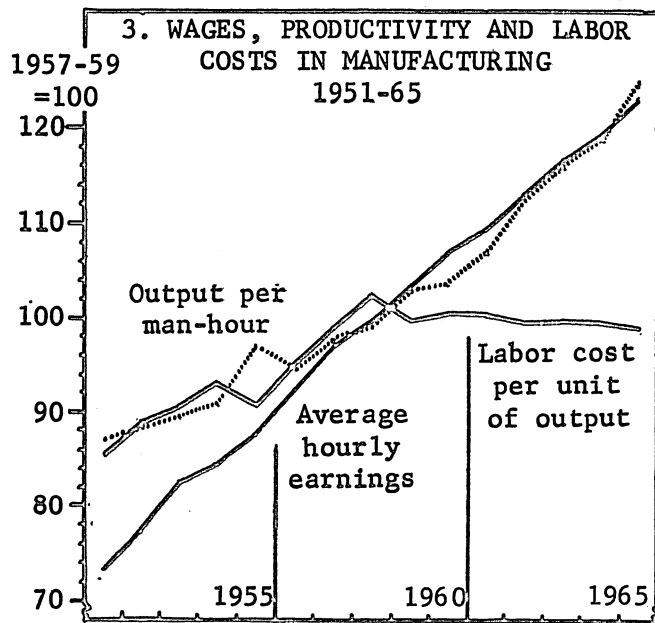


need be no exception to this sweeping statement, know that their own task of maintaining monetary stability will be much less difficult if the United States maintains a strong balance of payments and stable prices and costs. Other countries have manifested great patience and tolerance on the U.S. payments problem, although not without considerable apprehension. The United States must recognize its own responsibility for international monetary stability. The basic problem is to prevent any further rise in prices. Once that is achieved, we may be confident that when the present boom arising from fixed business investment and the war costs in Vietnam is over, the U.S. payments deficit will be quickly eliminated.



Balance-of-payments adjustment

In a dynamic world, no country can maintain its balance of payments in equilibrium at all times. Inevitably, there will be a payments surplus when its own economy is expanding less rapidly than that of other countries and a deficit when its own economy is expanding more rapidly than that of other countries. In fact, the payments surplus or deficit can be a very helpful means of avoiding an excessive cyclical expansion or recession and of minimizing the domestic price effects of cyclical movements of production, prices and costs. The essential point is that the payments surplus or deficit must be kept within the limits that will permit a restoration of equilibrium within the course of a cycle.

The process of adjustment requires the adoption of policies by the surplus and deficit countries to facilitate the restoration of a balanced pattern of international payments. In order to maintain international monetary stability, the process of adjustment should have neither an inflationary nor a deflationary bias. By its nature, the international payments system will exert pressure on the surplus and deficit countries to restore a balanced pattern of international payments. A balance of payments surplus and deficit increases the domestic money supply of the surplus country and decreases the domestic money supply of the deficit country. If domestic policy does not fully offset these changes in the money supply, there will be a tendency for monetary expansion in the surplus countries and for monetary contraction in the deficit countries.

The preliminary discussions on the Bretton Woods system were very much concerned with the adjustment of the balance of payments and its relation to