In the midst of these uncertainties, far-reaching measures were taken to assure the continued strength and stability of the world economy. The devaluation of sterling, although it had unfortunate short-run consequences, has made it possible to restore the U.K. balance of payments. The prospects for the rehabilitation of sterling have been much improved by the new budget which will help to eliminate excess demand, stabilize prices and costs, and free the real resources necessary for a payments surplus. In the United States, new measures to limit U.S. foreign direct investment and to reduce outstanding bank credits to foreigners were put into effect on January 1, 1968. These emergency measures are an essential part of a comprehensive program to secure a substantial reduction in the U.S. payments deficit this year. The possibility of slowing down the fighting in Vietnam, as a consequence of the initiative of President Johnson, provides additional hope that the strain on U.S. resources, which is the basic cause of the payments deficit, will be gradually relieved. The most important step that the United States can take now to strengthen the dollar is to reduce the budget deficit by raising taxes as requested by the Administration.

The leading industrial countries and the International Monetary Fund have agreed on major steps that will provide a strong foundation for a new gold standard. The most important of these measures is the proposal for creating a new reserve asset, Special Drawing Rights (SDRs), to supplement gold and foreign exchange. At a meeting in Stockholm, March 29-30, 1968, the Group of Ten gave their approval (with France dissenting) for the immediate presentation of such an amendment to the Fund charter. In the meantime, at a meeting in Washington, March 16-17, 1968, the central bank governors representing the gold pool agreed on a new gold policy isolating private gold markets from the international monetary system. In essence, the monetary gold stock will remain at its present level. Thus, the growth of monetary reserves in the future will have to come entirely from the issue of SDRs.

Despite the crisis through which the international monetary system has passed, it has been a year of progress. The great industrial countries have accepted greater responsibility for maintaining an orderly international monetary system. They have made it possible to have an adequate growth of monetary reserves in the future through the creation of a new reserve asset, SDRs. The logical corollary to SDRs is the policy of isolating private gold markets from the international monetary system. Together, these measures have accelerated the evolution of a new gold standard better suited to the needs of the world economy.

Co-operation on a New Gold Standard

The gold crisis revealed the extent to which the stability of the international monetary system could be disturbed by the vagaries of gold speculators. In the United States, the Gold Reserve Act of 1934 recognized the danger of permitting domestic hoarders to deplete the gold reserves of the monetary system. The danger is even greater that in a period of temporary weakness of a major currency, the Bretton Woods system of fixed parities could be undermined by speculative raids on the gold reserves of the international monetary system in the hope of forcing a change in the monetary price of gold. To prevent this, the gold pool terminated its intervention in the London market and adopted a new policy that will protect the international monetary system from gold speculation. At a meeting in Washington on March 16-17, 1968, the governors of the central banks of the United States, the United Kingdom, Belgium, Germany, Italy, the Netherlands, and Switzerland (representing the gold pool) stated the new policy, as follows:

> "The Governors believe that henceforth officially held gold should be used only to effect transfers among monetary authorities, and, therefore, they decided no longer to supply gold to the London gold market or any other gold market. Moreover, as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market. Finally, they agreed that henceforth they will not sell gold to monetary authorities to replace gold sold in private markets."

This new policy will freeze the stock of monetary gold at about the present level; that is, the gold reserves of all countries outside the Communist group and the gold holdings of the IMF, the BIS, and the European Fund. The new gold policy will assure a solid foundation of $40 billion of gold to serve as the principal reserve in the new gold standard that is now evolving. With the monetary gold stock frozen at about the present level, the necessary growth of monetary reserves for an expanding world economy will have to be met in another way. The great industrial countries (the Group of Ten) and the IMF decided that the best way to assure an adequate but not excessive growth of monetary reserves is through the creation of a new reserve asset.