Do you know any reason why we should not insert your reply in the appendix of our hearings, along with your accompanying statement?

Mr. MARTIN. Mr. Young says it has been revised. Can we give him the revision?

Mr. YOUNG. If it is going to be published, it should be the revised memorandum.

Chairman PATMAN. You can hardly revise a letter of April 17.

Mr. YOUNG. No; not the letter, but the memorandum accompanying the letter.

Chairman PATMAN. With that understanding, without objection, the revised memorandum will be inserted in the record of this hearing.

Thank you again, Mr. Martin. You have been very kind to us. We appreciate it.

(The following was later received for the record:)

AUGUST 23, 1962.

A SYSTEM OF FLUCTUATING EXCHANGE RATES: PRO AND CON

At a hearing of the Joint Economic Committee on January 30, 1962, Senator Douglas requested that the staff of the Board of Governors prepare a memorandum on the following question for the benefit of the committee:

"Instead of having fixed exchange rates, why would it not be a good thing for the Western World to adopt a fluctuating exchange rate? Then we wouldn't have to worry about the balance of payments or gold reserves. Exchange rates would fluctuate according to the relative balance of imports and exports, claims and debits, and there would be an automatic adjustment."

In response to that request, the present article was prepared in the Division of International Finance under the general direction of Ralph A. Young, adviser to the Board and Director, Division of International Finance, who is also responsible for the article's summary and appraisal. Robert L. Sammons, adviser in that Division, had responsibility for sifting the professional literature that advances a case for an international payments system based on fluctuating exchange rates for the currencies of the principal trading nations. J. Herbert Furth, together with A. B. Hersey, both also advisers in the Division of International Finance, carried main responsibility for presenting the arguments against variable exchange rates.

SUMMARY AND APPRAISAL

Reconstruction of the international payments mechanism following World War II was based, and continues to be based, on a system of exchange rates for major currencies anchored to fixed par values, with rate movements limited to 1 percent above and below the parity. The International Monetary Fund, established under the Bretton Woods Agreements of 1944 "to promote international monetary cooperation," was founded on this principle. Accordingly, any move away from this system of interconvertible currencies, with established parities and limited market deviations from them, would necessarily have profound effects on the existing pattern of international economic relations as well as on the domestic economies of the free world.

Nevertheless, there have been recurrent questions and discussions regarding the economic advantages of this payments system as compared with one in which currency values of major countries would be free to fluctuate without definite limits in relation to one another. Against the background of this discussion, the present article undertakes to bring together the main arguments advanced by supporters of such an alternative payments system and to subject these arguments to critical examination.

The article proceeds by stating the case for a system of fluctuating exchange rates free of any official intervention and with no limits as to the possible range of rate fluctuations. Then the case is argued for a modified system of variable rates in which governments or central banks would intervene to temper or limit exchange rate fluctuations. A final section examines critically the major premises and arguments of the case for any system of floating