

(The following statement, prepared by the staff and approved by the subcommittee, had been circulated earlier among the members of the panel for their comments:)

[Released Aug. 28, 1966]

PROPOSED POLICY STATEMENT BY THE UNITED STATES

1. The United States, for some years, has been attempting—
 - A. To balance its payments, consistent with maintaining its international responsibilities, and;
 - B. To bring about an international monetary reform which will relieve the dollar (and sterling) from key currency pressures.

Despite the recent Hague decision to continue discussions in the International Monetary Fund, no agreement is in sight, at least for several years to come. The main cited reason for disagreement is the U.S. failure to balance its payments. The present situation—no monetary reform, plus a universally deplored U.S. payments deficit—is dangerous in that it can lead either to insufficient international liquidity if our payments deficit diminishes, or a run on the dollar if it does not.

2. One reason for the unsatisfactory state of free world economic arrangements is that the monetary negotiations are entrusted solely to finance ministers and central bankers. The discussion needs to be elevated to the level of heads of government.

3. Accordingly, the IMF, at its September 26–30 Washington meeting, could well invite the 21 leading free world industrialized nations of the OECD promptly to prepare governmental positions on the following:

A. In the absence of international monetary reform, how much U.S. payments deficit, if any, would be necessary for the next few years, in order to create sufficient liquidity?

B. What action would they recommend in order to enable the United States to meet this target? If our deficit is below the target, should there be an issue of credits by the United States? If our deficit threatens to exceed the target, should there be—

- (i) Action by continental countries to restrict U.S. private investment;
- (ii) Reduction of U.S. untied foreign aid, by such means as refusal to contribute to the replenishment of IDA funds, as requested by World Bank President Woods;
- (iii) Accelerated removal of trade barriers, under the Kennedy Round and later programs;
- (iv) Greater use by continental countries of fiscal rather than monetary measures in their domestic economies;
- (v) Programs to broaden the non-U.S. capital markets;
- (vi) Efforts to encourage foreign travel to the United States and to discourage U.S. travel abroad;
- (vii) Reduction of United States and British military dispositions around the world, and particularly in France and Germany;
- (viii) Reduction of U.S. commodity imports by tariff or quota barriers;
- (ix) Further reduction of U.S. private capital outflows by the United States;
- (x) Increased monetary stringency by the United States;
- (xi) Any other actions?

4. The IMF and the OECD would then act as cohosts at an international conference of heads of government of the 21 nations to be held as promptly as possible.

5. The United States promises to give serious and sympathetic consideration to the proposals of other nations designed to promote the economic health of the free world, without imposing a domestic recession upon the United States.

Chairman REUSS. My colleague and friend, Mr. Ellsworth, who has done so much for this subcommittee, has an introductory statement.

Representative ELLSWORTH. Thank you very much, Mr. Chairman. Certainly your opening statement was an inspiring one and gives guidance to all of us.

These hearings on U.S. international economic policy take place in a setting of rapid action and great stress.