212	876	...	...	...	4,818	2,780	2,230	550	1,541
1961 [9]	22,853	800	11,830	10,940	890	...	...	...	5,404	2,871	2,355	516	1,948
	22,936	800	11,830	10,940	890	...	...	...	5,484	2,873	2,357	516	1,949
1962 [9]	24,268	800	12,948	11,997	751	...	200	...	5,346	3,013	2,565	448	2,161
	24,268	800	12,914	11,963	751	...	200	...	5,346	3,013	2,565	448	2,195
1963 [9]	26,433	800	14,459	12,467	1,217	703	63	9	5,817	3,397	3,046	351	1,960
	26,394	800	14,425	12,467	1,183	703	63	9	5,817	3,387	3,046	341	1,965
1964 [9]	29,313	800	15,790	13,224	1,125	1,079	204	158	7,271	3,730	3,354	376	1,722
	29,364	800	15,786	13,220	1,125	1,079	204	158	7,303	3,753	3,377	376	1,722
1965	29,569	834	15,826	13,066	1,105	1,201	334	120	7,419	4,059	3,587	472	1,431

See footnotes at end of table.

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TABLE 3.—U.S. LIQUID AND OTHER LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS, AND LIQUID LIABILITIES TO ALL OTHER FOREIGNERS—Continued

(In millions of dollars)

End of period	Total	Liquid liabilities to IMF arising from gold transactions [1]	Liabilities to foreign countries: Official institutions [2]: Total	Official institutions: Liquid: Short-term liabilities reported by banks in United States	Official institutions: Liquid: Marketable U.S. Treasury bonds and notes [3]	Official institutions: Liquid: Nonmarketable, convertible U.S. Treasury bonds and notes	Official institutions: Nonmarketable, nonconvertible U.S. Treasury bonds and notes [4]	Official institutions: Other readily marketable liabilities [5]	Liquid liabilities to commercial banks abroad [6]	Liquid liabilities to other foreigners: Total	Liquid liabilities to other foreigners: Short-term liabilities reported by banks in United States	Liquid liabilities to other foreigners: Marketable U.S. Treasury bonds and notes [3] [7]	Liquid liabilities to nonmonetary international and regional organizations [8]
1966 [9]	31,145	1,011	14,841	12,484	860	256	328	913	10,116	4,271	3,743	528	906
	31,020	1,011	14,896	12,539	860	256	328	913	9,936	4,272	3,744	528	905
1967 [9]	35,819	1,033	18,201	14,034	908	711	741	1,807	11,209	4,685	4,127	558	691
	35,667	1,033	18,194	14,027	908	711	741	1,807	11,085	4,678	4,120	558	677
1968 [9]	38,687	1,030	17,407	11,318	529	701	2,518	2,341	14,472	5,053	4,444	609	725
	38,473	1,030	17,340	11,318	462	701	2,518	2,341	14,472	4,909	4,444	465	722
1969 [9]	45,755	1,019	15,975	11,054	346	[10] 555	[10] 2,515	1,505	23,638	4,464	3,939	525	659
	45,914	1,019	15,998	11,077	346	555	2,515	1,505	23,645	4,589	4,064	525	663
1970—Dec. [9]	47,009	566	23,786	19,333	306	429	3,023	695	17,137	4,676	4,029	647	844
	46,960	566	23,775	19,333	295	429	3,023	695	17,169	4,604	4,039	565	846
1971—Dec. [11]	67,681	544	51,209	39,679	1,955	6,060	3,371	144	10,262	4,138	3,691	447	1,528
	67,810	544	50,651	39,018	1,955	6,093	3,441	144	10,950	4,141	3,694	447	1,524

