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PANEL DISCUSSION

CURRENCY SYSTEMS OF THE FREE WORLD

Panel Members:

JAMES J. O'LEARY, *Moderator*, Vice President and Director of Economic Research, Life Insurance Association of America

A. F. WYNNE PLUMPTRE, Principal, Scarborough College, University of Toronto

ROY L. REIERSON, Senior Vice President, Bankers Trust Company

ROBERT V. ROOSA, Partner, Brown Brothers, Harriman and Company

CHAIRMAN KENNETH R. MACGREGOR:

The members of this panel are all acknowledged experts with international reputations in currency matters, having had long experience with the International Monetary Fund, with the Treasury Departments of the federal governments of both Canada and the United States, with private financial business, with teaching the subject, and otherwise.

Although the moderator of the panel, Dr. James J. O'Leary, hardly needs any introduction to this audience, I am going to refresh your memories a little by sketching his background and experience, and he in turn will then introduce the members of the panel to you.

Dr. O'Leary graduated from Wesleyan University in 1936 with a B.A. and in 1937 with an M.A. In 1941 he obtained a Ph.D. degree from Duke University. He was instructor and assistant professor of economics at Wesleyan University from 1939 to 1946. He was economic consultant for the Connecticut General Life Insurance Company from 1945 to 1946. He was director of research for the Committee on Public Debt Policy, 1946–47. He was associate professor of economics at Duke University from 1946 to 1947. He was director of economic research for the Life Insurance Association of America from 1947 to 1961, and, as I am sure we all know, he has been vice president and director of economic research for the LIAA from 1962 to date.

In this capacity Dr. O'Leary administers a broad research program on the functioning of the American capital markets with particular reference to the investment policy and the investment experience of life insurance companies in securities and real estate mortgages. As economist for the LIAA he serves as staff adviser to the life insurance industry's Committee on Economic Policy.

Dr. O'Leary is a member of the Board of Trustees of Wesleyan University, a member of the Finance Committee of Wesleyan University, and former chairman of the Committee on Honorary Degrees. He was president of the American Finance Association in 1959, and this year is serving as chairman of the Conference of Business Economists.

I have great pleasure in introducing to you Dr. O'Leary.

JAMES J. O'LEARY:

During the past decade the officers of the Society of Actuaries have thought it appropriate on occasion to include in their meetings a session on a pertinent general economics subject. Early last spring, it became clear that the subject of the currency systems of the free world had become one that would claim more and more public attention as the months went on, so it was decided by your program committee that one of the sessions in this meeting should be devoted to the subject "Currency Systems of the Free World."

Since spring, with the marked improvement in the payments deficit of the United States, the climate for discussion of reform of the world currency systems has become much more favorable. The issues have been crystallizing. Perhaps our subject today should more fittingly be entitled "Monetary Reform for the World Economy."

The discussion this morning will not be an easy one. The field of international trade and finance is full of intricacies and the experts are very few in number. I am happy to be able to say that we have three "pros" in our panel who can strip away the technical jargon and give us a clear picture of the basic issues involved in world monetary reform.

You may ask, Why is the question of world monetary reform of importance to the life insurance business? Is this subject really a vital one for a meeting of the Society of Actuaries? Wholly aside from the inherent intellectual curiosity of actuaries and their interest in public affairs, there are good reasons why leaders in the life insurance business should be interested in the debate over world monetary reform. The fundamental objective of such reform is to provide an improved basis for the expansion of free world trade. Such an expansion of world trade will contribute to rising living standards throughout the world. In our own country—whether it be the United States or Canada—the climate of an expanding world trade will make it easier to achieve a satisfactory rate of growth in our *domestic* economy. Thus, monetary reform aimed at encouraging a healthy expansion of world trade will contribute to rising living standards in the United States and Canada. The market for the products of life insurance companies should thus be strengthened.

But beyond this, the steps which are taken in the field of world monetary reform are bound to have important implications for stability in the value of the dollar—United States or Canadian. I take it that all of us would agree that stability in the value of our currency is highly important to the success of the life insurance business, if we are to consider for the moment only our own selfish interest. Whatever the measures of reform, a basic question must be, Will they contribute to the maintenance of domestic price stability, or are they likely to float the world on a new wave of inflation?

There are other reasons why the subject this morning should be of interest to our business. One of the questions which must be asked about world monetary reform is whether the measures adopted will leave full scope for the interplay of free market forces in our own domestic economy and in the world economy. Or will they lead to increasing reliance upon direct governmental controls in domestic and foreign trade and finance?

Regardless of our insurance interest, all of us are, of course, interested in how world monetary reform can contribute to a more lasting peace.

Since the end of World War II, and particularly in the past decade, there has been an enormous expansion of world trade. As world trade continues to grow, there will be a need for an increasing world currency supply to finance the rising volume of transactions. Also, as world trade grows and as capital movements increase in absolute amounts, there will be a need for a rising volume of international reserve assets in order to permit orderly adjustments by individual countries in the deficits or surpluses in their balance of payments with the rest of the world. There will also be need for adequate international credit facilities whereby reserve assets can be supplied on a sound basis to countries in need.

The reserve assets of the free world today consist of holdings of gold, dollars, and pounds sterling. Since 1958 the huge and continuing deficits which the United States has incurred in its balance of payments, with the great build-up in dollar holdings by foreign governments, have contributed heavily to the net additions of reserve assets. But the end of the road has been reached for this source of reserve assets, as the United States must put its house in order and achieve a balance in its payments account. And the net additions to the monetary gold stock are far too small to meet the needs.

So, the basic task of world monetary reform is to devise a new type of international reserve asset that will be as acceptable as gold and the dollar and to reach international agreement not only upon the nature of the new reserve asset but also on the rules to govern its creation. Part of the task will also be to reach agreement on new credit facilities by means of which deficit countries can borrow reserve assets.

This audience will want to keep two questions in mind this morning in listening to the "pros" discuss the issues of international monetary reform:

1. What steps can be taken under the reform measures to insure that *enough* additional liquidity will be provided to finance expanding world trade, but not too much, from the viewpoint of maintaining stable price levels?
2. How can the reform measures be drawn to *avoid* the danger that additional liquidity will encourage countries to run chronic deficits in their balance of payments? Or, expressed in another way, what procedures can be employed to keep countries with payments deficits under pressure to correct their deficits?

Our first speaker will be Robert V. Roosa. He is a native of Michigan, born in 1918. He received his B.A., M.A., and Ph.D. degrees from the University of Michigan. He taught economics at Harvard, M.I.T., and Michigan briefly before the war. During the war he served in the army and rose to the rank of captain.

