

The Federal Reserve System has to be continuously alert to the pressures on the dollar which may arise from rate and credit developments, or from any other cause. In essence, the challenge to monetary policy in recent years has been to provide an adequate availability of credit to support a sustainable growth of our economy while guarding against a spilling over of excess liquidity into channels that would weaken the international position of the dollar or renew inflationary pressures domestically.

Meanwhile, the external defenses of the dollar have been strengthened so that monetary policy will not be overburdened while more basic balance-of-payments adjustments are still taking place. Such a strengthening would have been required, it might be added, even without a U.S. payments problem.

Convertibility has greatly increased the volume and volatility of internationally movable funds; this is a natural consequence of the considerable degree of our success in approaching the kind of world we have been seeking to achieve since World War II.

Nevertheless, it does mean that proper resources must be at hand to meet sudden shifts of funds and pressures that may be expected to be temporary. There is encouraging evidence that this problem can be handled through such avenues as the activity of the Treasury and the Federal Reserve in the exchange markets, the increasingly close central bank cooperation of the past 18 months, and the IMF expansion agreement (still requiring final congressional action, of course), which will vastly enlarge our access to currencies that we may need.

Official U.S. exchange operations undertaken so far have basically been designed to protect the U.S. dollar against disturbingly large pressures at a time when we are making steady progress toward bringing our balance of payments into equilibrium.

Treasury operations in convertible currencies began in the spring of 1961 when the Federal Reserve Bank of New York, acting for the Treasury, undertook operations in the market for German marks designed to deal with the abnormal conditions that had developed following the revaluations of the German and Dutch currencies in March 1961.

This operation was followed by other Treasury transactions in Swiss francs, Italian lire, and Dutch guilders, which are continuing up to the present.

The Federal Reserve System with the full concurrence of the Treasury, concluded that the central bank of this country should play a more active and direct role in defending the international value of the dollar. The Federal Open Market Committee therefore authorized the Federal Reserve Bank of New York on February 13, 1962, to undertake transactions in foreign currencies for System open market account in accordance with the committee's instructions.

Since that time the System has acquired a substantial amount of convertible foreign currencies, primarily through a series of reciprocal currency agreements with foreign central banks, and has begun to use these resources in defense of the dollar.

The possibility of acquiring substantial amounts of foreign currencies through such currency swaps with foreign central banks rests upon a mutuality of interest. That interest is to make the present