Other advanced countries have an important role in achieving a viable international payments pattern. The industrialized countries of continental Western Europe, as a group, tend to run continual and substantial current account surpluses with the rest of the world. In the period since 1957, they have imported more capital than they have exported. They have preferred to accumulate gold and other official reserve assets in payment for their current account surpluses rather than offset them with medium- and long-term capital outflows.

The United States has played the opposite role. It has supplied large amounts of capital to the rest of the world, financing not only its own current account surplus but also, indirectly, part of the current account surplus of the continental Western European countries.

A report on improving the adjustment process was made by Working Party 3 of the OECD in August 1966. It emphasized the responsibility of both surplus and deficit countries for proper international adjustment, and the special need for international consultation in the field of monetary policy to avoid undesirable levels of interest rates. Recently you have seen the efforts that have been made to develop and carry further this aspect of international cooperation.

As you will recall, the Treasury was asked some time ago by the Joint Economic Committee to comment on a proposal that wider exchange rate margins around parity might be useful in facilitating short-term adjustment. I hope shortly to submit our reply to this request, but I can say in general that this proposal does not seem to be a very promising one.

Mr. Chairman, the remaining pages of my statement deal with the better international financial arrangements which we have been most vigorously and persistently trying to effectuate over the last 2 years. We are optimistic. We are hopeful that a specific contingency plan for deliberate creation of new reserves will be formulated and ready for presentation at the meeting of the Governors of the International Monetary Fund this September. Whether optimism or pessimism will be borne out only time will tell, of course.

Better International Financial Arrangements

In the economic message, the President called attention to the significant progress made during the past year toward strengthening the international monetary system. In that year the Fund quotas were increased by 25 percent, the general arrangements to borrow were renewed for another 4 years, and the network of bilateral swap arrangements between monetary authorities of the United States and other leading countries was enlarged from a total of \$2.8 to \$4.5 billion. These actions taken together have effectively broadened and strengthened the credit facilities that may be called upon to meet payments imbalances.

The President has placed major emphasis on the importance of reaching full agreement on a constructive contingency plan in the coming year. Two major forward steps were taken in 1966.

The first was to reach a wide consensus on basic principles for creating reserves, among the Group of Ten, as set forth in the Report of the Deputies in July 1966, and the Ministerial Communique of July 26, 1966.