ESSAYS IN INTERNATIONAL FINANCE

No. 55, September 1966

THE BALANCE OF PAYMENTS AND THE FOREIGN INVESTMENT POSITION OF THE UNITED STATES

ROBERT TRIFFIN

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

PRINCETON UNIVERSITY

Princeton, New Jersey

This is the fifty-fifth in the series Essays in International Finance published from time to time by the International Finance Section of the Department of Economics in Princeton University.

The author, Robert Triffin, is Pelatiah Perit Professor of Political Science in the Department of Economics at Yale University. Among his books on international monetary problems are EUROPE AND THE MONEY MUDDLE, GOLD AND THE DOLLAR CRISIS, *and, most recently,* THE WORLD MONEY MAZE. *His Princeton Study,* THE EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM, *appeared in 1964.*

The Section sponsors the essays in this series but takes no further responsibility for the opinions expressed in them. The writers are free to develop their topics as they will. Their ideas may or may not be shared by the editorial committee of the Section or the members of the Department.

FRITZ MACHLUP, *Director*
International Finance Section

ESSAYS IN INTERNATIONAL FINANCE

No. 55, September 1966

THE BALANCE OF PAYMENTS AND THE FOREIGN INVESTMENT POSITION OF THE UNITED STATES

ROBERT TRIFFIN

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

PRINCETON UNIVERSITY

Princeton, New Jersey

L.C. Card 66-28512

Printed in the United States of America by Princeton University Press
at Princeton, New Jersey

THE BALANCE OF PAYMENTS AND THE FOREIGN INVESTMENT POSITION OF THE UNITED STATES

This essay is largely derived from a report I presented in French at a "Colloquium on the Industrial Policy of an Integrated Europe and the Supply of Foreign Capital." The colloquium was held May 23 to 27 in Paris under the auspices of the University Study Center of the European Communities of the Paris Faculty of Law and Economics.

My assignment had been formidable in scope, as indicated by its original title "The Balance of Payments of the United States, the Dollar, and Direct Investments in Europe." This, I felt, was only slightly less inclusive than the title of the treatise by Pico della Mirandola, *Concerning All Things Knowable*, rounded out by ". . . *And a Few Others*"—as Voltaire proposed to add. But even the moderation to three large topics clearly exceeded my capacity to deliver in the allotted time. Thus, I confined myself to dealing with a few more manageable questions: I. The Balance of Payments of the United States, 1950-1964; II. The Balance of Payments of the United States, 1965-1966; III. The United States as a Banker for Europe?; and IV. Conclusion and Forecasts.

In recasting my French report into an English essay I have, of course, made numerous alterations—reformulations, excisions, and insertions. It is very likely, though, that the original form of this paper, as a speech, has remained visible at several places.

The second section reviews current developments of an ephemeral character; they may soon lose actuality. Yet their discussion illustrates the likely consequences of "escapist"—rather than "adjusting"—policies, which are all too likely to be resorted to again and again in the future as they have been in the past.

The third section is an attempt to link the broader problem of the balance of payments of the United States with the problem of American investments in Europe and to relate both to the thesis recently advanced by the DKS-troika—Despres, Kindleberger, and Salant—in an article in *The Economist* (February 5, 1966) emphasizing the role of the United States as financial intermediary for European markets.

I. THE BALANCE OF PAYMENTS OF THE UNITED STATES, 1950-1964

The program of so-called voluntary restraints, introduced at the beginning of last year by the American authorities, has reversed, for a time at least, the long-term trends shown by the U.S. balance of payments over the last fifteen years. Let me explain these trends before venturing a personal appraisal as to the degree of success of the corrective measures adopted in February of last year.

These measures were inspired by a drain of monetary reserves of a magnitude unprecedented in international monetary history: $23 billion in fifteen years. The gross reserves of the United States (gold, foreign currencies, and IMF gold tranche) fell from $26.0 billion at the end of 1949 to $16.7 billion at the end of 1964, while its indebtedness to the IMF and to foreign central banks climbed daringly—but precariously under the gold-exchange standard—from $3.0 billion to $16.4 billion. Such a deterioration of the reserve position could not, obviously, pass unnoticed. It affects, through the dollar—international exchange as well as reserve money—the gold-exchange standard. This system was built, in the aftermath of World War I, on the double base of the pound sterling and the U.S. dollar. It has lately come to rest more and more on the base of the dollar alone, as the checkered history and persistent weakness of the pound has gradually undermined its acceptability as an international-reserve medium and confined it more and more to the area of what was, in happier days, the British Commonwealth.

The mighty dollar itself is now confronting a grave crisis, but one of liquidity rather than solvency. Leaving aside the extraordinary development of national wealth and income of the greatest economic and financial power in the world, and taking into account only the country's international position, we record during this same period of fifteen years a *net* increase of almost $20 billion in the external assets of the United States. The growth of long-term investments abroad ($39 billion in fifteen years) has surpassed by far the erosion of the monetary reserves and other net short-term claims of the United States. (See Table 2.)

The crisis of the dollar, then, is not in the least due to a deterioration of our balance on current account. There is no excess of imports of goods and services over exports. Such an import surplus existed only in one single year, 1959. In that year, for the first time in nearly a century, the United States had a deficit on current account of about $700 million. From the following year on, the United States regained its traditional surplus on current account and carried it in 1964 to the record figure of $7.7 billion. In spite of a substantial increase in government expenditures for foreign aid and financing of agricultural exports, the balance on current account exceeded these expenditures by more than $4 billion in 1964. The net improvement for these two groups of transactions, taken together, was $4.2 billion as compared with the average for the years 1955-59, and close to $5.2 billion as compared with the average for 1950-54. (See Tables 5 and 7.)

However, net exports of private capital had increased still more: from a $0.3 billion average per year in 1950-54, and $0.9 billion per year in 1955-59, to a $4.5 billion average in 1960-64, and $5.6 billion in 1964. The race between the growing surpluses on current account and the faster growing deficits on capital account was balanced by an equally growing drain of monetary reserves. This drain was $1.3 billion per year in 1950-59, and $2.6 billion per year in 1960-64. (The latter figure includes about $600 million of average yearly official "prepayments" of debts and military contracts, primarily designed to slow down the gold losses of the United States.)

Waking up, somewhat tardily, to the realities of the problem, the United States began in 1963 to experiment with measures intended to plug the huge and still increasing outflow of private capital. If I may use a metaphor, the government did not think it could spur the valiant greyhound of current-account surpluses to overtake the swift rabbit of capital outflows. The measures against the capital outflow were rather gentle in 1963, but became more drastic in 1965. Yet the first action, the announcement of an "interest-equalization tax," apparently had the effect of reducing the net outflow of private capital from $4.5 billion in 1962 to $3.7 billion in 1963.

A closer examination, however, reveals that this "success" was an illusion. The outflow of *American-owned* funds—which are the only ones subject to the Administration's program—increased sharply, by $1 billion in 1963 and $2 billion in 1964, in marked contrast with their slower growth of only $350 million per year, on the average, during the three preceding years. The temporary improvement of the capital account in 1963 came only from the increased inflow of foreign capital ($1.2 billion, instead of a mere $0.2 billion in 1962, particularly on short-term capital account) and the reduced deficit on the "errors and omissions" account ($0.4 billion instead of $1.0 billion). If we include the *fluctuations* of "errors and omissions" in the short-term capital account, we observe $0.4 billion of inflow of foreign short-term funds in 1963, instead of $1.3 billion of outflow in 1962, a total reversal of $1.7 billion. This reversal is due in part to the rise, in 1963, of short-term interest rates in the United States and their decline in England

and Canada. In part, however, the reversal resulted from the temporary discouragement of "bull" speculation on gold and "bear" speculation against the dollar, following massive Russian gold sales in 1963 and the initial agreement of the Group of Ten that international monetary reform should preserve "a structure based, as the present is, on fixed exchange rates and the established price of gold." (*Ministerial Statement*, August 1, 1964.)

This hypothesis fits perfectly with the more general observation on which I wish to conclude this brief analysis of the long-term evolution of the balance of payments of the United States over the fifteen-year period 1950-64. The principal factor of deterioration certainly does not lie in the transactions on current account or for foreign aid, which show persistent and massive improvement during this period (deficits of $1.1 billion per year in 1950-54 and $0.2 billion in 1955-59, but surpluses of $1.8 billion in 1960-64 and $4 billion in 1964). It is, instead, the net outflows of private capital ($0.3 billion in 1950-54, $0.9 billion in 1955-59, $4.5 billion in 1960-64, and $5.6 billion in 1964). Among these outflows of private capital, however, the reversal of *short-term* capital movements (making for a difference of $2.6 billion between the average inflows of 1955-59 and the outflows of 1960-64) surpassed considerably the increase in *long-term* capital outflows ($1 billion).

The fluctuations of relative interest rates in the United States, Europe, and Canada are certainly part of the explanation of the spectacular variations in short-term movements of funds from one year to another ($2.5 billion of *outflows* in 1960, for example, against $1.8 billion of *inflows* in 1959). But they cannot explain the difference in trend, noted above, between the average for 1955-59 and that for 1960-64. This difference, on the other hand, coincides exactly with the onset in 1960 of a persistent uneasiness about the stability of the price of gold and of exchange rates among the principal currencies. There came the "bull" speculation on certain continental currencies (confirmed in part by the revaluation of the German mark and the Dutch florin in March 1961), the doubling of private gold purchases in 1960-64 from their average 1955-59 levels, the further jump of these purchases by 50 per cent in 1965, recurrent waves of speculation against the pound, the conversion by European countries of more than $2 billion of foreign-exchange reserves into gold metal in 1965, etc. An econometric study by Jerome L. Stein (in the *American Economic Review*, March 1965) estimates the impact of such speculative factors on the short-term capital movements in the balance of payments of the United States at $2.5 billion—a figure practically identical with the $2.6 billion cited at the end of the preceding paragraph. The impact of a one per cent change in relative interest rates he estimates at only $0.9 billion.

