

outlines of a plan can and should remove one important source of speculation against the \$35 price—the unrest created by the view that the members of the IMF will be unable to agree on a plan and that consequently the price of gold will go up by default. I am convinced, however, that no plan could or should provide any escape for the United States from the discipline imposed by the balance of payments. Nor can a new reserve asset be allowed to become a means of providing aid to emergent countries. The fact that the highest current priority ought to be given in the United States to our own present balance of payments deterioration (as Aschinger stresses) should not, however, alter the desirability of pressing forward with monetary reform as rapidly as possible.

(The comment below was subsequently furnished by Professor Kindleberger:)

Mr. Aschinger makes three points: (1) that there is no need for increased international liquidity; (2) that plans for increased international liquidity should be kept distinct from aid to the less developed countries; and (3) that other problems such as worldwide inflation and persistent balance-of-payments disturbances are far more important than fears of a shortage of liquidity. In general I agree. I would, however, like to qualify my answer.

There are two types of international liquidity: one is the supply of primary money, such as gold; the other is access to credit. Most of the discussion turns on the first. It is this question which is unimportant. But the second aspect of liquidity is of vital concern. Countries need to be able to borrow to restore their supply of international purchasing power, so that there must be an international capital market to provide liquidity against credit for normal uses; and when financial crises supervene, as sometimes occurs, there must be facilities for rediscounting to support the country or countries in trouble. The I.M.F. was designed for the first purpose. It has gradually been converted some distance toward the second, with the provision of General Agreement to Borrow, etc. The Group of 10 discussions aim at the first type of liquidity. Much more important in my judgment is the maintenance of the Basle-type arrangements, and the Euro-dollar market, which make it possible for countries to get rapid, flexible, vital access to credit when their liquidity is threatened.

On the second point, it would be useful and important if the world were suffering from unemployment to use international spending as a way to create real assets in the less developed countries and monetary reserves in the developed. In a world of full employment, however, it must be recognized that the provision of real assets to the less developed countries costs real resources. In the second place, it is useful to recall the important theorem that any clearing mechanism will break down if the participants divide clearly into persistent creditors on the one hand and persistent debtors on the other. The proposal to tie new international liquidity to aid to the l.d.cs. involves making the latter persistent debtors, and the developed countries persistent creditors. After time, the creditors are unwilling to keep on extending credit to the debtors, or in an international monetary system, to continue to regard as good money claims on countries that seem unlikely to be able to repay their debts.

Thirdly, I would tend to agree with Mr. Aschinger that the problem of inflation is more important than new means to provide international liquidity. When he comes to persistent balance-of-payments deficits, however, I would want to withhold my approval of his views until I knew better how he measured surpluses and deficits and whether he makes the distinction which I find critical between the balance of payments of a producing enterprise, and that of a bank. Banks, as I have pointed out, are not in deficit when they increase their financial claims and their financial liabilities, so long as they have a suitable ratio of quick assets to total deposits. The United States in my view is a bank. I do not think it is in deficit.

Representative REUSS. Mr. Moorhead?

Representative MOORHEAD. Thank you, Mr. Chairman. I would like to state to both witnesses that your presentations were interesting, stimulating, and helpful matter and I appreciate it very much.

Professor Kindleberger, in your statement, a sentence appears: "Surplus of the continental European countries are therefore not earned but borrowed." My question, sir, is: Can we turn that sentence