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1972—Feb....	69,998	....	52,799	40,679	2,399	6,094	3,441	186	11,373	4,204	3,812	392	1,622
Mar...	71,013	....	53,806	40,980	2,644	6,094	3,723	365	11,464	4,194	3,818	376	1,549
Apr....	72,215	....	54,093	38,723	2,668	8,594	3,723	385	12,433	4,242	3,853	389	1,447
May r..	72,115	....	53,579	37,850	3,018	8,594	3,723	394	12,822	4,285	3,890	395	1,429
June r..	74,001	....	54,604	38,603	3,292	8,594	3,723	392	13,444	4,475	4,103	372	1,478
July r..	77,465	....	59,416	39,777	3,516	12,094	3,647	382	12,128	4,493	4,123	370	1,428
Aug. r..	79,454	....	60,601	40,611	3,881	12,094	3,647	368	12,911	4,419	4,041	378	1,523
Sept...	79,731	....	60,070	39,628	4,117	12,095	3,804	426	13,585	4,630	4,241	389	1,446
Oct....	81,422	....	60,926	40,261	4,457	12,097	3,651	460	14,180	4,823	4,417	406	1,493
Nov....	82,373	....	61,122	40,040	4,834	12,098	3,651	499	14,781	4,745	4,322	423	1,725
Dec....	82,902	....	61,503	39,976	5,236	12,108	3,639	544	14,821	4,951	4,526	425	1,627
1973—Jan. p..	82,093	....	60,779	38,516	5,798	12,110	3,780	575	14,824	4,897	4,472	425	1,593
Feb. p..	87,873	....	68,455	45,395	6,377	12,110	3,627	946	12,791	5,006	4,634	372	1,621

[1] Includes (a) liability on gold deposited by the IMF to mitigate the impact on the U.S. gold stock of foreign purchases for gold subscriptions to the IMF under quota increases, and (b) U.S. Treasury obligations at cost value and funds awaiting investment obtained from proceeds of sales of gold by the IMF to the United States to acquire income-earning assets.

[2] Includes BIS and European Fund.

[3] Derived by applying reported transactions to benchmark data; breakdown of transactions by type of holder estimated 1959–63.

[4] Excludes notes issued to foreign official nonreserve agencies.

[5] Includes long-term liabilities reported by banks in the United States and debt securities of U.S. federally sponsored agencies and U.S. corporations.

[6] Includes short-term liabilities payable in dollars to commercial banks abroad and short-term liabilities payable in foreign currencies to commercial banks abroad and to "other foreigners."

[7] Includes marketable U.S. Treasury bonds and notes held by commercial banks abroad.

[8] Principally the International Bank for Reconstruction and Development and the Inter-American and Asian Development Banks. From December 1957 through January 1972 includes difference between cost value and face value of securities in IMF gold investment account.

[9] Data on the two lines shown for this date differ because of changes in reporting coverage. Figures on first line are comparable with those shown for the preceding date; figures on second line are comparable with those shown for the following date.

[10] Includes $101 million increase in dollar value of foreign currency liabilities resulting from revaluation of the German mark in October 1969 as follows: liquid, $17 million, and nonliquid, $84 million.

[11] Data on the second line differ from those on first line because certain accounts previously classified as "official institutions" are included with "banks"; a number of reporting banks are included in the series for the first time; and U.S. Treasury securities payable in foreign currencies issued to official institutions of foreign countries have been increased in value to reflect market exchange rates as of December 31, 1971.

Note: Based on Treasury Department data and on data reported to the Treasury Department by banks and brokers in the United States. Data correspond generally to statistics following in this section, except for the exclusion of nonmarketable, nonconvertible U.S. Treasury notes issued to foreign official nonreserve agencies, the inclusion of investments by foreign official reserve agencies in debt securities of U.S. federally sponsored agencies and U.S. corporations, and minor rounding differences. Table excludes IMF "holdings of dollars," and holdings of U.S. Treasury letters of credit and nonnegotiable, non-interest-bearing special U.S. notes held by other international and regional organizations.

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TABLE 4.—GOLD PRODUCTION

(In millions of dollars; valued at $35 per fine ounce through 1971 and at $38 per fine ounce thereafter)

Period	World production[1]	Africa			North and South America					Asia			Other	
		South Africa	Ghana	Zaire	United States	Canada	Mexico	Nicaragua	Colombia	India	Japan	Philippines	Australia	All other[1]
1966	1,445.0	1,080.8	24.0	5.6	63.1	114.6	7.5	5.2	9.8	4.2	19.4	15.8	32.1	62.9
1967	1,410.0	1,068.7	26.7	5.4	53.4	103.7	5.8	5.2	9.0	3.4	23.7	17.2	28.4	59.4
1968	1,420.0	1,088.0	25.4	5.9	53.9	94.1	6.2	4.9	8.4	4.0	21.5	18.5	27.6	61.6
1969	1,420.0	1,090.7	24.8	6.0	60.1	89.1	6.3	3.7	7.7	3.4	23.7	20.0	24.5	60.0
1970	1,450.0	1,128.0	24.6	6.2	63.5	84.3	6.9	4.0	7.1	3.7	24.8	21.1	21.7	54.1
1971 p	...	1,098.7	24.4	6.0	52.3	79.1	5.3	3.7	6.6	4.1	27.0	22.2	23.5	...
1972 p	...	1,109.8	...	...	54.3	77.2	...	...	...	...	...	...	...	...
1972—January		95.3	...	...	...	6.5	.4	...	.7	.4	2.6	...	3.3	...
February		88.2	...	...	...	6.4	.4	...	.6	.3	2.5	...	2.5	...
March		91.8	...	[2] 1.2	...	6.6	.5	...	.5	.3	2.6	...	2.0	...
April		93.2	...	...	...	7.5	...	...	.6	.3	2.4	...	2.4	...