He had a very important career from 1946 through 1960 at the New York Federal Reserve Bank, rising there to vice president. He was one of the most important policy-making persons in the whole Federal Reserve System. In January of 1961 he became Under-Secretary of the Treasury for Monetary Affairs. His job there was a very simple one. It was simply to manage Treasury financing and debt management and also to keep the United States on the straight and narrow in the whole area of international monetary affairs. So he has had a fair amount of experience in the subject of our panel today.

He left the Treasury early this year and became a partner in Brown Brothers, Harriman.

He has an honorary Doctor of Science degree in Business Administration from the University of Michigan and received an honorary Doctor of Laws degree from Wesleyan University in 1963. He was appointed this year to the Board of Directors of the Prudential Insurance Company of America. He is currently serving on an advisory group to the United States government on this whole problem of where we go in the area of international monetary affairs.

He has written extensively. His latest effort is something that I think all of you might find rather interesting to read. It is a book that has just been printed, published by Harper & Row, called *Monetary Reform for the World Economy*. It has become a best seller.

Bob is going to speak to us on the general subject "What is all the excitement about in the current discussions of world monetary affairs?"

ROBERT V. ROOSA:

I am delighted to have this opportunity to talk to Canadians and to people from my own country on a question that has, in the hands of some writers and in the voices of some who sound alarmed, been given a prominence, in fact an implication of crisis, in recent months that I think has been quite misleading and therefore requires a careful re-examination.

The fact that I have added to the confusion by writing a little book was only intended to be pacifying, not alarming, and I will try to show you what I mean by that very briefly here. Then you will hear from Wynne Plumptre and Roy Reierson why, in fact, there is so much more to the underlying issues that has been neglected by some of the recent alarmists that whatever evolves in the international monetary system is going to be the result of the kind of awe-inspired deliberation that is appropriate to the effort, for the first time in the history of mankind, to create an international money which will be internationally acceptable.

We have had a hard time over the last two hundred years developing a reasonably acceptable substitute or substitutes for gold in the domestic currencies of each country, and we have not always done well. We have felt, however, that the one way in which individual countries would be prevented from reaching the extremes of excessive abuse in employing the power to create money was that each individual country was subject to a kind of international discipline, the discipline of having sooner or later to balance its external accounts. The way in which we made this meaningful for the monetary systems of individual countries was by finding that each individual credit-creating apparatus—the Federal Reserve in the United States, the work of the Bank of Canada here—had to rest upon an underlying reserve base that would itself be internationally acceptable.

The base with which we started was gold, and the way in which we found whether or not our own individual national authorities were expanding their currencies too rapidly was—not alone, but principally—through the evidence this would register in the balance of payments positions of the individual countries. If we found that there was too much money creation permitted by the dependence on a managed money system within the individual nation, sooner or later the related inflation produced the kind of strain across the international accounts that compelled adjustment.

What becomes more frightening—when we look at the prospects of finding a way to develop for the world as a whole a kind of money that will take its place alongside gold in the monetary reserves of all countries —is the realization that there will be the same kind of risks, the same kinds of exposure that occur in the case of individual countries, but there will be no other planets to exert the kind of discipline through the balance of payments that has been so clearly visible in the experience of Canada, the United States, more recently the United Kingdom, and every other country which attempted to reach a little beyond in its domestic effort the levels of viability that were consistent with a kind of orderly pattern fitting into the economic flows of goods and capital among the other nations of the world.

So, what we are talking about here is something that, in the end, as we evolve a lasting approach to it, is going to be of profound significance for other generations far beyond our time. Therefore, it is no small wonder that we are not finding immediate answers to the various needs that have been propounded or proposed. But it is at the same time certainly to be understood that no quick answers are going to be forthcoming, because individual nations are certain to have strong and different underlying views as to the purpose of this kind of reform.

Now, to try to fit the current controversies and criticisms into place, what I would like to do is to remind you that the controversies do not concern, at this stage, the capacity of individual countries to create the money that they use domestically. For good or ill, in every leading country in the world today there is no longer reliance upon the rigidities of circulation of gold coin or of paper currency redeemable in gold to limit the domestic money supply. We all create our domestic currency, and for better or worse it is always subject in the end to the discipline of maintaining a viable relation with the rest of the world. Our own balance of payments position serves as a final check on undue abuse of this management privilege, of this authority to create the money for each economy's own use.

But, then, for the purpose of settling differences among the nations of the world—and we now have, so far as individual currencies are concerned, something approaching a hundred and fifty of them—we have to get a means of settlement which can provide a common denominator, both in the invoicing of transactions and in the handling of the payments flows. For that purpose we move from one hundred and fifty national currencies to two or three or four which can be used as what some of us like to call "vehicle" currencies, the means through which settlements among all other countries can be brought into a common focus. Those vehicle currencies through the years have been mainly sterling and the United States dollar. I think that there is no question at all, in any of the fuss that has been raised about the international monetary system, that those two currencies, perhaps over time with the addition of one or two more (as in a certain segment of the world now it is still true to say that the French franc is used within the franc area for similar purposes) that will evolve, as the world grows, into vehicle currencies that the world's trading and banking transactions require, are those upon which we are going to rely, and they are now serving well. They are usable for current payments; they are employable in money and capital markets; they are valuable, lendable and tangible; so we are not now concerned with the mechanical requirements of a world-trading community.

What we are concerned about is the way in which, once all these payments have occurred—the aggregate payments on both sides of the ledger—when they finally work down to a net amount that has to be settled by the authorities who have to pay the final obligations that are owed, or receive the final in-payments arising, we are concerned about the way in which these net obligations are all finally settled by shifts in the basic monetary reserves of each individual country. It is in this third area that the controversy and the criticism and the concern have arisen. The focus is not upon national currencies, or upon "vehicle" currencies, but upon reserves used for official settlements.

We have to find a way to re-examine the uses now being fulfilled in the employment of these underlying basic reserves for the net settlements among nations that occur after the flow of the gross transactions among all the countries has occurred and one country after another finds itself netting its accounts, getting its "footings," and discovering that on balance it owes net this year, or it is owed to by others, some modest—in these magnitudes—net figure.

Now, the reserve that originally was available for this purpose was only gold, and, as you know, over the past century alongside gold, sterling began to be employed as a reserve held as part of the ultimate reserves for the monetary system of each country. In the reserves of the Bank of Canada you found sterling alongside gold over a good many years after its institution in the thirties. You also found by that time that in every country outside the United States there was another element adding to gold as a part of the basic reserves which were going to be usable in settlement among all of the monetary authorities of the world. For meeting these net balancing requirements after all the gross transactions had been settled, that added element was the United States dollar. So we have now in the world community a total of monetary reserves underlying all else that goes on, a total of monetary reserves that consists, in rough terms, two-thirds of gold and one-third of other currencies, partly sterling but primarily the dollar.

