development effort. Reduction in trade barriers is one important approach but capital transfer and technical assistance are also essential.

The administration has been given a congressional directive to review U.S. foreign aid programs. In making recommendations for change, we must profit by experience under the existing program, preserving its good features, and developing new ways to increase the effectiveness of our foreign assistance efforts and gain them greater public support.

Among the new departures to be considered are proposals systematically to promote increased private investment in less-developed countries. Significant progress in this direction has been made by AID's Office of Private Resources, which assisted some 250 corporations and nonprofit groups in fiscal 1968. The book value of U.S. private direct investment in less-developed countries was about $17 billion in 1967, but 50 percent of this was in petroleum or in mining and smelting. Only 25 percent was in manufacturing. While this was a significant increase from the 15 percent share of manufacturing in 1960, even more should be done to increase the total flow of private investment funds and to direct these funds into nonextractive industries. Governmental programs of foreign aid will, of course, also continue to be desirable.

A quarter of a century ago an international conference convened at Bretton Woods, N.H., and agreed to set up a new system of world finance. With the trade and financial chaos and warfare of the 1930's fresh in their memories, the participants were determined to create a trading world that would be conducive to national growth and freer exchange among nations. Unlike the classical gold standard, which had been in operation for some decades prior to World War I, the Bretton Woods system sought to free countries from the necessity to correct external deficits by excessive internal deflation. The conferees also wanted to resurrect the climate of confidence and overall stability that had accompanied the classical gold standard in its heyday. Consequently, they wished to avoid the unpredictability of exchange rates which had exerted a debilitating effect on trade and capital movements, but they also recognized that orderly procedures for changes in rates were necessary to keep the system close to a durable equilibrium.

The system that was then established, after lengthy deliberations, has often been discussed before your committee, and therefore needs no further description. It is enough to say that it has served its purposes with an astonishing degree of success. International trade and investment has expanded rapidly. By and large international cooperation gained the upper hand over inward-looking nationalism. And there has been no postwar parallel to the economic warfare that had prevailed during the 1930's.

It is clear that a system which permitted these impressive achievements has great merit and strength. The system has actually proved to be capable of considerable adaptation to changing needs, especially to the increased need for reserves. The ever-growing need for liquidity is itself a result of the growth in international transactions under the Bretton Woods system, but it is also related to difficulties in the adjustment process. In the private sector the Eurodollar market continues to be an important source of liquidity. In the realm of official reserves the Special Drawing Rights facility should promptly be brought to the stage of activation on an adequate scale.