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May	94.4		6.8	.6	.4	2.4	2.3
June	94.3	[2] 1.0	6.2	.7	.3	2.5	2.5
July	94.4		6.4	.5	.4	2.8	2.6
August	94.1		5.9	.6	.3	2.8	
September	93.9		6.3	.6	.3		
October	94.2		6.3	.5			
November	91.5		6.0				
December	84.3		6.3				
1973—January	82.2		6.2				

[1] Estimated; excludes U.S.S.R., other Eastern European countries, China Mainland, and North Korea.

[2] Quarterly data.

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Table 5.—London Gold Price at P.M. Fixing, Jan.–May, 1973, Biweekly

(In U.S. dollars)

Date	Price
Jan. 2	65.10
Jan. 15	65.10
Feb. 1	66.60
Feb. 15	73.65
Mar. 1	85.70
Mar. 15	82.75
Apr. 2	89.25
Apr. 16	89.30
May 1	90.70
May 15	110.00

Source: Board of Governors of the Federal Reserve System.

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TABLE 6.—APPROXIMATE PRIVATE GOLD SALES IN ALL INTERNATIONAL MARKETS

[In millions of U.S. paper dollars at end of month]

	1963	1964	1965	1966	1967	1968	1969	1970	1971
January	$165	$240	$510	$380	$380	$485	$520	$170	$415
February	200	220	525	350	345	425	310	220	440
March	240	300	490	290	390	1,975	290	240	425
April	210	365	370	310	375	1,350	230	265	450
May	220	325	325	280	445	1,565	275	315	625
June	260	290	315	260	510	675	205	270	430
July	275	235	475	360	445	690	340	230	550
August	255	260	380	390	410	615	325	320	710
September	300	310	290	420	370	635	310	360	985
October	285	340	375	405	420	675	330	475	480
November	325	400	315	375	650	825	280	460	510
December	310	415	325	410	985	885	215	425	560
Total	3,045	3,700	4,695	4,230	5,725	10,800	3,630	3,730	6,580

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TABLE 7.—COMPARISON OF FEDERAL BUDGET ESTIMATES ORIGINALLY SUBMITTED TO CONGRESS AND FINAL RESULTS, UNDER THE KENNEDY, JOHNSON, AND NIXON ADMINISTRATIONS—WITH PERCENT CHANGES IN PRICE INDEXES

[Dollars in billions]

Fiscal year	Administration original budget estimates submitted			Actual budget results			Calendar year	Percent changes in Consumer Price Indexes (all items)	Percent changes in Wholesale Price Indexes (all commodities)
	Receipts	Outlays	Surplus or deficit (—)	Receipts	Outlays	Surplus or deficit (—)			
Administrative budget:									
1963—Kennedy	$93.0	$92.5	$0.5	$86.4	$92.6	—$6.2	1963	1.6	—0.1
1964—Kennedy	86.9	98.8	—11.9	89.5	97.7	—8.2	1964	1.2	.4
1965—Johnson	93.0	97.9	—4.9	93.1	96.5	—3.4	1965	1.9	3.4
1966—Johnson	94.4	99.7	—5.3	104.7	107.0	—2.3	1966	3.4	1.7
1967—Johnson	111.0	112.8	—1.8	115.8	125.7	—9.9	1967	3.0	1.0
1968—Johnson	126.9	135.0	—8.1	114.7	143.1	—28.4	1968	4.7	2.8