Since the end of World War II, all the growth that has occurred in these basic monetary reserves has been, of course, partly in gold but primarily in holdings of dollars. The question that has been driven to the fore, then, is whether or not, with the necessity for maintaining gold at the thirty-five-dollar price—which is an absolute necessity in a world of managed currencies if we are going to have any final reference point respected by all countries without the force of law, if we are going to have any final reference point that assures us of a pull, a magnetic or gravitational pull toward price stability against all the other forces working in the opposite direction—we must maintain, and all of the leading countries of the world are agreed we must maintain, the thirty-five-dollar price for gold. On that premise, it is clearly also implied that there will not be, over the years ahead, a continuous large growth in the volume of gold available for these reserve purposes, as the whole world economy continues to expand. We are therefore going to have to have something that will, as sterling and the dollar have done so far, fit into place alongside gold as a part of the monetary reserve. In providing these reserve supplements, we have to be careful. You will remember that, as I started, I stressed that the great risk encountered by any method of providing ultimate reserves, the most high-powered of money for the world's monetary system, is that of overissue. Overissue can mean inflation around the world, the despoiling of values, and, in your own special area, the deterioration of that confidence on which the life and future of any trust in insurance depend. So, it is fundamentally as much in your interest as in that of any group anywhere in the world that we find a way to maintain, not for now but for the life of the young, twenty-year-old policyholders you are now soliciting, for the next fifty years, a monetary system which has some hope of maintaining a pull toward price stability the world over.

It is in this framework that we are trying to find ways of answering the question, Is the dollar alongside gold going to be enough? One of the ways in which we have made great progress over recent years is in the recognition that there are great potentials beyond the mere creation of a certain amount of dollars that will be used alongside gold in the accounted reserves.

There is a great potential through the lending of these reserves. Just as within individual countries we have been able to develop larger credit systems built upon a smaller monetary base, so in the international. And there is the great advantage when you rely on a credit relationship that credit always carries the obligation to repay, so that with small annual increments increasing the volume of world reserves, if we make more and more intensive use of those reserves through borrowing and lending them among the countries in a way that somehow is responsive to an international discipline and control, we may be able to solve the problem that way.

It was with a dimly foreseeable recognition of that kind of development that the International Monetary Fund was established in 1944 and has been over the years adding to what we call the credit facilities within the international monetary reserve structure. The result has been that we can get more use out of any given volume of reserves by arranging that countries in surplus will lend them to countries in deficit and that this will mainly occur through the International Monetary Fund as a presiding agent to assure that certain standards of repayability are maintained.

But there will, of course, come a point where the further multiplication of credit facilities upon any given and relatively static reserve base is probably not going to be enough. The reason is that in international monetary life now we have reached a stage comparable to that which in the United States was a feature of our domestic economic life fifty, seventy-five, a hundred years ago, that we find on all sides now people who are concerned because they feel that somehow the way in which this international monetary system is working is going to be so constricting that it is going to prevent the real growth in trade and in the expansion of production round the world that money should serve. They do not want money to become the kind ot discipling master that constricts and prevents the growth of the world economy. It is designed to serve but to serve responsively, and they are worried because thay have seen that over recent years what has happened has been an undue generation of United States dollars. Our deficits, particularly during the period that I was in the Treasury, were too large. We were trying continually to find ways consistent with a free market mechanism to shrink the deficits. We made progress on one front always to lose on another, and the progress, while somewhat better now, is still far from complete.

On the one side, it was clear that many countries were becoming disturbed about relying on the United States dollar generated by United States deficits in the world economy as the source of the reserve money on which they could all depend. They are not unduly disturbed now, but if they have to rely on this for ten, twenty, thirty years in the future, where does it lead? On the other side, if we are going to rely only on the development of credit facilities, will those, in their present constitution, be enough?

When I told Jim I would talk with you at this length about what the fuss is all about, what I wanted to make clear was that it is concern about what lies further ahead down the road. There are some people who are taking advantage of this legitimate concern to argue, as the populists will argue in every country—and you will always have them—that what we need is more inflation in the money system now. You will hear those, asking for more, finding a way out of balance of payments discipline by creating more liquidity, but those are not the voices to whom we need to listen.

There is, however, the more legitimate concern of those who are worried about the mechanism and whether it can generate the combination between international credit facilities and international monetary reserves that we are going to need in ten, twenty, or thirty years, and on into the future—whether there isn't a need for something in addition to the small increments of gold we will have, the dollars which just cannot be allowed to go on increasing at the pace of recent years, the credit facilities which employ ways of lending these back and forth through the Monetary Fund and to some extent through bilateral arrangements we have worked out in recent years; whether we do not have to find something else. And you will find an agitation among some monetary authorities regarding whether or not just the concern about where the future is going to lead may not cause a number of them now, as it is right now causing France, to decide that because they do not know where it is coming out, because they see a clear need for something more in the way of a consensus among the leading countries, they are for the present going to hoard gold and wait.

When they take that attitude, what they are really saying is that, in order to protect their own present position against an unknown in the future, they are going to shrink the existing supply of liquidity available as an underlying base to finance all these net transactions among the other countries of the world. They are doing it understandably, but, if the practice spreads, we can find from this bona fide legitimate concern about the longer-run nature of the world's monetary system a development soon, within the next year or two or three, that will, in a defensive way, begin to constrict the liquidity we now have. That is the reason why the United States has taken a strong leading initiative in urging that while we have the time and with the United States own position now improving so that we cannot be accused of just a kind of profligate wish to be bailed out, but instead recognized as responsibly concerned about the longer-run future, why the United States is, in this setting, urging all of the leading countries, and why the government and monetary authorities of Canada have joined in that wish—in fact I can confess were ahead of us in seeing this need—that a good deal of further creative effort be made over the next two or three years toward the development of new approaches. Not that new prescriptions have to be followed immediately, but there does have to be a consensus that shows us where we are going to go in order to make sure that the monetary system, still serving us well, does not, because of doubts about the longer-run future, get squeezed in the process because a number of individual countries take defensive action which dries up the flows necessary for trade while they are waiting to see what the future will bring.

JAMES J. O'LEARY:

Gentlemen, you have just heard one of the clearest expositions of this problem that I think you will ever hear.

Our next speaker is A. F. Wynne Plumptre, the Principal of Scarborough College, University of Toronto.

Mr. Plumptre was educated at Upper Canada College, University of Toronto, and King's College, Cambridge. He was on the University of Toronto's Department of Political Economy staff from 1930 to 1941, where his special field was money and banking. He has published many articles in both academic and popular journals and his chief work, *Central Banking in the British Dominions*, published in 1940, is still widely read as a pioneering piece of research in the field.