I am convinced that the deficits of the United States in 1960-64 were intimately and overwhelmingly related to the obvious crisis of the gold-exchange standard and the inevitable undermining of confidence which it entails in the currency (the pound in former days, and the dollar today) used under the system to supplement the shortage of gold as a medium for reserve accumulation. My prediction of the eventual inevitability of such a crisis seemed particularly venturesome when I first formulated it nine years ago, at a time when the Suez crisis was giving a new lease on life to the diametrically opposite thesis of a structural and permanent "dollar shortage." The emergence of the "dollar glut," however, soon confirmed the fears I had expressed about the future evolution of the gold-exchange standard, though it still leaves one free, of course, to dismiss the reasoning on which they were based.

Yet, how shall we otherwise explain the dramatic and totally abnormal reversal of short-term capital flows, brought on by the 1960 flare-up of gold prices on the London market? Short-term funds find their most *normal* investment outlets in major financial centers, such as London before the First World War and New York after the Second, and the United States indeed *received* $400 million per year of short-term funds during the first half of the decade 1950-59, $1 billion per year during the second half of the same decade, and $1.8 billion in 1959, well after the return of confidence in European currencies. The violent reversal in 1960 (a $2.5 billion outflow instead of a $1.8 billion inflow), and the persistent outflows of short-term funds in the following years are totally aberrant in this respect, particularly as they coincide with a spectacular improvement ($8.4 billion) in the balance on current account.

Mere disappearance of these abnormal outflows of short-term capital would have practically equilibrated the balance of official settlements of the United States in 1964, in spite of the record level of long-term capital outflows, themselves influenced, at least to some extent, by these speculative factors. The return to a more normal situation of net inflows of short-term capital would have left a substantial surplus in our settlement balance. We can estimate at about a half billion dollars per year, and one billion dollars in 1965, the excess of speculative gold purchases during the years 1960-64 over the "normal" (?) or customary level of the previous decade. If any proximate increase of gold prices were to be ruled out by sensible reforms in the international monetary system, such funds would have to seek alternative investment outlets in a major money market—primarily in New York. This would result in a substantial and durable improvement in our settlements balance. The initial impact of the contemplated agreement would, of course, be much larger, since one should expect considerable, although once-and-for-all, dishoarding from the $7 billion private gold purchases of the last six years alone, to say nothing of the gold accumulated during the years before 1960.

One cannot but deplore, therefore, two of the main trends that have characterized the Group of Ten discussions:

1. Their excessive concentration on the probability of a *future* shortage of international liquidity, and the refusal to discuss explicitly and constructively the far more *immediate* problem of the vulnerability of the present system to massive liquidation in gold metal of the huge foreign-exchange reserves accumulated over many years past.

2. The unanimous agreement of the negotiators—and just about the only operational one reached so far—to subordinate all concrete action on monetary reform to the *prior* elimination of the payments deficits of the United States, deficits the principal cause of which is rooted precisely in the short-run vulnerability and long-run nonviability of the present unreformed gold-exchange standard.

I must refrain, however, from pursuing further a favorite theme of mine, expounded *ad nauseam* in my publications of the last seven years. Let us glance instead at the evolution of the balance of payments of the United States in the course of the last year, and its prospects for the present year.

II. THE BALANCE OF PAYMENTS OF THE UNITED STATES IN 1965 AND 1966

Table 5 summarizes the evolution of the balance of payments of the United States in the course of 1965 in a form comparable to that used for the earlier years. This presentation focuses on the so-called "Bernstein deficit," which is measured by changes in official net reserves. To these changes are added here the amounts of "prepayments" arranged with foreign governments and aimed primarily at reducing gold losses of the United States. It should be noted, however, that dollar balances held by foreign *private banks* (shown in Table 5 as item IIB.1a) may in fact include substantial amounts of foreign official holdings (which should, if full information were available, be included with item IIIB.1b).

(The only definition of the "overall deficit" regularly reported by the *Survey of Current Business* for the whole of the fifteen-year period covered by Table 5 refers to the "liquidity deficit," after official prepayments and including the increases in current dollar claims of private foreigners. The so-called "balance on regular types of transactions," identical with the previous one but with the inclusion of prepayments and medium-term "Roosa bonds" below the line, is no longer reported, while the "Bernstein deficit" is not reported for the years before 1963. A comparative digest of these alternative measurements is presented in Table 4.)

Let us note first the deterioration of the combined balance on current account and foreign aid, in striking contrast to its spectacular improvement in 1960-64. The second half of 1965 left a surplus—calculated, as all the other estimates below, at an annual rate—of only $1.8 billion compared with $4 billion in 1964. The escalation of military operations in Viet Nam and the internal economic boom evidently play a vital and growing role here. The surplus of the trade balance, on merchandise account only, dropped from $6.7 billion in 1964 to $5.0 billion in the second half of 1965 and to $4.4 billion for the first quarter of 1966. A further decline to $4.1 billion is already forecast for the year 1966 as a whole.

This deterioration more than offsets the improvement in the capital account, in which the deficit decreased from $5.6 billion in 1964 to an annual rate of $4.1 billion in the second half of 1965. The official-settlements deficit (item IV in Table 4) increased, in consequence, from $1.6 billion in 1964 to an annual rate of $2.3 billion in the second half of 1965, after seasonal adjustment. (This deficit would be $3.1 billion without such adjustment).

The so-called "voluntary" restraints have succeeded in reducing by nearly one half the net exports of *American* funds (an annual rate of $3.4 billion for the second half of 1965 as against $6.5 billion for 1964 as a whole), but the movement of *foreign* funds and "errors and omissions" leaves a deficit of $0.8 billion compared with the surplus of $0.9 billion registered in 1964.

The estimates for the last quarter of 1965 are even more alarming, but they are strongly influenced by the reversal in the movement of private banking funds abroad, and their extrapolation would be hazardous and misleading. The period of six months, retained as a basis for these commentaries, is itself exceedingly brief and would justify similar qualifications. It is unfortunately the longest period now available to appraise the likely results of the present policy, since estimates for the entire year 1965 are distorted by the immediate but ephemeral repercussions of the program of voluntary restraints during the second quarter of 1965 and particularly by the repatriation of $600 million of short-term American funds—$2.4 billion at an annual rate. (See the official commentaries on the nonrecurrent character of these operations in the *Survey of Current Business* of December 1965, pp. 20-21.)

Provisional estimates for the first quarter of 1966, seasonally adjusted, show an annual rate of more than $1 billion for the Bernstein official-reserves deficit and $2.3 billion for the traditional liquidity deficit, exclusive of prepayments. (See Table 4, items IV.1 and III.1.)

In brief, the voluntary-restraints program has reduced considerably the outflow of American funds, but this reduction is largely offset by the exodus of foreign funds previously accumulated on the American market. Borrowers who find themselves barred from access to the New York market or compelled to repay previous borrowings there are seeking other sources of financing, notably in Europe, and European lenders are withdrawing their funds from New York in order to subscribe to the growing flotations launched on European markets. American firms themselves, anxious to pursue their investment programs abroad, are borrowing in Europe at increasing interest rates the funds which the voluntary-restraints measures prevent them from exporting from the United States. (New foreign bond issues in Europe by American corporations began in 1965 with an estimated $370 million and reached an annual rate of about $1 billion in the first three months of 1966.) To the extent that interest-cost differences remain insufficient to brake investments themselves—and this has certainly been the case up to now, current forecasts suggesting on the contrary a continued expansion for this year at least—interest rates are climbing in Europe and withdrawals of foreign funds from the United States offset, at least in part, the decline in net outflows of American funds.

The present program of voluntary restraints has undoubtedly slowed down the expansion of the global deficit of our balance of payments, but the deficit in the second half of 1965 remains nevertheless larger than that of 1964. Its annual rate ($2.3 billion) is likely to rise again this year, as a result of the deterioration in our current-account balance, of the continuing build-up of military expenditures in Viet Nam, and, last but not least, of speculative movements and gold withdrawals likely to be induced by the comparison between the official prediction of an approximate equilibrium this year, on the one hand, and actual developments on the other—to say nothing of the possible impact of the political differences splitting the Atlantic alliance. These divergences certainly endanger the close monetary and financial cooperation which has saved the world from a tragic repetition, in 1960, of the international monetary collapse of September 1931.

New measures will, therefore, become indispensable in the forthcoming months to redress our balance of payments. I would like to hope that they will at long last be directed at the root trouble of the problem and include an "agonizing reappraisal," by mutual agreement, of the role of the dollar in *future* settlements among central banks, and of gold in the liquidation of the dollars accumulated by them *in the past.* Even more to be hoped for, and not only nor even mainly for economic and financial reasons, would be a still more agonizing but also more necessary reappraisal of our policy (?) in Asia and in Europe. And let me add that such reappraisals would have to be accompanied, in order to bear fruit, by equally radical changes in the exceedingly critical and negative attitude generally adopted so far in Europe with regard to these problems.