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Federal funds budget:									
1969—Johnson	135.6	147.4	−11.8	143.3	148.8	−5.5	1969	6.1	4.8
1970—Johnson	147.8	154.7	−6.8	143.2	156.3	−13.1	1970	5.5	2.2
1971—Nixon	147.6	154.9	−7.3	133.8	163.7	−29.9	1971	3.4	4.0
1972—Nixon	153.7	176.9	−23.1	148.8	178.0	−29.1	1972	3.4	6.5
1973—Nixon	150.6	186.8	−36.2	154.3	188.4	−34.1	1973	[1] 8.8	[1] 21.1
1974—Nixon	171.3	199.1	−27.8	NA	NA	NA	1974	NA	NA
Total recommended budget deficits, compared to actual results:									
Kennedy administration, fiscal year 1963–64			−11.4			−14.4			
Average yearly			−5.7			−7.2			
Johnson administration, fiscal year 1965–70.			−38.7			−62.6			
Average yearly			−6.5			−10.4			
Nixon administration, fiscal year 1971–74.			−94.4			[2] −93.3			
Average yearly			−23.6			[2] −31.0			

[1] First quarter seasonally adjusted, annualized rate of increase.
[2] Fiscal year 1971–73.

Source: Report of the Joint Study Committee on Budget Control Table 1; Economic Report of the President, Tables C–50, C–51.

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TABLE 8.—CONSUMER PRICE INDEXES IN THE UNITED STATES AND OTHER MAJOR INDUSTRIAL COUNTRIES, 1957-72

[1963=100]

Period	United States	Canada	Japan	France	Germany	Italy	Netherlands	United Kingdom
1957	91.9	91.7	79.3	69.6	88.1	83.2	88.0	86.9
1958	94.4	94.1	78.9	80.1	90.0	85.5	90.0	89.5
1959	95.2	95.1	79.8	85.0	90.9	85.1	91.0	90.0
1960	96.7	96.2	82.6	88.1	92.1	87.1	93.0	90.9
1961	97.7	97.1	87.0	91.0	94.3	88.9	95.0	94.0
1962	98.8	98.3	93.0	95.4	97.1	93.1	97.0	98.0
1963	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1964	101.3	101.8	103.9	103.4	102.3	105.9	106.0	103.3
1965	103.1	104.3	110.7	106.0	105.8	110.7	111.0	108.2
1966	106.0	108.2	116.4	108.9	109.5	113.3	117.4	112.4
1967	109.1	112.0	121.0	111.8	111.1	116.9	121.4	115.2
1968	113.6	116.6	127.5	116.9	113.1	118.5	125.9	120.6
1969	119.7	122.0	134.1	124.4	116.1	121.6	135.3	127.2
1970	126.8	126.0	144.5	131.2	120.5	127.6	141.3	135.3
1971	132.3	129.6	153.3	138.6	126.7	133.9	152.0	148.0
1972 [1]	136.6	135.2	159.6	145.8	133.3	140.6	162.9	157.5

[1] For United States, 12-month average; for all other countries, January-October average.

Sources: Department of Labor and Organization for Economic Cooperation and Development.

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TABLE 9.—PERCENT APPRECIATION (+) OR DEPRECIATION (−) AGAINST THE DOLLAR [1]

	Apr. 30, 1971 to Dec. 18, 1971 [2]	Pre-February 1973 to May 18, 1973 [3]	Apr. 30, 1971 to May 18, 1973
Currency of—			
Australia	+8.6	+11.0	+26.3
Austria	+11.6	+12.8	+25.8
Belgium-Luxembourg	+11.6	+14.4	+27.7
Canada	+.8	−.1	+.8
Denmark	+7.5	+11.8	+20.1
Finland	+2.4	+5.7	+8.2
France	+8.6	+15.2	+25.0
Germany	+13.6	+15.9	+31.6
Greece	0	0	0
Iceland	0	+8.3	−3.3
Ireland	+8.6	+8.6	+6.4
Italy	+7.5	−1.2	+6.2
Japan	+16.9	+16.5	+36.2
Netherlands	+11.6	+12.7	+25.7
Norway	+7.5	+12.7	+21.1
Portugal	+5.5	+7.9	+13.84
Spain	+8.6	+10.9	+20.4
Sweden	+7.5	+6.7	+14.7
Switzerland	+13.9	+21.9	+38.8
Turkey	+7.1	0	+7.1
United Kingdom	+8.6	+8.6	+6.4

See notes to table 10.

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TABLE 10.—WEIGHTED AVERAGE APPRECIATION AGAINST THE DOLLAR [1]

	Apr. 30, 1971, to Dec. 18, 1971 [2]	Pre-February 1973 to May 18, 1973 [3]	Apr. 30, 1971, to May 18, 1973 [4]
OECD currencies	8.0	8.2	16.5
OECD currencies excluding Canada	11.9	12.7	25.0

[1] Calculated on basis of U.S. cents per foreign currency unit. Averages are weighted on basis of U.S. bilateral trade pattern in 1970.

