Less progress has been made in another important problem area, namely the adjustment process. To maintain an appropriate equilibrium in its foreign transactions, any country should look first of all to its domestic policies. If it runs an external deficit as a result of internal inflation, its first efforts should evidently be to cool down its economy; conversely a country with unemployment and a balance-of-payments surplus should stimulate the demand for output. In these cases there is no conflict between the goals of internal and external balance.

But the situation is not always so straightforward. Sometimes a country has both unemployment and a balance-of-payments deficit—this was our position in the early 1960's—or it has both high employment and a balance of payments surplus—this has been the case in certain foreign countries. At the moment, of course, there is no question that a reduction in our rate of inflation, which is necessary for domestic reasons, will also strengthen our balance of payments in the long run and help to maintain confidence in the dollar as a reserve currency.

It is nevertheless a serious misconception to believe that domestic measures aimed at full employment without inflation will always be sufficient automatically to assure external equilibrium. "Discipline" is necessary for good domestic policy, and usually helpful to the balance of payments, but it cannot always be relied upon to balance the international accounts. This was recognized in the Bretton Woods agreement, but its adjustment procedures have been rarely used, at least by the major countries. Nevertheless these procedures were intended to cope with a real problem and the virtual abandonment has left a gap in the arsenal of instruments for economic policy. In the absence of more suitable instruments, several countries—including the United States—have turned increasingly to direct controls, which detract from the benefits of free international exchange and rarely offer a durable solution. Yet a system that lacks appropriate devices for correcting disequilibria is clearly at the mercy of adverse developments—and of these there is no shortage, as the recent international monetary crises have shown. The search for improvements in the adjustment process must therefore be pursued with vigor. Some of the possibilities are discussed in the Council's 1969 Report, and the work of this committee has been valuable in focusing attention on new thinking in this entire area.

In our very understandable concern about improving the world trading and financial systems, however, we must keep squarely before us the central importance of good domestic economic policies. With a reasonably stable price level and orderly, vigorous growth of our domestic economy, this Nation can make its most basic contribution to world economic stability. If we cannot manage our own economic affairs in an orderly way, our advice about organizing the world economy is apt to receive the limited attention it would then deserve.

CONCLUSIONS

We are now in the early stages of an era whose economic potential is unusually bright. If it is to be an era of reasonably full employ-