(*b*) To provide for greater flexibility of exchange rates so that international disequilibria, which are bound to arise in the world, can be corrected without resort to deflation with its attendant damage to economic growth.

(*c*) To take international action to limit the amount of private short-term international capital movements. These serve little or no productive purpose and are liable to be disturbing to orderly exchange arrangements—except possibly in a world of floating exchange rates. (It may be noted that in Europe moves toward greater freedom of short-term funds in exchange markets were put forward by Britain at a time when she was aiming at the adoption of flexible exchange rates. We now have freer short-term movements without the flexible exchange rates, possibly the worst of both worlds.)

The object of all these is essentially to allow a country with a reserve currency to adopt a more independent domestic policy—to concentrate on the development of real economic resources at home and abroad.

Proposals along these lines have been discussed at length in the past. The main points—more liquidity, exchange rate changes in the event of disequilibrium and restriction of capital movements—were incorporated in attenuated form into the statutes of the IMF. But since then the drift of policy has been in the opposite direction.

It might not be possible to get any quick international agreement to a move along the lines suggested. The nations in surplus always oppose moves of this sort which ease the lot of the nations in deficit. At the present moment, the surplus nations are those of continental Europe which are seeking to consolidate their economic and political position vis-a-vis the United States and Britain. They are not likely to be eager to lose the extra bargaining strength which they derive from their present position of surplus.

A lot could, however, be done in the meantime by the United States, partly in conjunction with Britain, the provider of the other main reserve currency:

(*a*) A gold quarantee might be introduced into officially held foreign balances. It would probably be best to introduce a guarantee simultaneously into dollar and sterling balances so as not to induce a move from one to the other. Such guarantees should alleviate the risks of movements of official funds out of either currency into gold or other currencies.

(*b*) That part of the U.S. gold reserves, which is now tied as currency backing, might be released.

(*c*) Restrictions might be applied to capital movements into and out of the United States, similar to those applied in other countries. [The Japanese regulation on inward movements, whereby funds invested in Japan cannot be removed in less than 2 years, is an interesting example.] And international agreements might be sought as to ways of limiting short-term capital movements.

(*d*) The Present system of swap agreements, whereby the United States and other countries have arranged to hold one another's currencies in stipulated amounts, might be expanded, so as to provide an interim expansion of liquidity.

Measures along these lines might reinforce liquidity and reduce the risks of speculation, official and private, sufficiently to permit the United States to calculate her policies in a mood of greater confidence. Above all, the effective reserves would look very large in relation to the possible calls on them.

It would then be easier to run risks for the sake of expansion—and, because of the inevitable difficulties of forecasting the balance of payments, they are only risks. If balance-of-payments troubles did persist, the United States would face the choice between reverting to deflation and taking more direct measures to correct the deficit—export subsidies, import taxes or quotas, or exchange adjustment.

The choice between these alternatives is a matter of values. Deflation gives priority to fixed exchange rates and to the absence of restrictions on the international movement of goods or funds, regardless of the rate at which they move or the purposes for which they move.

Direct action to correct international disequilibrium gives priority to full employment and economic growth. It can still be compatible with freedom of trade if the price mechanism—in the form of exchange adjustment (or export subsidies and import taxes)—is the weapon used.

When it comes to this choice, there is one argument that is usually put forward in the end by those who uphold the gold standard mechanism. That is the argument that this mechanism imposes discipline on nations and prevents them from following policies that lead to price inflation. Whatever the validity of this argument in the past, it is difficult to accept it as regards the major indus-