international financial system, under which world trade and investments are expanding rapidly, work reliably and efficiently.

Therefore countries relying upon the dollar as an important part of their international reserve assets are glad to participate in arrangements that reduce the possibility of temporary and capricious pressures on the dollar.

Furthermore, since currency swaps and standby agreements are tantamount to a mutual credit facility, foreign countries as well as ourselves obtain access to additional resources in case of need. Over the years ahead, these arrangements can also make a useful contribution to world liquidity needs.

In carrying out exchange transactions for both the Treasury and the System, we have made a point of establishing the closest and most harmonious possible relations with foreign central banks—an indispensable requirement when working in the exchange markets for their currencies.

We have found that, with this cooperation, our use of foreign currency resources has in fact been effective; we have helped to strengthen the dollar in the exchange markets, reduced cumulative or snowballing speculative flows, and eased the immediate impact upon the U.S. gold stock of foreign central bank accumulations of dollars.

You will realize that official U.S. exchange operations rest upon the assumption that the pressures they have to meet are of a temporary and transitional nature. In a number of important instances, this has already turned out to be the case so that the commitments undertaken could be liquidated without a gold loss.

Such success, however, cannot be taken for granted. In particular, an indefinite continuation of large U.S. payments deficits would assure that the pressure upon the dollar becomes permanent rather than temporary.

Hence, these exchange operations in no way detract from the urgency of our task in correcting the payments deficit.

Furthermore, while the initial development of close international cooperation has clearly been stimulated by the very strains it is designed to combat, foreign countries are counting upon us, as we are counting upon them, to take the national actions necessary to make certain that such strains upon any one currency will in fact pass.

Thus far we have met to a remarkable degree the challenge of harmonizing the domestic and international aspects of our financial policies. I believe we have the needed flexibility to continue to meet this challenge under the changing conditions that may confront us.

Chairman Patman. Thank you, Mr. Hayes.

Mr. Klopstock of your staff testified earlier this week and gave us a great deal of information on the flow of funds between the United States and other countries. I want to congratulate you on the careful research that is being done on this and other subjects which influence policy decisions.

It now seems pretty clear from the work done by Mr. Klopstock and others, particularly Prof. Philip Bell, that the amount of funds which flow in and out of the country because of interest rate differentials is very small indeed.

Now, Mr. Hayes, I want to call your attention to the chart on the easel which correlates interest yields on long-term Government bonds