[2] Calculated on basis of Apr. 30, 1971, par values and, for Dec. 18, 1971, new par values or central rates following Smithsonian agreement. Market rates on Apr. 30 and Dec. 24, 1971, were used for Canada, whose currency was floating.

[3] Base rates are par values or central rates prevailing in early February 1973, except for Canada and the U.K., for which base rates of U.S. $1=C$1 and $2.35=1£, respectively, were taken as an approximate average of rates prevailing in the weeks preceding the February market disturbances. Rates for May 18, 1973, are market rates for most countries, and par values or central rates for a few of the smaller countries whose rates are not available regularly.

[4] Apr. 30, 1971, base rates and May 18, 1973, rates are as described in the preceding footnotes.

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TABLE 11.—GLOBAL BALANCE OF TRADE AND PAYMENTS OF THE EUROPEAN COMMUNITY AND JAPAN, 1972

[In millions of dollars]

Country	Merchandise trade balance	Current account	Official settlements [1]
France	1,357	760	1,600
Germany	8,414	543	4,790
Italy	923	2,714	–900
Netherlands	0	1,086	800
Belgium-Luxembourg	944	1,439	400
United Kingdom	–1,720	63	–3,690
Denmark	–716	–109	(2)
Ireland	–470	(2)	(2)
Japan	8,997	6,656	2,760
Subtotal, EC–6	11,638	6,542	6,690
Subtotal, EC–6+United Kingdom	9,918	6,605	3,000
Total, 9 countries	8,733	(2)	(2)

[1] Not strictly comparable with U.S. definition.
[2] Not available.

Note: Preliminary. Partly estimated by OECD and national authorities. Converted from SDR at central rates or par values prevailing in 1972.

Source: Treasury Department, May 9, 1973.

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APPENDIX C

THE SECRETARY'S STATEMENT

Needed: A New Balance in International Economic Affairs

by the

Hon. George C. Shultz, Secretary of the Treasury

Before the

Boards of Governors of the IMF and the IBRD,
September 26, 1972

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THE SECRETARY'S STATEMENT

Statement by the Honorable George P. Shultz
The Secretary of the Treasury
of the United States of America
at the
1972 Annual Meetings
of the
Boards of Governors
of the
International Monetary Fund
and the
International Bank for Reconstruction and Development
and Affiliates
Tuesday, September 26, 1972

NEEDED: A NEW BALANCE IN INTERNATIONAL ECONOMIC AFFAIRS

Mr. Chairman, Mr. Managing Director, Mr. President, Fellow Governors, Distinguished Guests:

The nations gathered here have it in their power to strike a new balance in international economic affairs.

The new balance of which I speak does not confine itself to the concepts of a balance of trade or a balance of payments.

The world needs a new balance between flexibility and stability in its basic approach to doing business.

The world needs a new balance between a unity of purpose and a diversity of execution that will permit nations to cooperate closely without losing their individuality or sovereignty.

We lack that balance today. Success in the negotiations in which we are engaged will be measured in terms of how well we are able to achieve that balance in the future.

I anticipate working closely and intensively with you to that end, shaping and reshaping the best of our thinking as we proceed in full recognition that the legitimate requirements of each nation must be meshed into a harmonious whole.

In that spirit, President Nixon has asked me to put certain ideas before you.

In so doing, I must necessarily concentrate my remarks today on monetary matters. However, I am deeply conscious that, in approaching this great task of monetary reform, we cannot neglect the needs of economic development. I am also conscious that the success of our development efforts will ultimately rest, in large measure, on our ability to achieve and maintain a monetary and trading environment in which all nations can prosper and profit from the flows of goods, services and investment among us.

The formation of the Committee of Twenty, representing the entire membership of the Fund, properly reflects and symbolizes the fact that we are dealing with issues of deep interest to all members, and in particular that the concerns of developing countries will be fully reflected in discussions of the reform of the monetary system.

As we enter into negotiations in that group, we have before us the useful Report of the Executive Directors, identifying and clarifying some of the basic issues which need to be resolved.

We also look forward to participation by other international organizations, with each contributing where it is most qualified to help. The challenge before us calls for substantial modification of the institutions and practices over the entire range of international economic cooperation.