I am convinced that the present deadlock will lead us sooner or later in such a direction. But I am very much afraid that before taking it we shall again try to gain time by new palliatives, such as further restrictions on capital movements. These, however, could hardly bear on *foreign* funds invested in the United States without shaking the New York financial market to its very roots. They would risk, therefore, being frustrated, tomorrow as yesterday, by the withdrawal of such funds. Foreign funds in the United States, at the end of 1964, stood at $57 billion; $33 billion of these were European funds. (See Table 1, sum of items IB.2 and IIB in columns 1 and 2.)

This observation leads us to the third and last point of this essay, a brief examination of the thesis of Messrs. Despres, Kindleberger, and Salant, according to which the American deficits of the last few years reflect essentially the mutually advantageous and equilibrating function of financial intermediary imposed upon the United States by the structural inadequacy of European capital markets.

III. THE UNITED STATES AS A BANKER FOR EUROPE?

This thesis might appear somewhat suspect to the extent that it could be interpreted as an attempt to explain the present "dollar glut" as a structural and permanent phenomenon, just as the "dollar shortage" of yesteryear was interpreted by at least one of our three authors as an equally structural and permanent phenomenon. Yet, it should not be dismissed too lightly, and I am very gratified to be able to mark my agreement with Despres, Kindleberger, and Salant on a number of vital points of their analysis:

1. American investments in Europe are in part at least the reflection as well as the cause of the accumulation of liquid assets by Europeans in the United States.

2. "Money is fungible," and present restraints on exports of American capital are likely to be largely offset by withdrawals of foreign

funds from the United States rather than to succeed in eliminating the global deficit in our payments abroad.

3. The intentional accumulation of liquid assets by European owners (and by owners elsewhere) could and should facilitate sound and non-inflationary growth of real long-term investments in Europe (and elsewhere). The role of financial intermediary assigned in each country to the banking system should not be blocked by national borders and by the right of some hundred "monetary sovereigns" to liquidate at any time into gold metal the current, and even past, balance-of-payments surpluses of their respective countries.

4. The simple creation of a new monetary reserve instrument, *à la* Bernstein (or similar CRU devices), would not in any way solve this fundamental problem.

5. A "lender of last resort" is needed to reconcile the liquidity preferences of individual savers with the relative immobilization of productive investments. The right to liquidate *in gold*, at any moment, the claims of the lender is neither the only nor the best way to prevent the borrower from following unsound policies. "The depositors can have their say in less destructive ways, e.g., through participating in the management of the bank of last resort or [should we not read "and"?] through agreement on the scale of the financial intermediation." (*Economist*, *op.cit.*, p. 527.)

These numerous points of convergence between the analysis and suggestions of Despres, Kindleberger, and Salant, on the one hand, and my own, on the other, allow me to be all the more candid about our divergences.

I regret to find neither in their *Economist* article, nor in other parallel articles by the same authors on the same subject, even a mere shadow of the abundant statistical documentation that would enable them to support their thesis, and particularly to make it more precise. Tables 1 and 3 show that Europe has become again—more precisely, sometime in 1955—a net creditor of the United States. At the end of 1964, Western Europe's assets in the United States exceeded its liabilities by about $5.6 billion. Our three authors are right in that this net position is the result of an excess of net short-term claims ($12.7 billion) over net long-term indebtedness ($7.1 billion). But more than two thirds of the gross claims of Europe on the United States ($10.5 billion out of a total of $15.6 billion) correspond to official rather than private assets and are overwhelmingly made up of monetary reserves accumulated by central banks. The International Monetary Fund estimates at about $11.6 billion the foreign-exchange reserves of European central banks at the end of 1964. If we deduct from this amount the sterling assets of European monetary authorities ($0.9 billion according to the estimates published by the Bank of England), we arrive at a figure of $10.7 billion for their short-term dollar assets, except for their modest holdings of currencies other than dollars and sterling.

One may retain as a minimal estimate of official short-term dollar assets of Europe the estimate of the *Federal Reserve Bulletin*: $9.4 billion at the end of 1964, inclusive of "Roosa bonds." The *Survey of Current Business* never fails to point out that its statistical estimates of the dollar holdings of foreign commercial banks include substantial amounts of liabilities really held by foreign official institutions through foreign commercial banks, and foreign branches of American banks.

Private short-term European holdings in the United States are probably, therefore, substantially lower than the $5.1 billion registered in official statistics and do not finance more than a very modest fraction of private American investments in Europe ($19.5 billion) and particularly of long-term investments ($17.5 billion). These are, in any case, almost exactly offset by the long-term investments of Europe itself in the United States: $17.7 billion.

The role of financial intermediary of the United States would emerge, instead, between the net balance of *direct* investments ($6.2 billion in favor of the United States) and the net balance in favor of Europe of *other* long-term investments ($6.5 billion). The main explanation of this difference in the form of investment, however, lies probably in the fact that it is far easier for American capital to take a major participation in existing firms in Europe than for European capital to penetrate or emulate in the same fashion the usually much larger firms of the United States. As far as direct investment is concerned, the initiative certainly lies far more with the American investor than with any autonomous desire of Europeans to raise long-term funds in the United States, as is assumed by our three authors.

It is in the relations between the United States and the rest of the world that there appears, to no one's surprise, an enormous surplus ($40 billion) of American private long-term investments abroad ($47 billion) over foreign private long-term investments in the United States ($7 billion). It is only since 1960 that the yearly flow of American long-term private investments to Europe begins also to exceed similar flows of European investment to the United States: but by only $0.8 billion per year, compared with a surplus of $2.5 billion in the relations between the United States and the rest of the world. (See Table 1, item IB, columns 5 and 6.)

If one adds to these exports of private long-term capital from the United States our foreign-aid programs, economic and military, the average outflow to Europe totals about $1.4 billion, compared with $6.5 billion to the rest of the world. (See item I, columns 5 and 6, of same Table.) As for short-term capital flows, exclusive of foreign aid, inflows from Europe ($1 billion per year, overwhelmingly for the account of monetary authorities) exceed outflows (mainly on private account) by $0.7 billion, while inflows and outflows with the rest of the world are practically in balance ($0.9 billion in both directions). (See items IIA and B.)

What remains then of my colleagues' thesis that American deficits would hardly reflect any real imbalance, but would be due essentially to the sound and mutually advantageous role of financial intermediary imposed on the United States by the Europeans' preference for liquidity and their inability to procure at home the long-term funds necessary for the development of their domestic economies? The increase of short-term European assets in the United States is not more than about a billion dollars a year, on the average. This increase is due, for the largest part at least, to dollar accumulation by the monetary authorities, accepted by them, more and more reluctantly, only in order to ward off an international monetary crisis. These short-term inflows just about offset the net long-term investments of the United States in Europe. And these investments are undertaken far more at the initiative of the American firms themselves than in answer to borrowing requests from European firms. In any case, the overwhelming bulk of American investments ($2.5 billion net) and of military and economic aid abroad ($4 billion) continues to go, as is highly desirable, to other parts of the world.

My colleagues recognize that the thirst for liquidity of the private sectors of the European economy expresses itself very largely through holdings in their respective national currencies rather than in dollars. If this were not so, the intermediation between their supply of short-term funds (to be held in dollars) and their long-term borrowings (in dollars) would balance out anyway and could not be regarded as the cause of the deficits of the United States. (This is true, of course, only if the deficit is measured *à la* Bernstein, as I have done myself for many years. The traditional measure of the deficit [*à la* Lederer] of the *Survey of Current Business* would show a deficit, even then, because of the inclusion of short-term indebtedness to private foreign sectors.) The three authors defend their thesis, however, by including in the European demand for liquid assets the balances in national currencies acquired from their central banks against transfer to the central banks of the excess dollars supplied in the private market. "If households and commercial banks [I would add "and private firms"] want to hold liquid assets at home rather than securities or liquid assets in dollars, the counterpart of foreign borrowing by industry must be held by the central bank of their country in dollars, or converted into gold. This implies a deficit for the United States even on the Bernstein Committee's definition. . . . An annual growth in Europe's dollar-holdings averaging, perhaps, $1½ to $2 billion a year or perhaps more for a long time is normal expansion for a bank the size of the United States with a fast-growing world as its body of customers." (*Economist*, *loc.cit.*, p. 528.)[1]

Thus it appears that, in the view of the three authors, the real problem lies in the lack of comprehension, on the part of central bankers, of the function of the United States as a financial intermediary for Europe's savers and investors. If this function were better understood, European central banks would retain the dollars which they are asked to buy; the increase of their claims on the United States, at an annual rate of $1.5 to $2 billion or more, would pose no problem either to the United States or to the rest of the world.

What should we think of this thesis?

Let us note first of all that it greatly exaggerates the role of financial intermediary of the United States between liquid savings and long-term borrowings in Europe itself. It would confer, or confirm, in addition a role of the United States as intermediary between Europe and the rest of the world—a role far larger and politically more pregnant, as I have shown above. There is not the slightest doubt that this is a correct description of what has happened in the past. The accumulation and retention of dollar reserves by European central banks has helped the United States finance its gifts and investments in the rest of the world far more than in Europe itself, and well beyond what this country could have done if Europe had accumulated its monetary reserves entirely in gold. I have stressed for too long a time in my own writings the problem of the gold shortage—and of the irrationality of its use as an exclusive instrument for reserve accumulation—not to be in full agreement with my colleagues as to the disastrous consequences that such a policy would inevitably entail.