Since Mr. Plumptre first entered the Canadian public service, he has been especially concerned with Canada/United States affairs. His first post was in Washington, where he became Financial Attaché at the Canadian Legation and Washington Representative of the Canadian Wartime Prices and Trade Board. Since that time he has been a member of the Canadian Delegation to the Bretton Woods Conference, which set up the World Bank and Monetary Fund, to the Preparatory Commission of the United Nations, to the General Agreement on Tariffs and Trade, to the Economic and Social Council of the United Nations and to annual meetings of Canada/United States and Canada/United Kingdom Committees on Trade and Economic Affairs. He was for five years a member of the Department of External Affairs, serving as head of its Economic Division and later as Minister/Councillor in Paris on the Canadian Mission attached to NATO and OEEC. He has been a member of the Canadian External Aid Board since its establishment five years ago and has played an active role in many Commonwealth Conferences, notably the Commonwealth Trade and Economic Conference held in 1958.

Prior to his recent appointment in April as Principal of Scarborough College, Mr. Plumptre represented the Canadian government at meetings in Paris of financial representatives from ten leading countries, usually known as the "Group of Ten" or the "Paris Club." This is the group that has been doing the discussing for the last couple of years of this whole question in regard to international monetary reform.

He is unusually well equipped to discuss this subject this morning, and what he is going to do is to give his impressions from the Canadian viewpoint of the issues that are involved in world monetary reform.

A. F. WYNNE PLUMPTRE:

As your moderator has indicated, I want to talk about Canada today, not merely because we happen to be here in Canada at the moment, not merely because I happen to have been associated with the Canadian discussions of this subject, but more particularly because I think that Canada illustrates some of the issues, some of the problems, that are involved from a point of view that is different from the one from which most of you, as Americans, will usually view it.

We Canadians are a debtor country, a borrowing country, and we are a holder of those United States dollars which you generate so generously from time to time. It is from the point of view of a holder of a world vehicle, or trading currency, in particular, that I thought it would be useful that I talked to you.

Just a word or two by way of introduction to put the subject in perspective as far as Canada is concerned, to remind you of the figures, just two or three of them, indicating Canada's stake in the world currency system.

Over the last fifteen years, pretty steadily, we have held international reserves, cash reserves, which consisted in part of gold; we have held something like a billion dollars' worth of gold with relatively small variations. Only in time of emergency did that figure sink appreciably, and then it was restored rather shortly.

The other section of our cash reserves has been held, as I have already indicated, in the form of United States dollars. Through the 1950's we held about a billion dollars' worth, that is to say, an amount equal to the gold reserves. In the last few years, we have held something in excess of $1,500 million of United States dollars, a 50 per cent increase in that element in our reserves, and that has been the basis of our stake in the world currency system, although we have also had small holdings of sterling.

In addition to our cash reserves, like any prudent financial operator we always have some sort of a line of credit or credit resource open to us.

I do not want to go into the details of our position vis-à-vis the International Monetary Fund, which is a highly complex organization, but it may illustrate the point if I remind you that three years ago today Canada was indebted to the Fund to the tune of about $300 million. Today we are a creditor of the Fund in the order of $200 million, or rather more, a swing of half a billion dollars in our credit position vis-à-vis the main international credit-providing institution.

So we have depended in recent years on gold, on dollars, and on credit resources, and I mention particularly the credit resources of the International Monetary Fund.

The question, of course, that I should be asking and trying to answer this morning is, Is the system which is represented for Canada by this series of arrangements a satisfactory one?

In order to answer that question, I really need to divide it into two parts. I need to answer the question, Does the system look satisfactory when you look at it as a world system and look to the farther future, as Bob has really been doing in the last little while? Then I could also ask the question, and indeed this is the one I am going to ask first, How does it look to Canada at the present time, for the immediate future, and how has it looked over the last few years? Has it met our requirements? The answer to that, it seems to me, is clearly Yes. This system has met our requirements adequately, comfortably, promptly, as occasion demanded.

I mentioned that the first element in our reserves is gold. Here, as I said, our holdings have fluctuated around a billion-dollar level and we, unlike some countries which Bob has referred to, have seen no reason to increase our holdings of gold in recent years—no reason to build up our gold proportion. In fact, we have allowed our gold proportion, as I have indicated, to run down substantially while we built up our reserves in the form of United States dollars, and I would like to say how regrettable and really deplorable it seems to me that there should be so much loose talk which suggests that the price of gold is going up or, worse still, that the price of gold ought to go up as a means of fixing up, patching up, the international monetary system.

As Bob has so clearly emphasized, gold, and gold at a fixed price, is the basis on which our international arrangements are founded. It seems to me obvious, that once you start moving the gold price around, what goes up can come down; once you start tinkering with the price of gold, it immediately opens a Pandora's box of speculation as to what the price of gold is going to be in the future and when it is going to be moved by the international monetary authorities. Gold, it seems to me, if it is going to be retained as a monetary metal, must have stability, stability in price. If and when the price of gold becomes unstable, deliberately destabilized, it seems to me quite clear that that is the beginning of the end of gold as a monetary base and a monetary metal. Those people who think that it is in the interest of our gold-mining industries, yours and the Canadian ones, to destabilize the price of gold are taking an extremely short-run view of the situation.

Well, as I say, gold seems to me to have served Canada well. We used it in time of emergency, we had enough, and we are not anxious to hold larger quantities.

As to the supply of United States dollars, we have increased our holdings in the last few years by some 50 per cent, and this indicates confidence in the United States dollar as a vehicle and as a reserve currency.

Over the years the United States dollar—and I say this deliberately to our American friends here—has served Canada well as a reserve. It served us well in the days before we had a central bank, when our commercial banks, our chartered banks, deliberately held their second line of reserve in the form of net balances in New York. It served the Bank of Canada in later years when it held our national international reserves. Today it is serving the government well, now that the government is holding our international reserves. In all three periods the United States dollar has served us well because, from a Canadian point of view above the border, your dollar looks *convenient*, *remunerative*, and *reliable*.

It is convenient, as Bob himself has pointed out, because it is the great trading currency of the world; it is convenient to hold one's reserves in a form in which they are immediately, directly, and readily available. You do not have to transform United States dollars into anything else in order to meet your international obligations, whereas even with gold you have to transform it, you have to sell it to somebody, in order to get currencies, and, of course, with credit arrangements you have to go to the source of credit. So, to begin with, United States dollars seem to us, from our point of view, a very convenient form of reserve.

