U.S. Government position on this matter seems indispensible to any constructive policy program.

TOWARD A VIABLE INTERNATIONAL FINANCIAL SYSTEM

The immediate problem of correcting the disequilibrium in the international financial balance, in which the U.S. finds itself on the deficit end, should be regarded not as a unique incident—one in the correction of which we ask other countries to do an unreasonable favor for us—but rather as a step in the building of an international financial system that is viable, that will stand the tests of the future. A system imposing a burden of deflation on key currency countries will not do so.

More broadly, we should see our present position not as one of defense of a finished and satisfactory international financial system, but rather as a stage in a process of experimentation and development. The system built up since the war, a system in which many experts always have seen grave defects, is only now being tested in the sort of open international financial interchange that we expect to maintain in the future. We must be ready pragmatically to assess the lessons of that experience and to revise the system on the basis of it. What is needed is imaginative leadership in economic architecture, and not resolutions to do or die for the institutions that now exist.

In this connection, it is essential to keep in mind that not only is our present international financial system in some respects anomalous and defective, but that we have never had a system that was satisfactory. Enough time has now elapsed since its failure and ultimate collapse that some people seem to take the gold standard of the 1920's as a proper guidepost for our future development. However, it was not so regarded when the experience was fresher. Some of our difficulties stem from the fact that the well recognized flaws of the gold standard have been built into the system with which we are now working: the instability of the gold exchange standard, the disruptive influence of unregulated short-term capital movements, the excessive rigidity of exchange rates, the asymmetry of the system and the deflationary burden that it sometimes implies.

Thus, it behooves us to keep our minds open to the possibility that experience will indicate the necessity for substantial changes in the present system along the several dimensions that past discussion has clearly delineated, principally: (1) Greater flexibility of exchange rates as a way of maintaining payments balance; (2) further internationalization of the responsibility for management of the international money, to limit the instability of the key-currency system and the burdens that it sometimes imposes upon the key currency countries; and (3) regulation or better considered rules of the game for international capital movements.

Since this last point is a fundamental one perhaps neglected in recent discussion and quite relevant to the present problem of the United States, let me make a point regarding it. I do not have at hand any suggested set of rules of the game for international movements of private capital in the modern world, but I am very doubtful that the situation of laissez faire now evidently taken as the goal of policy development makes any sense. I think that this whole matter needs a fundamental rethinking. Consider these points: