of world finance, and to adopt a setup which accommodates to what exists, instead of maintaining or seeking to maintain this pretense of equality.

Chairman REUSS. Why don't you settle for an international central bank of the sort which seem to be our Treasury's current negotiating position, plus a sweeping out of the intellectual cobwebs, if they are cobwebs, of people in governments generally on quasi-mercantilism, which you would describe as getting rid of the idea that there is something evil with lending long and borrowing short to do it, "ex-Humeing" the world in short? If we did all that, why wouldn't you be very happy?

Mr. DESPRES. Well, I don't regard that as—you didn't ask me this question—as a very likely outcome. You may not regard what I propose as a very likely outcome either. But the thing I had in mind is this.

I think a U.S. deficit ought to be a normal and a current feature of a healthfully growing world economy operating under liberalized trade.

Therefore, the International Central Bank or whatever other arrangements would have to keep providing reserves to us; we would be the client in the sense of the borrower or the recipient of owned reserves. I think this would be very hard to sell, and I think that——

Chairman REUSS. The compromise I was suggesting to you was one in which we would be able to continue to run deficits caused by our lending long and borrowing short, with the cheery acquiescence of the new enlightened central bankers of the world, but the need for long-term liquidity, quite a different thing, could be met by a Joe Fowler type international central bank. Why wouldn't that give you an answer on both questions?

Mr. DESPRES. That is all right. I don't see any separate long-term need for liquidity, apart from the need for financing appropriate payments deficits, but yes, that would be all right, would be my answer.

I would be reasonably happy if that were the outcome, but I don't see it as the outcome, because of the principle of symmetry or equality, from which all these problems are approached.

Chairman REUSS. Mr. Mundell?

Mr. MUNDELL. I agree with a great deal of what Professor Despres has said. But I think "financial intermediation" is a big word to explain what is in essence, a rather simple concept, which is that the foreign countries, whether companies, individuals, banks, or central banks, want to hold a certain amount of the dollars they have been getting. In this connection, the Robert Roosa distinction—in his recent book—between "reserve" currencies and "vehicle" currencies (in which the latter expresses the intermediation idea) is useful.

Central banks want to acquire liquidity every year, and the only two useful assets they can acquire are dollars or gold.

What many European governments have been arguing is that they don't like the idea of using dollars as their sole credit reserves in central bank hoards. I don't think it is useful in this connection to call their dollar holdings the results of "financial intermediation," and they don't think of it in these terms. They want an asset that isn't a liability of another country. They don't want to keep dollars as their sole currency reserve. They want to keep an international asset. That seems to be a legitimate aspiration.