This does not mean, however, that the dollar should, or even could, continue to provide central banks indefinitely with the bulk of the

[1] It should be noted, however, that this extension of the intermediation thesis to the dollars accumulated by foreign monetary authorities, rather than by the private sectors alone, seems to be defended mostly by Kindleberger. One of the co-authors of the joint article in the *Economist*, Walter S. Salant, expresses, in any case, considerable doubts about it in a footnote of his paper "Capital Markets and the Balance of Payments of a Financial Center," in Fellner, Machlup, Triffin *et al.*, *Maintaining and Restoring Balance in International Payments* (Princeton University Press, 1966).

additional liquid assets indispensable to an optimum expansion of the world economy. It could do so only if European governments and central banks were willing to abandon to the political, monetary, and banking authorities of the United States their sovereignty over the management and use of their reserves—productive or not—both in Europe and in the rest of the world. It is hard to see how they could be willing to underwrite blindly in this fashion the future deficits of the United States, irrespective of their amounts and of the multiple and variegated causes of their emergence and continuance. Let us not forget that while European governments may view favorably our foreign-aid expenditures and development financing of the Third World, some of them may also take a dimmer view, for instance, of our take-over of existing industrial enterprises in Europe or of our military escalation in Viet Nam. An alternative, though equally impracticable, solution would be for the United States to confer upon its European creditors a veto right on its own policies, internal as well as external, insofar as these may influence the increase of American dollar liabilities to European central banks.

Either one of these two solutions would imply a *surrender* of national sovereignty far more drastic than the modest *merger* of sovereignties proposed in the Triffin Plan, which is limited to the creation and management of the fiduciary reserves indispensable to a sound expansion of the international economy. The time has long come to protect the creation and distribution of international monetary reserves from the hazards of gold production and speculation, Russian gold sales on Western markets, American or British deficits, waves of confidence and distrust on the part of central banks in the future stability of the dollar and the pound, and pressures which various governments may wish to apply on American or British policies.

The negotiations of the Group of Ten on international monetary reform had opened a promising path in 1963-64. Unanimous agreement had been reached in August 1964 on two fundamental and revolutionary steps: multilateral surveillance of all sources of liquidity creation and deficit financing, on the one hand, and, on the other, an immediate study of the need for a new type of reserve asset and of the forms it might take.

Nearly two years have elapsed since then, and we are farther than ever from any concrete implementation of these principles. The meeting of the Ten in Rome last May could barely hide, under an innocuous communiqué, the complete deadlock reached on all major issues. The next meeting of the International Monetary Fund, in September, is likely to be marked by bitter and open recriminations among the members of the Group of Ten, as well as between them and the other countries that have thus far been denied effective participation in negotiations so vital to the interests of all.

President De Gaulle will, as usual, provide a convenient scapegoat for the failure of these negotiations. The last official pronouncements of his new Minister of Finance, Michel Debré, certainly provide some justification for this view. Yet the possibility of reaching agreement with the French will not have been truly tested as long as we ourselves continue to discourage—largely unwittingly, through misplaced and excessively drawn-out bluffing tactics—any constructive discussion of the valid objections of the French—and many other Europeans—to the haphazard and potentially inflationary role of unlimited accumulation of dollars and pounds sterling as international reserves by central banks. This is all the more ludicrous in view of our own paramount interest, and that of the British, in reaching agreement on an issue that can otherwise be decided unilaterally by others, and in a most disorderly fashion—involving, as it did last year, not only the cessation of any further dollar accumulation, but sudden and massive liquidation of dollars accumulated over many years under the ill-fated gold-exchange standard. (For a fuller discussion and clarification of the widely misunderstood "national" interests of the United States in this matter, see my paper in the *Hearings* of the Subcommittee on International Exchange and Payments of the Joint Economic Committee, July 27-29, 1965.)

IV. CONCLUSION AND FORECASTS

The time has come to dispel any exaggerated conclusions that might be derived from this gloomy recital of current trends and prospects.

In spite of the awesome parallel that I have often drawn between the present situation and that of 1931, I cannot really believe that history will repeat itself, and that the present deadlock will lead, as it did then, to a collapse of the reserve currencies, a revaluation of gold, and years of international monetary chaos. We are all too keenly aware of what this meant to the world to allow it to happen again.

Unwilling, or unable, as we are to ward off this threat through rational, but radical, reforms, we have developed in the last six years an uncanny capacity and ingenuity for gaining time through all kinds of expedients, palliatives, and last-minute rescue operations. We shall most probably continue to do so, and some—let us hope not all—of the *ad hoc* measures adopted in the process will gradually become hallowed precedents and building materials in the gradual and unplanned construction of a new monetary order.

Indeed, this evolution has already begun, and very much along the lines I suggested in *Gold and the Dollar Crisis*, six or seven years ago. I advocated then the conversion of the excessive holdings of national currencies—dollars and sterling, precariously held as international reserves by foreign central banks—into claims against, or deposits with, the IMF. From the end of 1958 through February 1966, countries other than the two reserve centers have increased their net claims on the Fund by $4.3 billion, while the Fund's dollar and sterling holdings have risen by a nearly equivalent amount, to wit, by $4.1 billion, not including the dollars and pounds sterling which the United States and United Kingdom delivered as parts of their subscriptions when IMF quotas were increased.

I also suggested that the lending resources of the IMF be fed from minimum-reserve deposits—in an agreed percentage of each country's total reserves—rather than from rigid and arbitrary capital quotas and quota increases. While this second and more traditional method continues to be used, the first has been increasingly resorted to through *ad hoc* agreements regarding the currencies used in drawings from and repayments to the Fund. As of last February, the major reserve holders of the Group of Ten—excluding the two reserve *debtors* of the Group, the United States and the United Kingdom—that financed in fact the bulk of the Fund's lending, held a nearly uniform proportion of their total reserves in the form of "reserve positions in the Fund": 12 to 13 per cent in the case of countries having previously resorted to Fund borrowings in recent years (Italy, Canada, and Japan) and 14 to 16 per cent for each of the other five countries (Belgium, France, Germany, Sweden, and the Netherlands).

Finally, I had proposed that the Fund's normal lending transactions be increasingly supplemented by "investments" in the major financial markets, undertaken at the Fund's own initiative, in the light of worldwide needs for liquidity rather than of needs of individual countries for funds to finance deficits in their balances of payments. The Fund has indeed expanded these operations, although still on a minor scale, from $200 million to about $850 million.

I am confident that all three of these approaches will, under the pressure of circumstances, be pursued much farther in the years to come and will eventually be recognized for what they are: useful building blocks for a new international monetary system.

Pounds sterling and U.S. dollars will continue to play an essential role as key currencies for private traders and investors. Inevitably, therefore, they will also continue to serve as true "working balances" needed by central banks for daily interventions for purposes of stabilization in the exchange markets. The central banks of major countries, however, particularly in Western Europe, will increasingly convert existing or newly accruing foreign-exchange holdings (in excess of the amounts needed as working balances) into gold or gold-valued claims on the International Monetary Fund or on some other institution, such as the Bank for International Settlements. This will reduce the vulnerability of the United States and the United Kingdom to sudden and massive liquidation of current dollar and sterling claims held by central banks. It will, of course, involve equivalent increases in the indebtedness of the key-currency countries to the International Monetary Fund or some other multinational institution. This indebtedness, however, will be more firmly lodged either in the form of medium or long-term loans or, preferably, of investments to be cashed only in the light of broad stabilization objectives, not for speculative purposes or *national* balance-of-payments pressures.

The long-term functioning of such a system will necessarily entail some voluntary or agreed restraints on the excessive hoarding of scarce gold metal as monetary reserves by individual countries, and will at the same time provide them with equally safe and more attractive media for liquid reserve holdings.

I have mentioned other institutions, such as the BIS, alongside the IMF itself, as probable channels for such reserve accumulation. The reason for this is that I foresee also the probable need for regional institutions to serve as intermediaries between national central banks and the world-wide IMF. A common Clearing House has already been established, some years ago, by the central banks of Central America. Proposals for a similar Latin American institution were broached last April in Jamaica, at a meeting of central-bank governors from the area. The creation of a European Reserve Fund has long been on the agenda of the European Economic Community. These regional monetary groupings and institutions would open new channels for cooperation and integration of a more intensive character than are as yet feasible at the world-wide level. They would relieve the IMF of responsibilities that can be discharged more realistically and efficiently by the countries concerned, and would ease correspondingly the awesome problem of voting power regarding the creation and use of the amounts of fiduciary liquidity that will be required in future years to sustain feasible rates of growth in world trade and production.

More detailed and concrete proposals on these issues are presented in Chapter IX of my book, *The World Money Maze,* and in my paper on "International Monetary Reform" in the March 1966 issue of the *Economic Bulletin for Latin America.*

Prescription, however, is easier than prediction, particularly as to the timing of reforms which, though long overdue, still raise formidable problems of negotiation among countries deeply divided on other, even more crucial and pressing issues—such as the future of NATO, of nuclear controls, of Western policies in Southeast Asia. The longer we delay, the more dangerously shall we live.

In order to play safer—safer, but still not quite safe—I shall conclude with two forecasts, rather than one, for the months immediately ahead.

The more optimistic of these two alternative forecasts would envisage greater realism and flexibility on the part of the United States, as well as on the part of the French, in our respective negotiating approaches to international monetary reform. The agreements to be reached should encompass *concerted* decisions among at least the major reserve holders regarding the use of national currencies, gold, and any new type of reserve asset, in the future structure and creation of international reserves.

Such agreements would be greatly facilitated by similarly concerted approaches to other major problems—in NATO and Southeast Asia particularly—with respect to which we often seem to expect, in the name of cooperation, passive compliance with policies unilaterally hammered out by inter-agency fights in Washington rather than by truly multilateral negotiations with our Allies.

