

INTERNATIONAL ECONOMIC POLICY ISSUES IN 1969

(A summary of a paper delivered by Robert Triffin at the 52d annual meeting of the National Industrial Conference Board, New York, September 19, 1968)

1. *Main issue*

One of the main international policy issues of 1969 will remain the one which we have confronted, and failed to solve, for nearly a decade already, i.e. how to redress our balance of payments without drying up what has been, since the war, the main source of growth in the world monetary reserves needed to sustain feasible, non-inflationary, growth of world trade and production.

2. *Payments imbalances are an international problem*

In view of our dominant role in world trade and finance, our balance-of-payments problem and its solution cannot be viewed in isolation from their interrelationship with other countries' problems and policies. The most puzzling feature of the enormous imbalance of world payments in recent years is that the hugest and most persistent reserve losses have been incurred *not* by the poorer, less developed countries, but by two of the richest and most developed countries in the world, i.e. the United States and the United Kingdom. Over the four years 1964-1967, the underdeveloped countries have increased their international reserves by about \$3 billion, but the gross reserves of the United States and the United Kingdom have dropped by \$2.5 billion, and their net reserves by about \$11 billion, and even more, in fact, if we include our indirect borrowings from other central banks through the Euro-dollar market incorrectly reported in our statistics as liabilities to private banks rather than to foreign monetary authorities. (I wish I had time to explore with you the possible relationship between this paradox and the reserve role of the dollar and the pound in the so-called gold-exchange standard.)

3. *U.S. deficits and policies*

More than \$4 billion of our \$6 billion deficits of the last four years have been financed from our own gold losses (\$3.5 billion) and decline in our reserve position in the IMF (\$0.6 billion). The rest (about \$1.8 billion) and our accumulation of foreign exchange reserves (\$2.1 billion, overwhelmingly accounted for by credit claims on the U.K.) was reflected in our mounting indebtedness to the IMF (\$0.2 billion) and to foreign monetary authorities (\$3.8 billion). We increased, over the same period, by an additional \$5.5 billion our short-term indebtedness to commercial banks abroad. A substantial portion of this latter amount undoubtedly reflects dollar accumulation by foreign central banks through the Euro-dollar market.

The concrete policy measures adopted to hold down these huge deficits have centered mostly so far on reducing—by “voluntary” or “compulsory” restraints and the interest equalization tax—the outflows of U.S. capital and inducing inflows of foreign capital, particularly from the Euro-bond market, on an unprecedented scale. Our net exports of private capital have been successfully pared down in this fashion from about \$7.5 billion in 1964 to about \$4 billion in 1967 and probably not very far from zero in the first half of this year.

Unfortunately, this huge “gain” has been offset, and indeed more than offset, by modest increases in our foreign aid expenditures and, most of all, by the near elimination of our current account surplus which fell from \$7.5 billion in 1964 to \$3.5 billion in 1967 and probably \$0.1 to \$0.2 billion, at an annual rate, in the first six months of this year.

Estimates of our so-called “official settlements” deficit gyrate in bewildering fashion from quarter to quarter, but taken together with our short-term liabilities to commercial banks, they indicate a continuing deficit of about \$4 billion per year.

4. *U.K. deficits and policies*

The overall deficit of the other reserve center country, the United Kingdom, continues to oscillate around \$1.5 billion per year and even reached a record level