There have already been stimulating contributions to our thinking from a wide variety of other sources—public and private. I have examined with particular care the statements made over the past few months by other Governors individually and the eight points which emerged from the deliberations of the Finance Ministers of the European Community.

Drawing from this interchange of views, and building upon the Smithsonian Agreement, we can now seek a firm consensus for new monetary arrangements that will serve us all in the decades

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ahead. Indeed, I believe certain principles underlying monetary reform already command widespread support.

First is our mutual interest in encouraging freer trade in goods and services and the flow of capital to the places where it can contribute most to economic growth. We must avoid a breakup of the world into antagonistic blocs. We must not seek a refuge from our problems behind walls of protectionism.

The pursuit of the common welfare through more open trade is threatened by an ancient and recurring fallacy. Surpluses in payments are too often regarded as a symbol of success and of good management rather than as a measure of the goods and services provided from a nation's output without current return.

We must recognize, of course, that freer trade must be reconciled with the need for each country to avoid abrupt change involving serious disruptions of production and employment. We must aim to expand productive employment in all countries—and not at one another's expense.

A second fundamental is the need to develop a common code of conduct to protect and strengthen the fabric of a free and open international economic order.

Such basic rules as "no competitive devaluation" and "most-favored nation treatment" have served us well, but they and others need to be reaffirmed, supplemented and made applicable to today's conditions. Without such rules to guide us, close and fruitful cooperation on a day-to-day basis would not be possible.

Third, in shaping these rules we must recognize the need for clear disciplines and standards of behavior to guide the international adjustment process—a crucial gap in the Bretton Woods system. Amid the debate about the contributing causes of past imbalances and the responsibility for initiative toward correction, sight has too often been lost of the fact that adjusment is inherently a two-sided process—that for the world as a whole, every surplus is matched by a deficit.

Resistance of surplus countries to loss of their surpluses defeats the objective of monetary order as surely as failure of deficit countries to attack the source of their deficits. Any effort to develop a balanced and equitable monetary system must recognize that simple fact; effective and symmetrical incentives for adjustment are essential to a lasting system.

Fourth, while insisting on the need for adjustment, we can and should leave considerable flexibility to national governments in their choice among adjustment instruments. In a diverse world, equal responsibility and equal opportunity need not mean rigid uniformity in particular practices. But they do mean a common commitment to agreed international objectives. The belief is widespread—and we share it—that the exchange rate system must be more flexible. However, important as they are, exchange rates are not the only instrument of adjustment policy available; nor, in specific instances, will they necessarily be the most desirable.

Fifth, our monetary and trading systems are an interrelated complex. As we seek to reform monetary rules, we must at the same time seek to build in incentives for trade liberalization. Certainly, as we look ahead, ways must be found to integrate better the work of the GATT and the IMF. Simultaneously we should insure that there are pressures which move use toward adequate development assistance and away from controls which stifle the free flow of investment.

Finally, and perhaps most fundamental, any stable and well functioning international monetary system must rest upon sound policies to promote domestic growth and price stability in the major countries. These are imperative national goals for my government—and for yours. And no matter how well we design an international system, its prospects for survival will be doubtful without effective discharge of those responsibilities.

Today is not the occasion for presenting a detailed blueprint for monetary reform. However, I do want to supplement these general principles with certain specific and interrelated ideas as to how to embody these principles in a workable international agreement.

These suggestions are designed to provide stability without rigidity. They take as a point of departure that most countries will want to operate within the framework of specified exchange rates. They would encourage these rates to be maintained within specified ranges so long as this is accomplished without distorting the fabric of trade and payments or domestic economic management. We aim to encourage freer flows of trade and capital while minimizing distortions from destabilizing flows of mobile capital. We would strengthen the voice of the international community operating through the IMF.

I shall organize these ideas under six headings, recognizing that much work remains to be done to determine the best techniques in each area:

The Exchange Rate Regime
The Reserve Mechanism
The Balance of Payments Adjustment Process
Capital and Other Balance of Payments Controls
Related Negotiations
Institutional Implications

1. The Exchange Rate Regime

We recognize that most countries want to maintain a fixed point of reference for their currencies —in other words, a "central" or "par" value. The corollary is a willingness to maintain and support these values by assuring convertibility of their currencies into other international assets.

A margin for fluctuation for market exchange rates around such central values will need to be provided sufficiently wide to dampen incentives for short-term capital movements and, when changes

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in central values are desirable, to ease the transition. The Smithsonian Agreement took a major step in that direction. Building on that approach in the context of a symmetrical system, the permissible outer limits of these margins of fluctuation for all currencies—including the dollar—might be set in the same range as now permitted for non-dollar currencies trading against each other.

