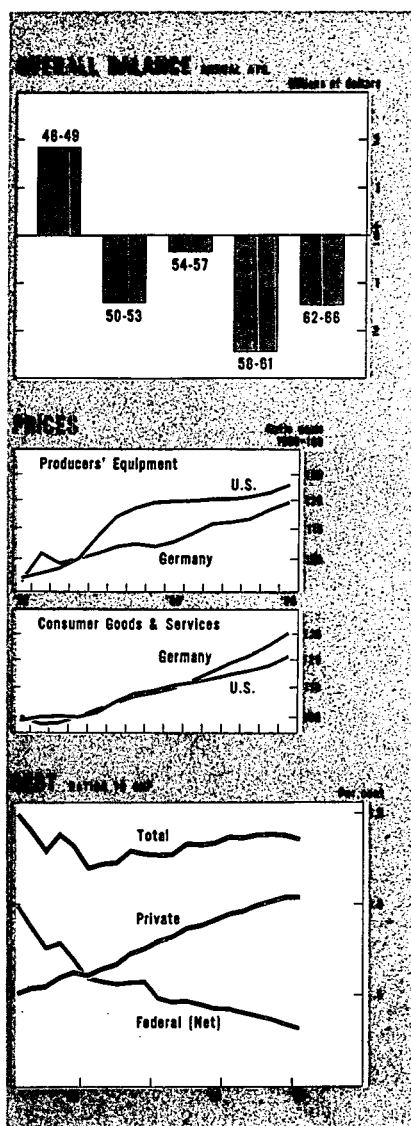




But the balance of payments problem is still with us. To correct it, we must enlarge our surplus on goods and services or hold down capital outflows or both, and we must do these things in a way that is consistent with other objectives—in particular, the maintenance of a vigorous and healthy domestic and world economy.

Our balance of payments problem—represented by a persistent deficit—has as its counterpart a persistent surplus in continental Western Europe. Better equilibrium in world payments requires corrective action by Europe—action to reduce surpluses there—as well as corrective action here.

What contribution can monetary policy make to improvement in our payments position? Its main contribution is to help prevent price inflation and the sort of deterioration in our competitive position that occurred in the late 1950's. This means trying to prevent the build-up of excess demand pressures, such as we experienced in 1965–66. Although monetary policy also has some capacity for affecting capital flows, that capacity is limited if monetary policy is to perform its domestic tasks adequately. It is the influence on prices and costs that matters most for the longer-run balance of payments position.

The presentation will continue with a review of developments in domestic financial markets over the postwar period.

FINANCIAL DEVELOPMENTS

Postwar economic growth has been supported by a rapid increase in private debt. Measured here to include the debt of non-financial businesses, individuals, and State and local governments, private debt has risen much faster than GNP. While lengthening of maturities has moderated the debt burden, the fragmentary evidence available