Second, the United States dollars that we hold are remunerative. The great bulk of them are held in the form of Treasury Bills, which, of course, run off repeatedly and therefore provide us with cash at any given moment. The Treasury Bills yield us a certain rate of interest—not, of course, as much as we would like, but I gather that there is some difference of opinion within the United States as to whether the rates are always ideal in any case. At any rate, here we have a remunerative form of reserve, and we are glad of the return that we get on the United States dollars that we hold as opposed to gold, which, of course, not only does not accumulate interest but actually costs something to hold.

Finally—and I say this with all deliberation—we regard the United States dollar as a reliable form of reserve. We do not anticipate any change in the gold price for the reasons which I have explained. We regard the United States dollar also as reliable in terms of world prices and what it will buy. There is no major currency in the world over recent history that has been nearly as stable in terms of its purchasing power as the United States dollar, nor is there any actual group of currencies which has been as stable in terms of its purchasing power. So, last but not least, I would pay tribute to the United States dollar in terms of its stability and therefore its suitability to act as a reserve.

As for the credit facilities that are available to us, the International Monetary Fund seems to us an extremely good institution. We only wish that the Fund were growing regularly and step by step with the growth of world trade and payments under its Articles of Agreement. It always tends to shrink, relatively, because it stays the same size while other things grow. We would like to see it growing steadily along with the requirements for it.

And, finally, in the field of credit, there is a supplementary group of arrangements which, on this platform, I am glad to be able to say is really due in large measure in the last four or five years to the ingenuity and experience of Bob Roosa himself. In this field there has been, in recent times, no single person who has contributed nearly as much in terms of imaginative leadership as Bob himself. I should like—this being the first time I have been on a public platform with him—to express the particular appreciation of Canada for his help at the time when we were in rather deep difficulty in the exchange market during our last election but one. The fact that we were able to mobilize a billion dollars of emergency assistance during a single week was thanks in no small measure to the efforts and the ingenuity and the imagination of Bob Roosa. We were very grateful at the time and always will be.

So, as I have said, looking at the situation as a whole, we have found that our cash reserves are adequate, useful, and serve their purpose; we have found that our credit arrangements, including the help given to us by our friends when we are in trouble, are also satisfactory. Where the situation begins to look deficient is when we look at the system as a whole, and in that regard there is really one chink, an important chink, in the armor and it is the one which I think Bob has clearly identified. This is the incipient—I emphasize the word—the incipient shortage of gold, the danger that this basic international currency supply will be outrun by the requirements to build a superstructure on it as a foundation.

I think it is now virtually agreed among all the thinkers in this field that there is an incipient shortage of gold, but the solutions that are offered for this problem are very diverse. I have already mentioned one, the juggling of the gold price, which seems to me to be a very dangerous path to start to pursue. Another is the path of free exchange rates. Let me say one word about that, because we in Canada have had, as many of you will remember, a floating rate for ten or twelve years during the 1950's and immediately thereafter. I think that this particular system, or lack of system, served Canada reasonably well during that past period, but I do not read into that experience any likelihood, or any desirability, that the world should try to move to a system of free and fluctuating exchange rates. Whatever may be the theoretical advantage—and the theoreticians in the universities and elsewhere delight in arguing this, as I indeed have in my earlier youth—whatever may be the theoretical advantages, having been in government, I am very conscious of the fact that no government can relinquish responsibility for its exchange rate. The exchange rate is too vital, too important to too many people in too many aspects of their businesses and daily lives for any government permanently to renounce its authority in this field. And so I regard the experience of Canada during that ten or twelve years as unique in two regards.

First, the rate, when it was free, floated upward and not downward, so that there was no fear that Canada was deliberately going in for competitive exchange rate depreciation in order to give its goods advantages in the markets of the world. If, indeed, our rate had floated downward, I have no doubt whatever that in short order other countries would have taken reprisals and remedial action against our exports which were being so artificially encouraged. The fact that there were no such reprisals and scarcely any recriminations was really a reflection of the fact that the rate floated upward and remained strong throughout this period.

The second thing that was unique in that experience was that the Canadian government found the situation sufficiently tolerable during more than a decade that it did not feel compelled or impelled to intervene. Eventually, as you know, that situation came to an end. A new situation arose in which the government felt it had to intervene. And, of course, once the government has to intervene, then you get drawn back into the world system, in which each government has a responsibility for its own exchange rate and where, under the International Monetary Fund, there is a regime of law and order under which countries agree what they can do with their exchange rates and how they can defend them.

Well, these two answers—the juggling of the gold price and the free exchange rate system—are not answers, in my thinking, to the challenge of the incipient shortage of gold. I do feel that the answers to these problems lie in the same directions that Bob has suggested. First of all, there have been improvements in credit arrangements, and there can still be improvements. Even the Roosa improvements, the Roosa bonds, and so forth, are, in my mind at least, improvisations and temporizations. They had some of the evils of bilateral arrangements without a full panoply of international inspection and approval to make sure that they were in the world interest. As he himself realized right along, they were no permanent cure for the broad problem that we have before us.

And this, of course, leads us to the final step, which is discussed in Mr. Roosa's book, which I am sure you will all buy in large quantities after this lecture. That is the possibility of creating some new form of world reserve unit to serve alongside gold, because gold is becoming inadequate. It is in this direction that I think we shall have to look for the ultimate solution of the world's gold shortage problem, and in that search I think that Canada will be found, as it has in the past from the time of Bretton Woods on, in the position of a helpful and constructive collaborator.

It does not really matter very much to Canada *how* this particular problem is solved within the framework which I have described; details of the new world scheme are not of great importance to us. That there should be a solution is, however, of the greatest importance to Canada, with its tremendously important balance of international payments, both on credit account and also on trading account. We are one of the great internationalist countries of the world, and it is up to us to help, as far as we can, to solve the world currency problem.

JAMES J. O'LEARY:

Thank you very much, Wynne. That was certainly a marvelous job of setting forth an important Canadian viewpoint with respect to the problem of world monetary reform.

Our anchor man on this panel is Roy L. Reierson, senior vice president and chief economist of the Bankers Trust Company of New York; also chairman, recently appointed, of the Advisory Committee of the Bankers Trust.

Roy is a native of Minnesota, a graduate of St. Olaf College, and receive his M.B.A. and Ph.D. degrees from Northwestern University. As head of the Economics Department of Bankers Trust, he is concerned with the analysis of current problems and prospects in business, credit, and finance.

He has served as consultant to the Board of Governors of the Federal

Reserve System, the Office of Statistical Standards, and has, on various occasions, done work with the Department of Commerce, the United States Treasury, and the Joint Economic Committee.

He is a member of the Technical Consultant Subcommittee of the Business Council of the New York Chamber of Commerce and a member and former chairman of the Chamber's Committee on Finance and Currency.