We also visualize, for example, that countries in the process of forming a monetary union—with the higher degree of political and economic integration that that implies—may want to maintain narrower bands among themselves, and should be allowed to do so. In addition, an individual nation, particularly in the developing world, may wish to seek the agreement of a principal trading partner to maintain a narrower range of exchange rate fluctuation between them.

Provision needs also to be made for countries which decide to float their currencies. However, a country that refrains from setting a central value, particularly beyond a brief transitional period, should be required to observe more stringent standards of behavior in other respects to assure the consistency of its actions with the basic requirements of a cooperative order.

2. *The Reserve Mechanism*

We contemplate that the SDR would increase in importance and become the formal numeraire of the system. To facilitate its role, that instrument should be freed of those encumbrances of reconstitution obligations, designation procedures, and holding limits which would be unnecessary in a reformed system. Changes in the amount of SDR in the system as a whole will be required periodically to meet the aggregate need for reserves.

A "central value system" implies some fluctuation in official reserve holdings of individual countries to meet temporary disturbances in their balance of payments positions. In addition, countries should ordinarily remain free to borrow or lend, bilaterally or multilaterally, through the IMF or otherwise.

At the same time, official foreign currency holdings need be neither generally banned nor encouraged. Some countries may find holdings of foreign currencies provide a useful margin of flexibility in reserve management, and fluctuations in such holdings can provide some elasticity for the system as a whole in meeting sudden flows of volatile capital. However, careful study should be given to proposals for exchanging part of existing reserve currency holdings into a special issue of SDR, at the option of the holder.

The suggested provisions for central values and convertibility do not imply restoration of a gold-based system. The rigidities of such a system, subject to the uncertainties of gold production, speculation, and demand for industrial uses, cannot meet the needs of today.

I do not expect governmental holdings of gold to disappear overnight. I do believe orderly procedures are available to facilitate a diminishing role of gold in international monetary affairs in the future.

3. The Balance of Payments Adjustment Process

In a system of convertibility and central values, an effective balance of payments adjustment process is inextricably linked to appropriate criteria for changes in central values and the appropriate level, trend, and distribution of reserves. Agreement on these matters, and on other elements of an effective and timely adjustment process, is essential to make a system both practical and durable.

There is, of course, usually a very close relationship between imbalances in payments and fluctuations in reserve positions. Countries experiencing large deterioration in their reserve positions generally have had to devalue their currencies or take other measures to strengthen their balance of payments. Surplus countries with disproportionate reserve gains have, however, been under much less pressure to revalue their currencies upward or to take other policy actions with a similar balance of payments effect. If the adjustment process is to be more effective and efficient in a reformed system, this asymmetry will need to be corrected.

I believe the most promising approach would be to insure that a surfeit of reserves indicates, and produces pressure for, adjustment on the surplus side as losses of reserves already do for the deficit side. Supplementary guides and several technical approaches may be feasible and should be examined. Important transitional difficulties will need to be overcome. But, in essence, I believe disproportionate gains or losses in reserves may be the most equitable and effective single indicator we have to guide the adjustment process.

As I have already indicated, a variety of policy responses to affect the balance of payments can be contemplated. An individual country finding its reserves falling disproportionately would be expected to initiate corrective actions. For example, small devaluations would be freely permitted such a country. Under appropriate international surveillance, at some point a country would have a prima facie case for a larger devaluation.

While we must frankly face up to limitation on the use of domestic monetary, fiscal, or other internal policies in promoting international adjustments in some circumstances, we should also recognize that the country in deficit might well prefer—and be in a position to apply—stricter internal financial disciplines rather than devalue its currency. Only in exceptional circumstances and for a limited period, should a country be permitted direct restraints and these should be general and nondiscriminatory. Persistent refusal to take fundamental adjustment measures could result in withdrawal or borrowing, SDR allocation, or other privileges.

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Conversely, a country permitting its reserves to rise disproportionately could lose its right to demand conversion, unless it undertook at least limited revaluation or other acceptable measures of adjustment. If reserves nonetheless continued to rise and were maintained at those higher levels over an extended period, then more forceful adjustment measures would be indicated.

