

In the first place, the very concept of what is the balance of payments of the United States is not an easy one. Well informed men can differ within hundreds of millions of dollars as to what it means, and what is more, technical economists may in the course of a generation have a completely different approach to the balance of payments.

The liquidity definition of the balance of payments is subject to so much arbitrariness of definition as to be almost meaningless.

Money-market assets are counted as settlement items if the maturity date is a couple of days earlier, but are counted as foreign capital inflow if the maturity date is a couple of days later. I am talking about the investments in CD's of more than 1-year maturity.

The liquidity definition takes the approach that if private foreigners hold more deposits in this country, it is a settlement item. On the other hand, if our banks make loans to foreign governments or to foreign banks, to say nothing of loans to foreign business, that doesn't go into the settlement items.

If our banks borrow abroad, as they did in the Eurodollar market, that is no alleviation of a balance-of-payments deficit. In the days of Bagehot, in the classical gold standard, it was regarded as the most practical way to eliminate a balance-of-payments deficit quickly and to relieve the pressure on gold reserves.

The Review Committee on Balance of Payments Statistics brought in a unanimous report but we were divided equally 4 to 4 on the question of whether we should set up in our balance of payments an account called banking transactions which would have had in it borrowings by our banks from foreign banks, but also the lending by our banks to foreign governments and foreign banks. We would have kept out all transactions with nonbanks or nonmonetary authorities from that account. As I said we were divided 4 to 4 on that and we didn't pursue it.

It doesn't seem to me that it is reasonable to make an improvement in the U.S. balance of payments a condition for activating the new reserve plan.

This is without prejudice to the proposition that if the U.S. balance of payments is being financed by a big increase in foreign holdings of dollars, official holdings of dollars, then that is a growth in monetary reserves that would affect my conclusion. On the other hand, if there is no growth in aggregate monetary reserves, the growth in official holdings in dollars being relatively small, I would say that a U.S. payments deficit is no reason for postponing the activation of a plan for creating reserves.

I am willing to leave for later the question whether we can have a stalemate on activation and what is the significance of a veto for the Common Market countries. Do you want me to add a word or two on that?

Chairman REUSS. Yes. But might I ask a question on where you have gone so far, which is to say that there is certainly no automatic relationship between the U.S. balance-of-payments deficit and the need for new SDR's and that, therefore, our balance-of-payments situation should not be taken into account in the decision to activate except insofar as our deficit leads to an increase in foreign officially held exchange reserves. I think that is what you said.