A reconsideration of our policies in Viet Nam could, of course, by itself alone modify radically the gloomy prospects delineated above with respect to our payments deficit this year. Combined with even modest progress in the negotiations of the Group of Ten, it would improve considerably our balance on current account and official capital, reverse dramatically the speculative outflows of capital which have long been the major source of our overall deficits, and transform the latter, practically overnight, into substantial surpluses and reserve gains.

My more pessimistic forecast would still discard the likelihood of a dollar devaluation triggering an international monetary collapse *à la* 1931. It would envisage, instead, a continuation of recent trends toward the erosion of previous progress concerning trade liberalization and currency convertibility, in the United States as well as in Great Britain, inducing in turn similar, and mutually defeating, restrictive or deflationary policies in the rest of the world. (The French have a more colorful word for it. Instead of "erosion" they would speak of a further "*pourissement*" or "rotting" of present policies, agreements, and institutions.) We would have *more* capital restraints, *less* voluntary than ever, and still higher interest rates. We might institute a tax on tourism, subsidize exports, and hamper imports by tariff increases or other forms of restrictions and controls. We would lose more gold, and borrow more from the Fund (where our unused quota at present still totals close to $6 billion).

This would give us more time, and more compelling incentives, for the agonizing reappraisal that should finally lead us to the kinds of policies envisaged in my more optimistic forecast, rather than to our throwing in the sponge, as the British were forced to do on September 21, 1931.

* * *

These alternative forecasts leave considerable room for intermediate, less-clean-cut outcomes, for the sort of half-way houses in which our international life has most often found an uneasy refuge in the past: far removed from our best hopes, but also from our worst fears. Such outcomes are too uncomfortable not to spur us to further adaptations and—let us hope—improvements in the imperfect but constantly evolving institutions of an ever-changing world.

STATISTICAL APPENDIX

The first three Tables (1, 2, and 3) of this Appendix summarize the evolution of "stock estimates" of the international investment position of the United States, thus providing the empirical background indispensable to the appraisal of the Despres-Kindleberger-Salant thesis, discussed in Section III of this essay.

The next four Tables (4, 5, 6, and 7) summarize the "flow estimates" of the balance of payments of the United States over the last 16 years (1950-1966).

Finally, the last two Tables (8 and 9) summarize the stock and flow estimates of international monetary reserves over the same 16 years.

TABLE 1

THE INTERNATIONAL INVESTMENT POSITION OF THE UNITED STATES IN EUROPE AND IN THE REST OF THE WORLD

(in billions of U.S. dollars)

	At the End of 1964			*Average Yearly Flows 1960-1964*		
	World	*West. Eur.*	*Rest of World*	*World*	*West. Eur.*	*Rest of World*
I. *Long-term and Foreign Aid*	61.9	7.6	54.3	7.9	1.4	6.5
A. *Foreign Aid*	**22.1**	**7.8**	**14.3**	**4.6**	**0.6**	**4.0**
1. Gifts	x	x	x	3.4	0.9	2.5
2. Loans	22.1	7.8	14.3	1.2	—0.3	1.5
a) Long-term	18.8	7.4	11.4	1.1	—0.2	1.3
b) Short-term	3.3	0.5	2.8	0.2	—0.1	0.3
B. *Long-term Private Capital*	**39.8**	**—0.2**	**40.0**	**3.3**	**0.8**	**2.5**
1. U.S. Funds	64.7	17.5	47.2	4.7	1.9	2.9
2. Foreign Funds (—)	—25.0	—17.7	—7.3	—1.4	—1.0	—0.4
II. *Short-term* (excluding Foreign Aid)	—19.9	—13.2	—6.8	—0.7	—0.7	—
A. *U.S. Funds*	**11.9**	**2.5**	**9.4**	**1.3**	**0.3**	**0.9**
1. Monetary Reserves	1.2	0.4	0.8	—0.2	0.1	—0.2
2. Private Funds	10.7	2.0	8.6	1.4	0.2	1.2
B. *Foreign Funds* (—)	**—31.9**	**—15.6**	**—16.2**	**—2.0**	**—1.0**	**—0.9**
1. Monetary Reserves and Other Official	—20.0	—10.5	—9.5	—1.2		
2. Private Funds	—11.8	—5.1	—6.7	—0.7		
3. Unclassified				—0.1		
III. *Total, Net* (I + II)	41.9	—5.6	47.4	7.2	0.7	6.5
IV. *U.S. Gold Reserves*	15.5			—0.8	—0.8	—
V. *Total* (III + IV)	57.3			6.4	—0.1	—

Note: These estimates are derived primarily from the *Survey of Current Business* annual review of the "International Investment Position of the United States (see particularly the Table on p. 32 of the September 1965 *Survey*). They include, therefore, reinvested earnings and other adjustments left out of the *Survey's* balance-of-payments estimates.

Unilateral transfers are assimilated to capital exports in the last three columns reflecting annual flows, but obviously excluded from the stock estimates of the assets and liabilities of the United States in the first three columns.

Gold flows from the United States are distributed regionally in the last three columns, but such a distribution is obviously inapplicable to the stock estimates of the first column.

TABLE 2

INTERNATIONAL ASSETS AND LIABILITIES OF THE UNITED STATES, 1914-1965
(in billions of U.S. dollars)

End of Year	*1914*	*1919*	*1939*	*1949*	*1959*	*1964*	*1965*
I. *Net Monetary Reserves*	1.2	2.5	17.0	23.0	10.6	0.3	−1.0
A. *Assets*	**1.2**	**2.5**	**17.8**	**26.0**	**21.5**	**16.7**	**15.5**
1. Gold	1.2	2.5	17.8	24.6	19.5	15.5	14.1
2. IMF Reserve Position	x	x	x	1.5	2.0	0.8	0.6
3. Foreign Exchange	–	–	–	–	–	0.4	0.8
B. *Liabilities* (−) to:	–	–	**−0.8**	**−3.0**	**−10.9**	**−16.4**	**−16.5**
1. IMF	x	x	x	–	−0.5	−0.8	−0.8
2. Foreign Monetary Authorities	–	–	−0.8	−3.0	−10.4	−15.6	−15.7
II. *Other Short-term* (Net)	−0.5	−0.3	−1.9	−3.8	−5.1	−1.5	
A. *Assets*	–	**0.5**	**0.6**	**1.6**	**6.0**	**14.0**	
1. Official	–	0.5	0.6	0.3	2.4	3.3	
2. Private	–	–	–	1.3	3.6	10.7	
B. *Liabilities* (−) to:	**−0.5**	**−0.8**	**−2.4**	**−4.0**	**−9.0**	**−12.8**	**−12.9**
1. International and Regional Organizations	–	–	–	−0.6	−1.2	−1.7	−1.5
2. Private Holders	−0.5	−0.8	−2.4	−3.4	−7.8	−11.1	−11.4
a) Banks				−1.9	−4.7	−7.2	−7.3
b) Other				−1.4	−3.0	−3.8	−4.1
C. *Other U.S. Liabilities* (−)	–	–	**−0.1**	**−1.5**	**−2.1**	**−2.7**	
III. *Long-term* (Net)	−3.2	3.3	4.5	19.2	36.6	58.5	
A. *Official*	–	–	–	**10.7**	**13.5**	**18.8**	
B. *Private*	**−3.2**	**3.3**	**4.5**	**8.5**	**23.2**	**39.8**	
1. Portfolio and Other Long-term	**−4.5**	**0.3**	**−0.5**	**0.8**	**−0.1**	**3.8**	
a) U.S. Capital	0.9	2.6	3.8	4.9	11.4	20.4	
b) Foreign Capital (−)	−5.4	−2.3	−4.3	−4.2	−11.4	−16.6	
2. Direct Investment	**1.3**	**3.0**	**5.0**	**7.8**	**23.2**	**36.0**	
a) U.S. Capital	2.6	3.9	7.0	10.7	29.8	44.3	
b) Foreign Capital (−)	−1.3	−0.9	−2.0	−2.9	−6.6	−8.4	
IV. *Total* (Net)	−2.5	5.5	19.6	38.3	42.2	57.3	

Sources: *Historical Statistics of the United States* and *Survey of Current Business.*

TABLE 3

NET INVESTMENTS OF THE UNITED STATES IN WESTERN EUROPE, 1949-1964

(in billions of U.S. dollars)

End of Year	*1949*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
I. *Short-term*	−2.7	−8.7	−8.9	−10.1	−9.9	−11.2	−12.7
A. *Assets*	**0.5**	**1.7**	**2.1**	**2.1**	**2.2**	**2.5**	**3.0**
1. Official	0.1	0.8	0.8	0.8	0.7	0.8	0.9
2. Private	0.4	0.9	1.3	1.3	1.6	1.7	2.0
B. *Liabilities* (−)	**−3.2**	**−10.4**	**−11.0**	**−12.2**	**−12.1**	**−13.6**	**−15.6**
1. Official						−9.6	−10.5
2. Private						−4.0	−5.1
II. *Long-term*	6.5	4.0	5.4	4.0	5.8	6.1	7.1
A. *U.S. Government Claims*	**8.6**	**8.5**	**8.5**	**7.8**	**7.2**	**7.0**	**7.4**
B. *Private*	**−2.1**	**−4.5**	**−3.1**	**−3.8**	**−1.4**	**−0.9**	**−0.2**
1. *Portfolio*	**−1.6**	**−5.3**	**−5.0**	**−6.4**	**−5.1**	**−5.7**	**−6.5**
a) United States Funds	1.2	2.9	3.3	3.7	4.0	5.0	5.4
b) European Funds (−)	−2.8	−8.2	−8.3	−10.1	−9.1	−10.7	−11.9
2. *Direct Investments*	**−0.5**	**0.8**	**1.9**	**2.6**	**3.7**	**4.8**	**6.2**
a) United States Funds	1.5	5.3	6.6	7.7	8.9	10.3	12.1
b) European Funds (−)	−2.0	−4.5	−4.7	−5.1	−5.2	−5.5	−5.8
III. *Total*	3.9	−4.6	−3.6	−6.2	−4.1	−5.0	−5.6

