

ize the marketing in their countries of U.S. Treasury obligations was not due to the fact that they thought these were poor securities or that American credit worthiness was inadequate. It was due to the fact that they thought there was something deep-seatedly wrong in sparing us the necessity of losing gold.

Now this is where I say a bad doctrine is the cause of the difficulty. It is widely thought that the shift into gold—incidentally, this isn't a French monopoly, the Germans, I think, have converted more dollars into gold than the French have. They have simply done it in a more discreet fashion. This desire for gold rather than dollars is not due first and foremost to fears on the part of foreign central banks that the dollar will be devalued. It is due first and foremost to the fact that the economics that they have been taught says that to relieve us of the pressures which gold loss would entail would be somehow wrong. It is the attitude of the central banks which accounts in turn, for the private speculative demand for gold, and it is our own very great timidity and fear about losing gold, the intensity of our preoccupation with this problem, which has also bolstered and strengthened this attitude.

Now what I am really saying is this: Things will not be changed essentially by international negotiations. There may be some token accomplishments in the way of international liquidity arrangements of little practical importance, but things will not be changed essentially and the present, contained crisis won't be ended until the reserve asset preferences of foreign central banks are radically altered.

The United States has this problem entirely within its control. It is not a matter of international negotiations. The United States doesn't even have to do any of the things that I proposed in the spring of 1965. It merely has to change its mind by recognizing the fact that in the present-day world, gold derives value from the fact that it is convertible into dollars. It must lose its intense anxiety about losing gold. It would be highly useful, incidentally, if, instead of merely abolishing the reserve requirement against member bank reserves, we abolished the gold reserve requirement against Federal Reserve notes also, as a token of our willingness to lose gold.

If our obvious pain in undergoing gold loss disappeared, the whole situation, I think, would be utterly transformed. We could have a functioning international capital market, and without a functioning international capital market, the chances in the long run of maintaining anything approaching liberalized trade are almost nil.

I would say also that with the exception of a few economists like Dr. Mundell, the whole approach to this balance-of-payments problem is to treat it as a problem of the adjustment of the current account, of the trade account. In a world functioning with open international capital markets, a large part of the adjustment consists of international capital movements accommodating to changes in trade balances, so that most countries other than the reserve center are not under what is conventionally thought of as balance-of-payments constraint. They are under another kind of constraint, the constraint only of credit standing.

They do not encounter balance-of-payments difficulties until their ability to import capital from abroad is impaired. The U.S. position is truly unique, since we are the banker. We are the only country which cannot borrow on the basis of credit standing, and I would say