ments difficulties from time to time. The purpose of reserves or international lines of credit is to permit countries to finance these occasional balance-of-payments deficits without having to do violation to their other objectives, both national and international.

I do not fear a repetition of the 1929 debacle. Most Western governments are sufficiently committed to their domestic economic objectives to carry through with action to prevent a deep depression. The real threat I see in severe balance-of-payment deficits is precisely to the areas that we have been talking about this morning, trade policies. Deficits which cannot be financed, and about which there is a sufficient uncertainty that a change in exchange rate seems inappropriate are likely to be stopped by interferrence with trade and other international transactions.

I see no reason to think that forces leading to imbalance of payments are likely to diminish in the future. On the contrary, they will perhaps increase, for a number of reasons. It will therefore be necessary to have an adequate flow of new international reserves to permit financing of larger and more prolonged deficits. I don't mean by this that I see a perpetual deficit for the United States. I am talking about the international payments system as a whole. And Countries need larger reserves to finance these deficits and to feel comfortable about doing it; that is, they must feel free to use those reserves rather than modify their policies to defend reserves.

As I understand the French position on monetary reform, it would do very little to provide that kind of financing. I would say even that a straightforward increase in IMF quotas such as we had in 1965, with mitigation of gold subscriptions, would be preferable, and should not be denigrated.

Representative REUSS. Mr. Pincus, you've made a suggestion in your paper which I quote: "The executive and legislative branches should seriously consider the establishment of an American development bank with authority to borrow in the market at variable terms and conditions to underdeveloped countries in order to help them finance purchases of American equipment." I think that is a good idea. However, don't we have such an institution—the Export-Import Bank—which lately, it turns out, has been getting into antics not having to do with development? That to the side, the Export-Import Bank does have the power to go to the market with participation certificates—maybe not enough from our standpoint, but it does have that power. It can relend at variable terms and conditions—maybe not as much as you have in mind, but, of course, it can charge a 7-percent interest rate on some loans, and then use the money it gets to be able to charge a 2 or 5 percent interest rate. And to the degree that it does, it may be the wrong people and the wrong commodities. And finally, it is restricted, of course, to financing purchases of American equipment. So, why couldn't the Export-Import Bank, with maybe a few refinements substantially be what you have in mind?

I suspect it could.

Mr. PINCUS. I suspect it could, also.

The kind of thing I have in mind would involve some annual or biannual appropriation of the interest subsidy, because I am thinking of larger sums of money than the Export-Import Bank is now operat-