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Treasury Meeting with Academic
Consultants on Wednesday,
August 25, 1971

Brief Summary of Afternoon
Discussion on
International Matters

1. All of the academic participants agreed, with varying degrees of emphasis, that in the present situation the United States should seek substantial foreign concessions in the exchange rate area--using the surcharge as a lever.

(a) some favored a freely floating system

(b) others would settle for massive appreciation of a few foreign currencies and more flexibility in the future

2. There was a general consensus that the surcharge should be removed as soon as it has served its purpose in extracting exchange rate concessions from foreign countries. Most, but not all, participants also favored the removal of existing controls on the U.S. capital account.

3. Even if foreign countries acquiesce in exchange rate adjustments, some participants felt that the U.S. should take additional actions to achieve a reduction of non-tariff barriers, using the surcharge as a tool. Others seemed less convinced of the desirability of such action fearing it might lead to recrimination and retaliation. There was considerable concern over the surcharge becoming embedded politically.

4. On the gold question, there was little sentiment in favor of any early, or even eventual, return to gold convertibility. There was one dissent on the ground that, realistically, this might be a necessary condition for European cooperation.

5. Two different types of reservations were expressed as to the probable outcome of present policies:

(a) Some felt that it may be difficult to achieve an equilibrium exchange rate position because of the existence of U.S. capital controls and the surcharge.

(b) Others feared that while a new, and seemingly acceptable, pattern of exchange rates might emerge; more basic changes are needed to insure against a return to disequilibrium for the U.S.

6. This led most of the participants to advise against simply returning to the Breton Woods system with a new set of exchange parities. Considerable support was expressed for exchange rate flexibility beyond the minimal amounts implied by last year's Fund proposals.

7. General preference was declared for a cooperative international effort to reform the international monetary system rather than splitting up into blocs.

8. Brief discussion of the sharing of defense burdens was inconclusive. Some felt that existing USA troop dispositions were largely set on the basis of cold war considerations and are no longer realistic.

9. The question of appropriate policy mix was examined briefly. There seemed to be general agreement that in the U. S. case it would be highly desirable if the President had some limited discretionary authority to vary tax rates.