Dr. Reierson is a member and former chairman of the Research Committee of the American Bankers Association, a Fellow of the American Statistical Association and, very important, a director of the Guardian Life, a member of the United States Advisory Board of the Zurich Insurance Company, and a trustee of the Bay Ridge Savings Bank.

He has been a member of the faculty of the Graduate School of Business Administration at New York University and an assistant professor of accounting and finance at Northwestern University.

During the war he served in the navy and rose to the rank of commander.

In 1960 he was awarded an Honorary Doctor of Laws from St. Olaf College, and in 1961 he received a Merit Award from the Northwestern University Alumni Association. He is also a member of the Board of Regents of St. Olaf College.

Roy has been for a number of years an outstanding student of international finance, and I know of no one who has really devoted more time and study to this subject. Although he is not a member of the "Paris Club," I think he can take his place in this panel as a real "pro" in this area.

ROY L. REIERSON:

For the benefit of those of our audience who may have liquidity surpluses or shortages, I shall summarize what I have to say in three sentences: First, I am heartened by the agreement between our first two speakers, but I warn you, be not misled. There are some very real differences of opinion that will have to be resolved before significant changes will be made in the international monetary system.

Second, I should like to comment upon the prospects for the present negotiations, looking to the evolutionary development of the international monetary system. I use the term "evolutionary development" rather than "reform" because I would agree wholeheartedly with the two preceding speakers that the basic principles of the present international monetary system will be preserved. Gold will continue to play a key role; it will not be devalued; its price will not be raised or lowered, as recommended by various people around the world; the practice of gold/dollar convertibility, so far as the United States is concerned, will not be changed; we shall not embark upon a system of flexible exchange rates; I doubt that the margins of permitted fluctuation for exchange rates will be widened materially; I do not believe we shall have a world central bank, as advocated by others; and certainly the conditional credit arrangements, through the IMF and through the bilateral arrangements already referred to, will be maintained and strengthened.

Third, I have some real concern that we—and I am not talking about the members of this panel but people in general—are devoting too much attention to the problem of the future, namely, a possible shortage of international liquidity somewhere down the road, and that too little progress is being made in improving the adjustment mechanism so as to eliminate the large and chronic balance of payment surpluses and deficits which have and will continue to create disturbances in the international monetary system.

My first observation is that, in considering the international monetary system, there are some areas of agreement and also many points of disagreement. It is rather unique, frankly, to have a panel of three people who display such substantial agreement. In the United States, and I think elsewhere, on the subject of international monetary affairs, many voices are speaking in many tongues.

In some of these discussions, there is an undertone of criticism that I think is unfortunate. A well-known American academic speaking in London a few months ago paraphrased an old saw and said that "Obviously, world monetary problems are too important to be left to the central bankers." Now, this is, I think, just a smart-alecky observation. I would add that if you could find two academics who could agree on anything in this area they might be able to make a contribution.

There are people in private finance who are equally critical. One of them, a very important figure in a very important financial institution in New York, at a private dinner the other night turned out a phrase which I am sorry I did not author. He said, "There are a number of professors in the United States who, given a scrap of paper and thirty minutes, could devise a new international monetary system." He then observed, "The trouble is, too many of them have." In this complex matter, bankers and businessmen alike are confused by the plethora of advice and counsel.

More serious, however, is the fact that there are some differences among the monetary authorities who will be engaged in the pending negotiations. Let us face it, the surplus countries have a point of view. It is not a whimsical point of view; rather, it is based upon their experiences and the problems that they have been facing in the past few years. They have arrived at certain conclusions with which we may or may not agree. If one is to negotiate, however, one has to negotiate in the light of what the person on the other side of the table believes.

The points of view of the United States and of the United Kingdom, both of them reserve currency countries that have had difficulty for many years in achieving viable payments positions, are not in complete agreement with those of the surplus countries—and I include in the surplus countries more than France. The lesser-developed countries obviously have an interest in this subject which is quite different from that of the important industrial countries.

While there is substantial agreement on the basic premises (that we shall continue to use gold at a fixed price, etc.), there are some differences also that may mean that the negotiations may not be conducted with facility, speed, or immediate success. In this connection, of course, it is reassuring to hear Bob Roosa say that he does not see any impending international monetary crisis.

Now, with regard to the negotiations, my second point is this: We have had many studies, official and otherwise, of international monetary problems and international liquidity. Some of the most important of these are the studies of the IMF and the Group of Ten. We have also had reports, the latest being the Ossola Report by the Group of Ten. This report describes in considerable detail a number of the proposals that have been advanced concerning international liquidity. This report did not come out with the indorsement of a specific plan, but it was useful in describing the plans and in setting forth some of the areas of agreement and disagreement.

Last September at the meeting of the International Monetary Fund, the ministers and governors of the Group of Ten issued a communiqué in which they embarked upon a program of "contingency planning" on the matter of international liquidity. This phrase is in the communiqué, and it is a very significant phrase. "Contingency planning" carries the implication that the ministers were interested in planning for the future but were not planning against the possibility of an imminent international monetary crisis.

The ministers and governors requested their deputies to report the progress of their deliberations and the basis of agreement in the spring of next year. These discussions will be among representatives of the Group of Ten, the Bank for International Settlements, the International Monetary Fund, the OECD and the Swiss, that is, the major industrial countries and the international monetary organizations.

The whole question of a world monetary conference that was suggested by our Secretary of the Treasury, I believe somewhat prematurely, was indorsed in principle, but the timing was left open. In fact, Mr. Fowler has said that there is no use having a conference until you have an agreement.

If we are to have successful negotiations, I believe that a first requirement is that the United States position must be formulated in specific terms. As recently as a couple of weeks ago, the Secretary of the Treasury said that he had an "open mind" on the various proposals that had been advanced.

As I see it, the United States cannot have an open mind if the negotiations are to get anywhere. Mr. Fowler has to make up his mind, because I do not think that there will be any real negotiation unless and until the United States presents a specific program. To the best of my knowledge, the French are the only nation that have yet presented a program in some detail. The United States does not like many features of the French proposal. What the eventual American position will be, I think, is quite clear, as Jim O'Leary suggested. It will be a plan for some form of a composite reserve unit, to use the commonly accepted phrase.

One could have arrived at this conclusion by looking at the composition of the Committee appointed to advise the Secretary of the Treasury on this matter. On that Committee are Mr. Roosa and Mr. Bernstein, each of whom has a plan. There is not on the Committee a leading American exponent of the world bank idea, or an exponent of flexible exchange rates, or an exponent of a change in gold practices or gold prices. I think it is quite clear, consequently, that the American plan will be along the line of some form of composite reserve limit.