Sources: *Historical Statistics of the United States* and *Survey of Current Business.*

TABLE 4

ALTERNATIVE MEASURES OF THE BALANCE OF PAYMENTS OF THE UNITED STATES, 1960–MARCH 1966

(Annual Rates, seasonally adjusted, in billions of U.S. dollars)

Period	*Average 1960-64*	*1964*	*July-Dec. 1965*	*Jan.-Mar.*[1] *1966*
I. *Current Account* (including Remittances and Pensions)	5.1	7.7	6.0	(5.1)
II. *Current Account and U.S. Government Capital*	1.8	4.0	1.8	
III. *Liquidity Balance*				
1. After Prepayments	−2.8	−2.8	−1.8	−2.3
2. Before Prepayments[2]	−3.4	−3.1	−2.5	
IV. *Official Reserve Transactions*				
1. After Prepayments	−2.1	−1.2	−2.0	−1.0
2. Before Prepayments	−2.6	−1.6	−2.3	
V. *Official Reserves and Private Foreign Banks' Dollar Holdings*				
1. After Prepayments	−2.6	−2.6	−2.3	
2. Before Prepayments	−3.1	−3.0	−2.7	
VI. *Gold Losses* (−)	−0.8	−0.1	−0.5	−0.3

Notes:

(1) Provisional and incomplete rough estimates.

(2) Formerly published in the *Survey of Current Business* as representing the "balance on regular types of transactions." Prepayments of $160 million of military purchases by Italy are treated differently on lines III.2 and on lines IV.2 and V.2, since they represent official, but not liquid, settlements. These definitions will probably be recast to eliminate these sources of confusion, in the June 1966 issue of the *Survey.*

Source: Survey of Current Business.

TABLE 5

THE BALANCE OF PAYMENTS OF THE UNITED STATES, 1950-1965

(Annual rates, in billions of U.S. dollars)

Period	1950-1954	1955-1959	1960-1964	1964	1965[1] I	1965[1] II	1965[1] III	1965[1] IV	1965[1] Year
I. *Current Account and Foreign Aid*	−1.1	−0.2	1.8	4.0	1.9	2.9	2.3	1.3	2.1
A. Current Account	1.4	2.1	5.1	7.7	5.3	7.0	6.4	5.7	6.1
B. Foreign Aid[2]	−2.6	−2.3	−3.3	−3.7	−3.4	−4.0	−4.0	−4.5	−4.0
II. *Private Capital*	−0.3	−0.9	−4.5	−5.6	−4.0	−3.1	−2.4	−5.9	−3.8
Long-term	−0.7	−2.0	−2.9	−4.2	−6.2	−4.2	−4.4	−2.9	−4.4
Short-term	0.4	1.0	−1.6	−1.4	2.2	1.1	2.1	−3.0	0.6
A. *U.S. Funds*	**−1.1**	**−2.6**	**−4.5**	**−6.5**	**−6.2**	**−1.3**	**−3.3**	**−3.4**	**−3.5**
1. Direct Investments	−0.7	−1.6	−1.9	−2.4	−4.6	−3.6	−2.1	−2.8	−3.3
2. Other Long-term	−0.3	−0.8	−1.4	−2.0	−2.7	0.6	−1.4	−0.4	−1.0
3. Short-term	−0.2	−0.3	−1.3	−2.1	1.2	1.7	0.2	−0.2	0.7
B. *Foreign Funds and Errors and Omissions*	**0.8**	**1.7**	–	**0.9**	**2.1**	**−1.8**	**0.8**	**−2.5**	**−0.3**
1. Foreign Funds	0.5	1.1	1.0	2.0	2.2	−1.5	2.1	−1.5	0.3
a) Banks' Balances	0.1	0.4	0.5	1.4	0.8	−1.0	2.5	−2.0	0.1
b) Other	0.3	0.7	0.5	0.6	1.4	−0.5	−0.4	0.5	0.2
2. Errors and Omissions	0.3	0.6	−1.0	−1.2	–	−0.3	−1.3	−1.0	−0.7
III. *Official Settlements*	−1.4	−1.1	−2.6	−1.6	−2.1	−0.1	–	−4.6	−1.7
A. *Prepayments*	–	**−0.1**	**−0.6**	**−0.3**	**−0.3**	**−0.6**	**−0.7**	**−0.1**	**−0.4**
B. *Net Monetary Reserves*	**−1.4**	**−1.0**	**−2.1**	**−1.2**	**−1.8**	**0.4**	**0.6**	**−4.6**	**−1.3**
1. *Liabilities to*:	−0.8	−0.7	−1.1	−1.0	3.4	0.4	−1.0	−3.3	−0.1
a) IMF	–	−0.1	−0.1	–	–	–	–	−0.1	–
b) Foreign Monetary Authorities	−0.8	−0.6	−1.0	−1.0	3.4	0.4	−1.0	−3.2	−0.1
2. *Gross Assets*	−0.6	−0.3	−1.0	−0.2	−3.4	−0.3	−0.2	−1.1	−1.2
a) Foreign Exchange	–	–	0.1	0.2	0.2	0.2	1.7	−0.7	0.3
b) IMF[3]	−0.1	0.2	−0.2	−0.3	−0.3	0.8	−1.3	0.1	−0.2
c) Gold[3]	−0.6	−0.5	−0.8	−0.1	−3.3	−1.3	−0.5	−0.5	−1.4
3. *Seasonal Adjustment*	x	x	x	x	−1.9	0.3	1.8	−0.2	x
(Net Monetary Reserves, excluding seasonal adjustment)					(0.1)	(0.2)	(−1.2)	(−4.4)	

Notes:

(1) seasonally adjusted.

(2) excluding official prepayments, but including increases or decreases (—) of dollar holdings of international and monetary institutions other than the IMF.

(3) gold subscription to IMF quota increase, prepaid in second quarter of 1965 ($259 million × 4 at annual rate), is shown as still part of the gold stock of the United States rather than as increased reserve position in the IMF.

Source: *Survey of Current Business.*

TABLE 6

BREAKDOWN OF THE BALANCE OF PAYMENTS OF THE UNITED STATES, 1950-1965, BETWEEN WESTERN EUROPE AND THE REST OF THE WORLD

(Annual rates, in billions of U.S. dollars)

Period	*1950-1954*	*1955-1959*	*1960-1964*	*1964*	*1965 Jan.-June*(1)	*1965 July-Dec.*(1)	*1965 Year*
I. *Current Account and Foreign Aid*(2)	−1.1	−0.2	1.8	4.0	2.9	1.3	2.1
With Western Europe	−1.3	−0.8	1.0	1.7	1.1	0.8	0.9
With Rest of the World	0.1	0.6	0.8	2.4	1.8	0.6	1.2
II. *Private Capital*(3)	−0.9	−2.2	−4.2	−6.2	−4.0	−3.2	−3.6
With Western Europe	–	−0.1	−1.5	−2.2	−2.1	−1.2	−1.7
With Rest of the World	−0.9	−2.1	−2.7	−4.0	−1.9	−2.0	−1.9
A. U.S. Funds	**−1.1**	**−2.6**	**−4.5**	**−6.5**	**−4.1**	**−3.0**	**−3.5**
1. To Western Europe	−0.1	−0.5	−1.6	−2.2	−1.5	−0.9	−1.2
2. To Rest of the World	−1.0	−2.2	−2.9	−4.2	−2.5	−2.1	−2.3
B. Foreign Funds	**0.2**	**0.5**	**0.3**	**0.2**	**0.1**	**−0.2**	**−0.1**
1. From Western Europe	0.1	0.4	0.2	–	−0.5	−0.3	−0.5
2. From Rest of the World	0.1	0.1	0.1	0.2	0.7	0.1	0.4
III. *Errors and Omissions*	0.3	0.6	−1.0	−1.2	0.5	−1.8	−0.7
With Western Europe(4)	0.2	−0.5	−1.7	−1.3	0.2	−0.9	−0.3
With Rest of the World(4)	0.1	1.1	0.8	0.2	0.2	−0.9	−0.3
IV. *Total=Official Settlements and Private Dollar Balances*	−1.7	−1.7	−3.3	−3.4	−0.6	−3.6	−2.1
With Western Europe	−1.1	−1.4	−2.1	−1.9	−0.8	−1.3	−1.0
With Rest of the World	−0.6	−0.4	−1.2	−1.5	0.2	−2.3	−1.1
A. *Official Prepayments* (−)	–	−0.1	−0.6	−0.3	−0.4	−0.4	−0.4
B. *Net Reserves and Private Dollar Balances*	−1.7	−1.6	−2.7	−3.0	−0.2	−3.3	−1.7
1. With Western Europe	−1.1	−1.3	−1.6	−1.7	−0.4	−0.9	−0.7
2. With Rest of the World	−0.6	−0.4	−1.1	−1.3	0.2	−2.3	−1.1
1. Private Dollar Balances	**−0.3**	**−0.6**	**−0.7**	**−1.8**	**−0.3**	**−0.5**	**−0.4**
a) With Western Europe				−1.1	−0.4	–	−0.2
b) With Rest of the World				−0.7	0.1	−0.5	−0.2
2. Net Monetary Reserves	**−1.4**	**−1.0**	**−2.1**	**−1.2**	**0.1**	**−2.8**	**−1.3**
a) With Western Europe				−0.6	–	−0.9	−0.5
b) With Rest of the World				−0.6	0.1	−1.8	−0.9

Notes:

(1) before seasonal adjustments.

