

Statement submitted by
Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System
to the
Committee on Banking and Currency
House of Representatives
in support of
H.R. 6497
March 24, 1965

The proposed increase in the resources of the International Monetary Fund, of which the increase in the U. S. subscription is an integral part, will be in the interest of the United States and of the free world at large.

The United States, as the world's foremost international trading nation, is deeply interested in the adequacy and stability of the international payments mechanism. The Fund is a most important part of that mechanism. Accordingly, its strengthening is essential for further sustainable expansion of international commerce.

Critics of the present international payments system often contend that adequate liquidity under that system can be maintained only as long as the United States suffers a payments deficit and thereby supplies the world with enough dollars to finance the ever-expanding volume of international commerce. Once the U. S. payments deficit is eliminated--as it must be--only the creation of new types of reserve assets can, in the opinion of these critics, save the world from a crippling inadequacy of international liquidity.

As you know, the so-called Group of Ten, which includes the major industrial member countries of the International Monetary Fund, is at present studying the possibility of creating such new types of reserve assets, if this should become necessary, without disrupting the

present mechanism. Whatever the outcome of these studies may be, agreement on the creation of new types of reserve assets is a matter for the future. In any case, the Fund will be a principal source of international liquidity for any period following elimination of U. S. payments deficits. The proposed increase in its resources from about \$16 billion to about \$21 billion is desirable and indeed necessary if the Fund is adequately to fulfill that function.

In recent years, international liquidity has grown in large part through the dollars supplied in consequence of U. S. payments deficits. In these circumstances, recourse to the Fund was on a moderate scale. But once the flow of dollars from the U. S. is curtailed or even stopped, there are likely to be heavier demands for Fund accommodation. Hence, the proposed increase in Fund resources may well spell the difference between future inadequacy and adequacy of means of international payments, and thus between stagnation and further substantial expansion of international trade, including U. S. exports.

Apart from the general advantages of an increase in resources of the International Monetary Fund, the proposed increase in our subscription will be of particular benefit to the United States. It is true that the immediate effect of this increase will be a decline in our gold stock by the equivalent of the gold portion of the subscription, amounting to about \$259 million, and an increase in our dollar liabilities to the Fund by the amount of the dollar portion of the subscription, or about \$776 million. But these changes are mere bookkeeping

formalities rather than financial realities. The decline in our gold stock will be exactly offset by an increase in our virtually automatic gold tranche drawing rights on the Fund's resources; and the increase in our dollar liabilities to the Fund will similarly be offset by an equivalent increase in our regular drawing rights in the credit tranches.

In fact, the increase in our Fund drawing rights will be financially far more relevant than the increase in our dollar liabilities. The dollar part of our subscription will not be actually paid out until the Fund needs to acquire dollars in excess of its present availabilities of nearly \$3.5 billion in order to satisfy requests for dollar drawings by other Fund members.

After our payments position has returned to equilibrium, a moderate outflow of dollars into the hands of foreign businessmen, resulting from dollar drawings on the Fund, would not only be harmless, it would be beneficial. It would actually help to avert the possibility of a future dollar shortage, if such should arise.

The increase in our drawing rights will work to our advantage during any future period when we incur a temporary payments imbalance internationally. It is during such a period that the United States will need to be in a position to mobilize foreign currency resources, including those available through the International Monetary Fund, in order to supplement the use of our gold to meet any interim payments problem. The mere existence of these facilities may obviate any such need.

At present, the foreign exchange holdings of the Treasury Stabilization Fund and of the Federal Reserve System are quite modest. Until equilibrium in our payments position is restored, there is little or no hope for a large increase in these holdings. Our drawing rights on the Fund provide an opportunity to acquire, if and when necessary, large additional amounts of foreign currencies in order to meet our developing payments needs. The repayment period for these drawings would range from three to five years.

The increase in the resources of the International Monetary Fund will also buttress the efficiency of the bilateral arrangements concluded in recent years among the central banks of the major financial countries of the free world--arrangements in which the Federal Reserve System has played a leading role.

In the recent sterling crisis, central banks were able, literally within hours, to put \$3 billion at the disposal of the Bank of England. This experience shows the importance of these arrangements better than any theoretical exposition could do. And the--admittedly more modest--Federal Reserve operations have consistently demonstrated the advantage of mutual arrangements with foreign central banks in averting adverse effects of speculative or other disruptive movements of volatile funds on our payments position and on the value of the dollar in exchange markets.

Central bank operations of that kind are, however, invariably on a short-term basis, usually for initial periods of three months and renewable for no more than an additional three, six, or--at most--nine

months. Last November, the aid "package" for sterling could probably not have been assembled at all, and certainly not as fast as it was, if the participants had not been able to count on the backstop function of the International Monetary Fund. All participants knew that, whatever might happen, they could always expect repayment through a U. K. drawing on the Fund. If the dollar ever needed foreign assistance on a similar scale, the Federal Reserve System would find that our drawing rights on the Fund would greatly facilitate, and in fact make possible, any needed expansion in our present bilateral arrangements with foreign central banks.

For these reasons, I fully endorse the request of the Secretary of the Treasury for speedy enactment of H.R. 6497.