

Right now, as well as over the longer terms, emphasis must be kept upon increasing the competitiveness and productivity of the U.S. economy. For this reason, the recent record of lower unit wage costs has been most welcome, especially at a time when wage pressures continue strong in Western Europe and elsewhere.

Bringing our international payments into balance and keeping them under close control is a necessary condition for protecting the dollar's position as the world's leading currency and as the keystone of a stable international currency and payments system.

The rebuilding of foreign monetary reserves and the redistribution of international gold reserves have resulted in a decline in our gold stock and in a rapid rise of foreign short-term claims on the United States.

These short-term claims are like money in the bank to those that own them; and, just as any of us would, they look to the banker, the United States, to provide assurance that the bank is being managed wisely.

If we expect people to keep their money in U.S. dollars we must give them both confidence in the soundness of our currency and some inducement to stay with us, rather than moving to another currency or to gold.

It is for this reason that the System has cooperated in efforts to avoid unnecessarily low short-term interest rates and thus to reduce disruptive short-term capital outflows and their actual or potential effects on our gold stock.

In this connection, I should like to emphasize my strong conviction that if we achieve a balance in international payments and avoid actions that damage confidence, our gold stock is ample for our requirements both as a major trading nation and as bankers for the world.

I was surprised, by the way, that several witnesses have proposed to this committee that the United States extend a gold guarantee to foreign holders of dollars. I wish to emphasize my strong conviction that such a guarantee would be an exceedingly harmful measure, besides being ineffective.

In my judgment, this type of protection would be illusory and, in any case, is not warranted in view of the Government's determination to maintain the gold price and to take the basic measures needed to assure attainment of this objective. Indeed, a guarantee would merely becloud this larger issue.

The potential of monetary policy in protecting a currency against sudden speculative pressures is well recognized, hence Federal Reserve policy must remain flexible and prepared to deal with any contingency. We should try to avoid conditions of excessive credit ease that make reserves so ample that our banks and other lenders are induced to seek more remunerative outlets abroad because credit availability greatly exceeds domestic loan demands.

Rate differentials are an important, but not the only, reason for international capital movements. For instance, the sheer size, efficiency, and ease of access of our capital and short-term credit markets constitute a strong attraction to foreign borrowers. And, as you know, a variety of rate differentials are involved, both hedged and unhedged, while their respective significance in pulling in or repelling money may change over time.