(2) excluding official prepayments, but including increases or decreases (−) of dollar holdings of international and regional institutions other than the IMF.

(3) excluding dollar balances.

(4) including multilateral settlements.

Source: *Survey of Current Business.*

TABLE 7

IMPROVEMENT (+) OR DETERIORATION (—) IN THE BALANCE OF PAYMENTS OF THE UNITED STATES, 1955-1965

(changes in annual rates seasonally adjusted, in billions of U.S. dollars)

Changes from one period to the other	*1960-64* / *1955-59*	*1964* / *1955-59*	*1965* / *1964*	*1st half '65* / *1964*	*2d half '65* / *1st half '65*	*2d half '65* / *1964*
I. *Current Account and Foreign Aid*	**+2.0**	**+4.2**	**—1.9**	**—1.6**	**—0.6**	**—2.2**
II. *Private Capital*	**—3.5**	**—4.7**	**+1.8**	**+2.1**	**—0.6**	**+1.5**
Long-term	—1.0	—2.3	—0.2	—0.9	+1.5	+0.6
Short-term and E.O.	—2.6	—2.3	+1.9	+3.0	—2.1	+0.9
A. U.S. Funds	—1.8	—3.8	+2.9	+2.8	+0.4	+3.1
B. Other:	—1.7	—0.8	—1.2	—0.7	—1.0	—1.7
1. Foreign Funds	—0.1	—0.9	—1.7	—1.7	-	—1.7
2. Errors and Omissions	—1.6	+0.2	+0.5	+1.0	—1.0	-
III. *Official Settlements* (I + II)	—1.5	—0.5	—0.2	+0.4	—1.2	—0.8

Source: Survey of Current Business.

TABLE 8

SOURCES AND DISTRIBUTION OF INTERNATIONAL RESERVES, 1937-1965

(in billions of U.S. dollars)

End of	*1937*	*1949*	*1954*	*1959*	*1964*	*1965*
I. *Monetary Gold*	**25.3**	**35.0**	**36.9**	**40.2**	**43.1**	**43.3**
II. *International Organizations*	–	**0.2**	**—0.1**	**0.9**	**2.0**	**4.0**
A. IMF Reserve Positions	–	1.7	1.8	3.3	4.2	5.4
B. Gold Holdings (—)	–	—1.5	—2.0	—2.3	—2.2	—1.4
III. *Reserve Currencies*	**2.4**	**10.4**	**16.7**	**16.5**	**23.9**	**22.9**
A. Dollars	0.4	3.0	7.2	10.4	15.6	15.7
B. Sterling	(1.7)	(6.3)	(7.0)	6.2	7.0	6.7
C. Claims on EPU	x	x	1.1	x	x	x
D. Unallocated and Errors	0.2	1.0	1.3	—0.1	1.2	0.5
TOTAL GROSS RESERVES	27.7	45.5	53.5	57.6	68.9	70.2
I. *Liabilities of Reserve Centers*	**2.1**	**9.4**	**14.2**	**17.1**	**23.9**	**25.1**
A. United States	0.4	3.0	7.2	10.9	16.4	16.5
B. United Kingdom	(1.7)	(6.4)	(7.0)	6.2	7.6	8.7
II. *Excluding from Total the Liabilities of Reserve Centers*	**25.5**	**36.1**	**39.2**	**40.5**	**45.0**	**45.1**
A. *Reserve Centers* (Net)	**14.8**	**18.4**	**11.8**	**7.2**	**—5.0**	**—6.7**
1. United States	12.4	23.0	15.8	10.6	0.3	—1.0
2. United Kingdom	(2.4)	—4.6	—4.0	—3.4	—5.2	—5.6
B. *Other Countries* (Gross)	**10.7**	**17.7**	**27.5**	**33.3**	**49.9**	**51.8**
1. Developed Areas	8.4	9.5	17.0	23.7	40.0	40.7
a) EEC Countries	4.8	3.0	7.1	12.3	22.0	22.9
b) Other Europe	2.5	3.5	5.1	5.9	10.3	10.3
c) Canada and Japan	0.5	1.4	3.0	3.5	4.9	5.2
d) Australia, New Zealand, South Africa	0.7	1.6	1.8	2.0	2.8	2.2
2. Less Developed Areas	2.4	8.3	10.5	9.6	9.9	11.1
a) Latin America	0.9	2.8	3.2	3.0	2.9	3.4
b) Middle East	(0.3)	1.5	1.3	1.4	2.3	2.6
c) Rest of World	(1.2)	4.0	5.9	5.2	4.7	5.1

Main Sources: *International Financial Statistics* except for dollar liabilities derived from the *Federal Reserve Bulletin* and *Survey of Current Business* and for sterling liabilities derived from the *Bank of England Quarterly Bulletin* and roughly estimated for pre-1959 dates.

Note: The liabilities of reserve centers include, in addition to dollar and sterling reserve assets of other countries, debts of the United States and the United Kingdom to the IMF.

TABLE 9

SOURCES AND DISTRIBUTION OF CHANGES IN INTERNATIONAL RESERVES, 1950-1965

(Average Yearly Flows, in billions of U.S. dollars)

Period	*1950-54*	*1955-59*	*1960-64*	*1965*
I. *Monetary Gold*	**0.4**	**0.7**	**0.6**	**0.3**
A. Soviet Sales	–	0.2	0.3	0.4
B. Western Sources	0.4	0.5	0.2	—0.1
1. Production	0.9	1.0	1.3	1.5
2. Private Absorption (—)	—0.5	—0.6	—1.1	—1.5
II. *International Organizations*	**—0.1**	**0.2**	**0.2**	**2.0**
A. IMF Reserve Positions	–	0.3	0.2	1.2
B. Gold Holdings (—)	—0.1	—0.1	–	0.8
III. *Reserve Currencies*	**1.3**	–	**1.5**	**—0.9**
A. Dollars	0.8	0.6	1.0	0.1
B. Sterling	0.1	—0.2	0.1	—0.3
C. Claims on EPU	0.2	—0.2	x	x
D. Unallocated and Errors	0.1	—0.3	0.3	—0.7
TOTAL GROSS RESERVES	1.6	0.8	2.3	1.3
I. *Liabilities of Reserve Centers*	**1.0**	**0.6**	**1.4**	**1.2**
A. United States	0.8	0.7	1.1	0.1
B. United Kingdom	0.1	—0.2	0.3	1.1
II. *Excluding from Total Liabilities of Reserve Centers*	**0.6**	**0.2**	**0.9**	**0.1**
A. *Net Reserve Losses of Reserve Centers*	**—1.3**	**—0.9**	**—2.4**	**—1.7**
1. United States	—1.4	—1.0	—2.1	—1.3
2. United Kingdom	0.1	0.1	—0.4	—0.4
B. *Other Countries* (Gross)	**1.9**	**1.2**	**3.3**	**1.9**
1. Developed Areas	1.5	1.3	3.3	0.6
a) EEC Countries	0.8	1.0	1.9	0.9
b) Other Europe	0.3	0.2	0.9	–
c) Canada and Japan	0.3	0.1	0.3	0.3
d) Aust., N.Z., S.Af.	–	–	0.2	—0.6
2. Less Developed Areas	0.4	—0.2	0.1	1.2
a) Latin America	0.1	–	–	0.5
b) Middle East	–	–	0.2	0.3
c) Rest of World	0.4	—0.2	—0.1	0.4

Sources and Note: See Table 8.

PUBLICATIONS OF THE INTERNATIONAL FINANCE SECTION

The International Finance Section publishes at irregular intervals papers in four series: ESSAYS IN INTERNATIONAL FINANCE, PRINCETON STUDIES IN INTERNATIONAL FINANCE, SPECIAL PAPERS IN INTERNATIONAL ECONOMICS and REPRINTS IN INTERNATIONAL FINANCE. All four of these may be ordered directly from the Section.

Single copies of the ESSAYS and REPRINTS are distributed without charge to all interested persons, both here and abroad. Additional copies of any one issue may be obtained from the Section at a charge of $0.25 a copy, payable in advance. This charge may be waived to foreign institutions of education or research.

For the STUDIES and SPECIAL PAPERS there will be a charge of $1.00 a copy. This charge will be waived on copies distributed to college and university libraries here and abroad. In addition, the charge is sometimes waived on single copies requested by persons residing abroad who find it difficult to make remittance.

For the convenience of our British customers, arrangements have been made for retail distribution of the STUDIES and SPECIAL PAPERS through the Economists' Bookshop, Portugal Street, London, W.C. 2, and Blackwells, Broad Street, Oxford. These booksellers will usually have our publications in stock.

A mailing list is maintained for the distribution of ESSAYS and REPRINTS as they are issued and of announcements of new issues in the series of STUDIES and SPECIAL PAPERS. Requests for inclusion in this list will be honored, except that students will not be placed on the permanent mailing list, because waste results from frequent changes of addresses.

The following is a complete list of the publications of the International Finance Section. The issues of the four series that are still available from the Section are marked by asterisks. Those marked by daggers are out of stock at the International Finance Section but may be obtained in xerographic reproductions (that is, looking like the originals) from University Microfilms, Inc., 313 N. First Street, Ann Arbor, Michigan 48107. (Most of the issues are priced at $3.00.)

