this basis of $3.4 billion for the entire year 1967. However, this structure of international payments may be vulnerable in the future. For example, if the German economy should begin to show signs of inflation, a tighter monetary policy would be likely to exert an especially strong restraining effect upon the purchases of foreign bonds, which have been quite large in 1968, and on investments in foreign money markets by the German commercial banking system. The equilibrating capital outflow would then decline much more rapidly, in the event of a German boom, than the corresponding reduction in the German trade surplus as domestic consumption of imported goods increased.

The ideal situation would be for the German and Italian economies to expand while avoiding a resumption of inflationary pressures are to base the expansion upon domestic demand factors, relying less upon the impetus to the domestic economy of the extremely large current and trade surpluses. The Italian economy could make effective use at home of the substantial amounts of real goods that are now being shipped abroad and financed by the export of capital. In fact the Italian authorities recognize that an equilibrium on current account as well as capital account is a desirable objective for Italy. The German authorities took steps in November to reduce the large current account surplus, although they still rely heavily on capital exports to avoid a rise in German reserves.

In sum, the first three quarters of the year 1968 have been marked by capital movements that have tended to strengthen the position of the dollar, as against earlier periods, although this has been partly associated with strain on the Franch franc. More attention is beginning to be devoted to the more deep-seated and difficult problem of achieving a pattern of trade surpluses and deficits that will be regarded internationally as more satisfactory than the present concentration of strong current account positions in the European Community countries, apart from France.

It is therefore to be hoped that the Continental surplus countries will find ways of relying to a larger extent upon domestic demand, rather than on foreign demand for their products, in maintaining the strength of their economies. Greater reliance on domestic demand would represent an important contribution by the surplus countries to the balance of payments adjustment process.

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