I think that it is a fair statement, Bob—if I misstate the position, I hope that you will correct the record—that there are some differences between the Bernstein plan and the Roosa plan. How significant these differences are and how easily they may be reconciled I do not know, but negotiations will have to begin at home. Mr. Bernstein and Mr. Roosa will have to begin negotiating; I suspect, in fact, that they have already begun the negotiating process.

On some of the broader questions, there are some differences of opinion as to the imminence of any future shortage of international liquidity. There are some countries that believe that there is too much international liquidity. This colors their whole approach, not only as to the urgency of the negotiations but also as to the sort of arrangements to which they will be willing to agree for creating additional international liquidity—

for example, the restrictions and limitations that will be imposed upon the creation of additional reserve units in the future.

There has been some difference of opinion as to what countries should participate in the negotiations and in the arrangement to create additional international monetary reserves. This question has been resolved, for the time being, by limiting the participating nations to the major industrial nations. The creation of composite reserve units will involve a substantial element of credit, and I would think the prevailing feeling is, therefore, that the participating countries should be limited to those which have established financial responsibility and which have some chance of achieving substantial balance of payments equilibrium. The strict application of the latter criterion, on a historical basis, would exclude the United States. In the initial negotiation phase, and perhaps ultimately, only a relatively few countries will be involved.

Another question at issue is what international agency should be involved in the creation of additional reserves. Should the function be lodged in the International Monetary Fund, or in the Bank for International Settlements, or in some other agency? This, to me, is really not an important consideration. The important question is, Who will make the significant decisions? I think that it is clear that the decisive decisions as to the amounts of the reserve units to be created will not be made in the IMF, according to the present voting procedure. In other words, I believe that a limited number of the larger countries will have a decisive role in determining the amount of additional reserve units to be created and the basis of their distribution.

As to the voting procedure by which one arrives at decisions, the imagination of man could think up any number of possibilities. One point of view is that the decisions should be made by unanimous vote. This does not appear to be the prevailing view, but will the French not have to give way if a basis of negotiation is to be found? Whatever the voting procedure, the crucial decisions, may I suggest again, will be limited to a relatively few countries.

Another question is, To whom and on what bases should the new reserve units be distributed once they have been created? The French position has been—I do not know whether it still is—that distribution should be related to holdings of gold. Are the French flexible or inflexible on this? Mr. Roosa has suggested several other possible bases. For anyone who has a serious interest in this problem, let me stress the paramount necessity of reading Bob Roosa's new book.

There is another technical question: How shall the acceptability of the new reserve units be achieved? Countries may have to be persuaded to accept and to hold them. Here there are differences of opinion, perhaps not insuperable, which will have to be reconciled.

Finally, there is the question of the future role of the reserve currencies. Should the new composite reserve units plus gold be the exclusive settlements medium and international monetary reserves or should reserve currencies continue to function in both capacities? The minority view—apparently a minority of one—is that the use of the reserve currencies should be discontinued. The majority view is that they should continue to function as reserves and as a settlements medium. But we have to face the fact that there is some feeling in Europe, not limited to one country, that the United States has taken advantage of its reserve currency position by continuing its balance of payments deficit too long and that some arrangements should be made to put the reserve currency countries under more pressure to attain payments equilibrium.

What about liquidity and adjustment? As I said earlier, I fear that we are spending too much time talking about possible future problems and not enough talking about more pressing immediate problems.

As to the present shortage or adequacy of international liquidity, I think Bob Roosa said that in his judgment liquidity was adequate today. This certainly is the prevailing official view, although there are some academics who would take a contrary position.

The record of the international monetary system in the past few years, as has been said on this podium, has been a good record, by and large. There have been some problems. One type of problem is typified by the problems of the Canadian dollar and of the Italian lira, both of which came under substantial market pressure. These pressures were surmounted by two actions: first, by making available to these two countries, Canada and Italy, sufficient amounts of credit to convince the market that the parities of the respective currencies would be maintained and, second, by positive actions on the part of the countries concerned, namely, Canada and Italy, to add further support in the market place to the conviction that they meant to get their balance of payments positions into equilibrium. These actions, incidentally, did result in drastic improvements in their respective payments positions.

The more troublesome problems of the past few years have been the problems of the reserve currency countries, the United Kingdom and the United States. Sterling has come under repeated pressure and the dollar under recurrent questioning. Currently, both the United Kingdom and the United States are making some progress in coping with their payments deficits.

The core of the problem of avoiding confidence crises and monetary instability is to eliminate large and chronic payments deficits, on the one hand, and large surpluses, on the other. Countries have a responsibility to avoid either large and persistent payments deficits or surpluses, and they must meet this responsibility if the international monetary system is to operate successfully.

Countries must avoid the large and persistent deficits which deplete reserves and entail the risk of a confidence crisis. On the other hand, large surpluses also pose problems for the surplus countries. Large surpluses mean that the nationals of these countries acquire holdings of foreign currencies—meaning largely dollars. If they acquire more dollars than they need, they convert the excess at their central bank for local currencies. This has two effects—it increases the central bank holdings of dollars with the result that their dollar holdings may become larger than they like to hold, and, in addition, this adds to the liquidity of the monetary system of the country and therefore confronts the authorities with the necessity of trying to cope with the resulting inflationary problems.

If, then, large deficits and large surpluses are disadvantageous alike to the deficit and to the surplus countries, why do they persist? The answer is that there is no easy way to achieve and maintain payments equilibrium. The United Kingdom experience is so recent that we need not go into it in detail, except to say that a year ago it became evident that sterling was in serious trouble. The British government disavowed its intention to embark upon the stop-and-go policies that had been used to defend sterling and denied any intention to use restrictive credit policy or to delay its social programs or its policies designed to foster economic growth. A year later, after a cost of some $3 billion, more or less, the British government has finally adopted all the policies that they said a year ago they would not adopt.

The United States has been working on the problem of eliminating its payments deficit for some years. Mr. Roosa, being a generous man, might agree that some halting steps were taken by the Republicans in 1960. The real effort came, however, when Douglas Dillon and Bob Roosa stepped into the Treasury. Many actions have been taken to improve the American payments position. Progress seemed evident, until in 1963 and 1964 the capital outflow avalanche hit. The proposal for an interest equalization tax was advanced, but it took some fourteen months before it was enacted. The act included an amendment which had the effect of accentuating the capital outflow problem by encouraging foreign borrowing from American banks. The result was that in late 1964 and early 1965 the United States faced a very difficult payments situation. We then embarked upon a program that included changes in the interest equalization tax and substantial reliance upon voluntary efforts by banks, by other lenders, and by business corporations to reduce the outflow of funds.