For a surplus as for a deficit country, a change in the exchange rate need not be the only measure contemplated. Increasing the provision of concessionary aid on an untied basis, reduction of tariffs and other trade barriers, and elimination of obstacles to outward investment could, in specific circumstances at the option of the nation concerned, provided supplementary or alternative means. But, in the absence of a truly effective combination of corrective measures, other countries should ultimately be free to protect their interests by a surcharge on the imports from the chronic surplus country.

For countries moving toward a monetary union, the guidelines might be applied on a collective basis, provided the countries were willing to speak with one voice and to be treated as a unit for purposes of applying the basic rules of the international monetary and trading system.

4. Capital and Other Balance of Payments Controls

It is implicit in what I have said that I believe that the adjustment process should be directed toward encouraging freer trade and open capital markets. If trade controls are permitted temporarily in extreme cases on balance of payments grounds, they should be in the form of surcharges or across-the-board taxes. Controls on capital flows should not be allowed to become a means of maintaining a chronically undervalued currency. No country should be forced to use controls in lieu of other, more basic, adjustment measures.

5. Related Negotiations

We welcome the commitments which major nations have already made to start detailed trade negotiations under the GATT in the coming year. These negotiations, dealing with specific products and specific restraints need not wait on monetary reform, nor need monetary reform await the results of specific trade negotiations.

Those negotiations, and the development of rules of good behavior in the strictly monetary area, need to be supplemented by negotiations to achieve greater equity and uniformity with respect to the use of subsidies, and fiscal or administrative pressures on trade and investment transactions. Improper practices in these areas distort trade and investment relationships as surely as do trade barriers and currency disequilibrium. In some instances, such as the use of tariff surcharges or capital controls for balance of payments purposes, the linkage is so close that the Committee of Twenty must deal with the matter directly. As a supplement to its work, that group can help launch serious efforts in other bodies to harmonize countries' practices with respect to the taxation of international trade and investment, the granting of export credit, and the subsidization of international investment flows.

6. Institutional Implications

As I look to the future, it seems to me that there are several clear-cut institutional requirements of a sensible reform of the monetary and trading system.

Several times today, I have stressed the need for a comprehensive new set of monetary rules. Those rules will need to be placed under guardianship of the IMF, which must be prepared to assume an even more critical role in the world economy.

Given the interrelationships between trade and payments, that role will not be effectively discharged without harmonizing the rules of the IMF and the GATT and achieving a close working relationship.

Finally, we need to recognize that we are inevitably dealing with matters of essential and sensitive national interest to specific countries. International decision-making will not be credible or effective unless it is carried out by representatives who clearly carry a high stature and influence in the councils of their own governments. Our international institutions will need to reflect that reality, so that in the years ahead national governments will be intensively and continuously involved in their deliberations and processes. Without a commitment by national governments to make a new system work in this way, all our other labors may come to naught.

I am fully aware that the United States as well as other countries cannot leap into new monetary and trading arrangements without a transitional period. I can state, however, that after such transitional period the United States would be prepared to undertake an obligation to convert official foreign dollar holdings into other reserve assets as a part of a satisfactory system such as I have suggested—a system assuring effective and equitable operation of the adjustment process. That decision will, of course, need to rest on our reaching a demonstrated capacity during the transitional period to meet the obligation in terms of our reserve and balance of payments position.

We fully recognize that we have not yet reached the strength we need in our external accounts. In the end, there can be no substitute for such strength in providing the underpinning for a stable dollar and a stable monetary system.

An acceptable monetary system requires a willingness on the part of all of us to contribute to the common goal of full international equilibrium. Lacking such equilibrium no system will work. The equilibrium cannot be achieved by any one country acting alone.

We engage in discussions on trade and financial matters with a full realization of the necessity to

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continue our own efforts on a broad front to restore our balance of payments. I must add, in all candor, that our efforts to improve our position have, in more than one instance, been thwarted by the reluctance of others to give up an unjustified preferential and highly protected market position. Yet, without success in our endeavor, we cannot maintain our desired share in the provision of aid, and reduce our official debt to foreign monetary authorities.

We take considerable pride in our progress toward price stability, improved productivity and more rapid growth during the past year. Sustained into the future, as it must be, that record will be the best possible medicine not only for our domestic prosperity but for the effective functioning of the international financial system.

My remarks today reflect the large agenda before us. I have raised difficult, complicated, and controversial issues. I did not shrink from so doing for a simple reason: I know that you, as we, want to move ahead on the great task before us.

Let us see if, in Nairobi next year, we can say that a new balance is in prospect and that the main outlines of a new system are agreed. We owe ourselves and each other that effort.

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