

tion requirements, primarily, but first and foremost on what we concluded, in consultation with other countries—and I stress this because I have been called a jingoist—what we concluded to be appropriate, conducive to stable, noninflationary world economic growth.

This would mean that not only we, but other countries, would have to rely much more heavily for domestic stabilization purposes on fiscal policy, basing our monetary policy on international considerations, in the light of the world role of the dollar and of the U.S. financial markets.

Let me say this: That I think the importance of the financial role of the United States is not merely that it provides liquidity, and I think a great deal of confusion arises from the fact that people say the U.S. deficit has generated liquidity, as it has. That is only one-half of the picture, however, and if you think of the United States as a bank, the liquidity that it provides to other countries is on the liability side of the U.S. bank's balance sheet.

On the asset side are the loans and investments that we make in our role as financial intermediary. Now, if the deficit in our balance of payments were removed, the significance of that removal would be not merely that this source of liquidity was removed, but equally important—I would say, indeed, more important—is that this source of lending, financing on the asset side was removed, and from this point of view, none of the proposals for finding some international arrangement to substitute for the U.S. deficit make any contact with the problem, because the problem is not just to provide the liquidity.

These international arrangements—whether a Triffin plan or CRU, or something else—would not acquire the types of assets that U.S. lending and investing are acquiring, would not meet the financial needs which American financing activity is meeting. Moreover, using rigid formulas for growth of liquidity, they are undesirably inflexible and in this respect inferior to the informal Basle arrangements.

So that I would say that all the proposals for dealing with what is called the international liquidity problem are at least 50 percent irrelevant. I am not saying they are harmful, but they would not obviate the need for a U.S. deficit from the point of view of a healthy world economy.

Now starting from where we now are, the sacrifice which this would call for from us is a substantial sacrifice with respect to the use of monetary policy for domestic purposes, and actually I would say it would also require this sacrifice from other countries.

The Germans, pursuing highly expansionary fiscal policies, have sought through monetary policy, and without much success, to curb their inflation. Their first allegation was that monetary policy was ineffective because when they raised interest rates, it attracted funds from abroad. So that the Germans wanted the United States to pursue a tight money policy, in order to assist them in fighting their domestic inflation.

Now, I don't think just fighting a German and Dutch inflation is the correct role for American monetary policy either, but the interesting thing is that as we have tightened in this country, interest rates in Germany have gone up even more, money has got tighter, but the inflation seems to proceed. What I am really saying is although within a range monetary and fiscal policy can be thought of as alternative domestic stabilization devices, this is only true within a range.