Why has the elimination of the American payments deficit been so difficult? One reason is that we have a low interest rate bias in the United States. I am not one of those who believes that a payments crisis can be cured in the real world exclusively through the use of credit policy. But neither do I believe that it makes very much sense to persist in a highly expansionary credit policy in a domestic economic environment which does not need it, particularly if an important facet of the balance of payments problem is a large capital outflow. The discount rate was raised in mid-1963 and in November, 1964, for balance of payments reasons; at the same time, however, a highly expansionary credit policy was followed which contributed to the incentive to lend and send funds abroad.

As recently as a few weeks ago, the Secretary of the Treasury, in a speech at the American Bankers Association convention, underlined the continuing desire of the administration to maintain low interest rates. The present American balance of payments program is to use selective control to reduce the capital outflow rather than to use credit policy.

There are some other troublesome facets of the American balance of payments situation. We have reduced the foreign cost of our military operations by encouraging foreign purchases of materiel from the United States, but I doubt that we have done all that we can do in retrenching. "Tied loans" may be of some help in reducing the foreign exchange cost of the foreign economic programs, but they are not a complete solution.

The surplus countries, of course, also have their problems. We could say to them, "Why do you not reduce your tariff and other trade restrictions? Why don't you open your capital markets? Why don't you use fiscal policy to cope with your domestic inflationary situations rather than rely almost exclusively on the use of credit policy?" In each case, I think the answer is the political problem encountered in adopting American "suggestions."

I would point out that the record of the surplus countries has not been all bad. The Germans and the Dutch, for example, have acted responsibly. The flagrant example of lack of co-operation, I think, is limited to one country.

What, then, are the prospects for improving the adjustment process? Are they hopeless? The communiqué of last September asked Working Party 3 of the OECD to report next spring on progress in its study of the adjustment process.

I think that progress in this area is of crucial importance. If the adjustment problem is solved, this will go a long way toward forestalling a possible shortage of international liquidity. If not, the present monetary system is likely to continue to be subject to strains and pressures and to possible confidence crises. This would be equally true of the present monetary system with the addition of new reserve units. In fact, I have some difficulty in conceiving of any international monetary system involving fixed parities among currencies that would not be subject to these pressures, unless something effective can be done to improve the adjustment process.

I conclude—the international monetary millennium is not close at hand.

JAMES J. O'LEARY:

Thank you very much, Roy. That just puts the icing on the cake and showed a dimension of this problem which I think is useful for this group to have in mind.

Ken MacGregor has told me that it is all right if we use a few minutes more for any further discussion that may be stimulated here, but I think that it will be appropriate to ask Bob Roosa if he has any reaction to some of the comments of Roy Reierson

ROBERT V. ROOSA:

Only three comments. The first is that I do not get any royalties from that book. The second is that Roy probably did not know that he was talking to the chairman of the group studying the adjustment process. He is a Canadian, Bill Lawson, from the Bank of Canada, sitting quietly back here, so that all of you should realize that the future of the settlement of balance of payments differences among countries is in the hands of a man who is not only reliable in all respects but has had the full benefit of all of Roy's concern.

The third comment is just to say that I greatly appreciate the comments that Wynne made about some of the things that I was involved in, but I would underline what Roy said, that what we have been doing in a number of improvisations over recent years with respect to arranging the credit facilities to meet current problems that seem in each case to be almost of the proportions of a crisis has demonstrated the flexibility and reliability of the arrangements now possible so long as we have an environment of genuine and continuing international financial co-operation, that we have to work and labor hard to maintain this, but that it is equally important to realize that none of these bilateral arrangements can succeed unless we take a further step, one to which Wynne Plumptre referred, and which he and I helped to christen in a long-distance telephone call when I was in Frankfurt and he was in Ottawa. We were trying to decide how we would at last agree with the French on language that would describe the need, when you have these credit arrangements among individual countries, for assuring that they are not abused and extended too far and used as a substitute for adjustment rather than as a means of promoting corrective adjustment among countries. The two words that Wynne and I agreed on we will disgracefully now concede were "multilateral surveillance."

I think, having made that contribution to international confusion, I will subside.

JAMES J. O'LEARY:

We may have time for one or two questions, if there are burning questions that anyone in the audience has. Here is a question from the floor directed to Mr. Roosa: Are you optimistic about the Group of Ten reaching a consensus by the spring of 1966?

ROBERT V. ROOSA:

That refers to the study of liquidity, not to Mr. Lawson's study of adjustment. He, of course, will reach agreement through a bit of persuasion and compelling logic long before that, but the liquidity effort will not reach agreement on a detailed plan by the spring of 1966.

I would be hopeful that, in response to Mr. Reierson's injunction, the United States will have an explicit set of propositions, leaving room for a good deal of embroidery in negotiation, but still propositions which it will be advancing within the next couple of months, depending on the way in which the atmosphere of these negotiations opens, and that the other leading countries will do something of the same, so that by spring there will have been agreement on most of the basic propositions that will be necessary for the later creation of a reserve currency.

To say that is not to say that the job will be done, because, to illustrate, the propositions will include voting procedure; they will have to include the weight attributed to different countries' currencies in any composite unit. The agreement at this stage can go as far as to say that there will be a unit, that countries will be eligible in such-and-such a way, that the weights will have to be determined with respect to one, two, or three criteria. But then there will be months and years of negotiation, defining these in the precise terms the nations need if they are going to begin to actually operate, so that the broad lines can be agreed by the spring of 1966 but the details will take much longer.

JAMES J. O'LEARY:

We have been privileged to hear a clear and well-rounded presentation by three authorities of the problem of world currency reform. There is a consensus on several points: (1) there continues to be a pressing need for multilateral surveillance to insure that countries experiencing continued large deficits in their international accounts are placed under pressure to eliminate such deficits; (2) the problem of providing greater liquidity to finance a growing volume of world trade, while not an immediate one, requires that the countries of the free world begin promptly to find a solution; (3) the solution will be to develop a new type of reserve asset to supplement gold and the "key currencies" (the United States dollar and the pound sterling), as well as to develop new types of international credit facilities by means of which reserve assets can be borrowed in emergencies; (4) the process of negotiation will be difficult because of the differences in interests of the deficit countries and the surplus countries, but it will not be impossible; (5) an increase in the price of gold or the use of "floating" exchange rates do not provide workable solutions to the problems of the world monetary system; and (6) the measures of world monetary reform which are adopted should be aimed at providing sufficient liquidity to encourage an expanding world trade, but they must scrupulously avoid an increase in liquidity which would be inflationary in its consequences.

I am sure that you will want to join me in expressing our gratitude to our panel of "pros" for a wonderful job!