†No. 1. Friedrich A. Lutz, International Monetary Mechanisms: The Keynes and White Proposals. (July 1943)

† 2. Frank D. Graham, Fundamentals of International Monetary Policy. (Autumn 1943)

† 3. Richard A. Lester, International Aspects of Wartime Monetary Experience. (Aug. 1944)

† 4. Ragnar Nurkse, Conditions of International Monetary Equilibrium. (Spring 1945)

† 5. Howard S. Ellis, Bilateralism and the Future of International Trade. (Summer 1945)

† 6. Arthur I. Bloomfield, The British Balance-of-Payments Problem. (Autumn 1945)

† 7. Frank A. Southard, Jr., Some European Currency and Exchange Experiences. (Summer 1946)

† 8. Miroslav A. Kriz, Postwar International Lending. (Spring 1947)

† 9. Friedrich A. Lutz, The Marshall Plan and European Economic Policy. (Spring 1948)

† 10. Frank D. Graham, The Cause and Cure of "Dollar Shortage." (Jan. 1949)

† 11. Horst Mendershausen, Dollar Shortage and Oil Surplus in 1949-1950. (Nov. 1950)

† 12. Sir Arthur Salter, Foreign Investment. (Feb. 1951)

† 13. Sir Roy Harrod, The Pound Sterling. (Feb. 1952)

† 14. S. Herbert Frankel, Some Conceptual Aspects of International Economic Development of Underdeveloped Territories. (May 1952)

† 15. Miroslav A. Kriz, The Price of Gold. (July 1952)

† 16. William Diebold, Jr., The End of the I.T.O. (Oct. 1952)

† 17. Sir Douglas Copland, Problems of the Sterling Area: With Special Reference to Australia. (Sept. 1953)

† 18. Raymond F. Mikesell, The Emerging Pattern of International Payments. (April 1954)

† 19. D. Gale Johnson, Agricultural Price Policy and International Trade. (June 1954)

† 20. Ida Greaves, "The Colonial Sterling Balances." (Sept. 1954)

† 21. Raymond Vernon, America's Foreign Trade Policy and the GATT. (Oct. 1954)

† 22. Roger Auboin, The Bank for International Settlements, 1930-1955. (May 1955)

† 23. Wytze Gorter, United States Merchant Marine Policies: Some International Implications. (June 1955)

† 24. Thomas C. Schelling, International Cost-Sharing Arrangements. (Sept. 1955)

† 25. James E. Meade, The Belgium-Luxembourg Economic Union, 1921-1939. (March 1956)

† 26. Samuel I. Katz, Two Approaches to the Exchange-Rate Problem: The United Kingdom and Canada. (Aug. 1956)

† 27. A. R. Conan, The Changing Pattern of International Investment in Selected Sterling Countries. (Dec. 1956)

† 28. Fred H. Klopstock, The International Status of the Dollar. (May 1957)

† 29. Raymond Vernon, Trade Policy in Crisis. (March 1958)

† 30. Sir Roy Harrod, The Pound Sterling, 1951-1958. (Aug. 1958)

† 31. Randall Hinshaw, Toward European Convertibility. (Nov. 1958)

† 32. Francis H. Schott, The Evolution of Latin American Exchange-Rate Policies since World War II. (Jan. 1959)

† 33. Alec Cairncross, The International Bank for Reconstruction and Development. (March 1959)

† 34. Miroslav A. Kriz, Gold in World Monetary Affairs Today. (June 1959)
† 35. Sir Donald MacDougall, The Dollar Problem: A Reappraisal. (Nov. 1960)
† 36. Brian Tew, The International Monetary Fund: Its Present Role and Future Prospect. (March 1961)
† 37. Samuel I. Katz, Sterling Speculation and European Convertibility: 1955-1958. (Oct. 1961)
† 38. Boris C. Swerling, Current Issues in International Commodity Policy. (June 1962)
† 39. Pieter Lieftinck, Recent Trends in International Monetary Policies. (Sept. 1962)
† 40. Jerome L. Stein, The Nature and Efficiency of the Foreign Exchange Market. (Oct. 1962)
† 41. Friedrich A. Lutz, The Problem of International Liquidity and the Multiple-Currency Standard. (March 1963)
† 42. Sir Dennis Robertson, A Memorandum Submitted to the Canadian Royal Commission on Banking and Finance. (May 1963)
† 43. Marius W. Holtrop, Monetary Policy in an Open Economy: Its Objectives, Instruments, Limitations, and Dilemmas. (Sept. 1963)
† 44. Harry G. Johnson, Alternative Guiding Principles for the Use of Monetary Policy. (Nov. 1963)
† 45. Jacob Viner, Problems of Monetary Control. (May 1964)
† 46. Charles P. Kindleberger, Balance-of-Payments Deficits and the International Market for Liquidity. (May 1965)
† 47. Jacques Rueff and Fred Hirsch, The Role and the Rule of Gold: An Argument. (June 1965)
† 48. Sidney Weintraub, The Foreign-Exchange Gap of the Developing Countries. (Sept. 1965)
† 49. Tibor Scitovsky, Requirements of an International Reserve System. (Oct. 1965)
* 50. John H. Williamson, The Crawling Peg. (Dec. 1965)
* 51. Pieter Lieftinck, External Debt and Debt-Bearing Capacity of Developing Countries. (March 1966)
* 52. Raymond F. Mikesell, Public Foreign Capital for Private Enterprise in Developing Countries. (April 1966)
* 53. Milton Gilbert, Problems of the International Monetary System. (April 1966)
* 54. Robert V. Roosa and Fred Hirsch, Reserves, Reserve Currencies, and Vehicle Currencies: An Argument. (May 1966)
* 55. Robert Triffin, The Balance of Payments and the Foreign Investment Position of the United States. (Sept. 1966)

PRINCETON STUDIES IN INTERNATIONAL FINANCE

†No. 1. Friedrich A. and Vera C. Lutz. Monetary and Foreign Exchange Policy in Italy (Jan. 1950)
† 2. Eugene A. Schlesinger, Multiple Exchange Rates and Economic Development. (May 1952)
† 3. Arthur I. Bloomfield, Speculative and Flight Movements of Capital in Postwar International Finance. (Feb. 1954)
† 4. Merlyn N. Trued and Raymond F. Mikesell, Postwar Bilateral Payments Agreements. (April 1955)
† 5. Derek Curtis Bok, The First Three Years of the Schuman Plan. (Dec. 1955)
† 6. James E. Meade, Negotiations for Benelux: An Annotated Chronicle, 1943-1956. (March 1957)
† 7. H. H. Liesner, The Import Dependence of Britain and Western Germany: A Comparative Study. (Dec. 1957)

† 8. Raymond F. Mikesell and Jack N. Behrman, Financing Free World Trade with the Sino-Soviet Bloc. (Sept. 1958)

† 9. Marina von Neumann Whitman, The United States Investment Guaranty Program and Private Foreign Investment. (Dec. 1959)

† 10. Peter B. Kenen, Reserve-Asset Preferences of Central Banks and Stability of the Gold-Exchange Standard. (June 1963)

* 11. Arthur I. Bloomfield, Short-Term Capital Movements under the Pre-1914 Gold Standard. (July 1963)

* 12. Robert Triffin, The Evolution of the International Monetary System: Historical Reappraisal and Future Perspectives. (June 1964)

* 13. Robert Z. Aliber, The Management of the Dollar in International Finance, (June 1964)

* 14. Weir M. Brown, The External Liquidity of an Advanced Country. (Oct. 1964)

* 15. E. Ray Canterbery, Foreign Exchange, Capital Flows, and Monetary Policy. (June 1965)

* 16. Ronald I. McKinnon and Wallace E. Oates, The Implications of International Economic Integration for Monetary, Fiscal, and Exchange-Rate Policy. (March 1966)

* 17. Egon Sohmen, The Theory of Forward Exchange. (Aug. 1966)

SPECIAL PAPERS IN INTERNATIONAL ECONOMICS

*No. 1. Gottfried Haberler, A Survey of International Trade Theory. (Sept. 1955; Revised edition, July 1961)

† 2. Oskar Morgenstern, The Validity of International Gold Movement Statistics. (Nov. 1955)

* 3. Fritz Machlup, Plans for Reform of the International Monetary System. (April 1962; Revised edition, March 1964)

† 4. Egon Sohmen, International Monetary Problems and the Foreign Exchanges. (April 1963)

† 5. Walther Lederer, The Balance on Foreign Transactions: Problems of Definition and Measurement. (Sept. 1963)

* 6. George N. Halm, The "Band" Proposal: The Limits of Permissible Exchange Rate Variations. (Feb. 1965)

* 7. W. M. Corden, Recent Developments in the Theory of International Trade. (March 1965)

REPRINTS IN INTERNATIONAL FINANCE

* 1. Fritz Machlup, The Cloakroom Rule of International Reserves: Reserve Creation and Resources Transfer. [Reprinted from *Quarterly Journal of Economics*, Vol. LXXIX (Aug. 1965)]

† 2. Fritz Machlup, Real Adjustment, Compensatory Corrections, and Foreign Financing of Imbalances in International Payments. [Reprinted from Robert E. Baldwin et al., *Trade, Growth, and the Balance of Payments* (New York: Rand McNally and Amsterdam: North-Holland Publishing Co., 1965)]

* 3. Fritz Machlup, International Monetary Systems and the Free Market Economy. [Reprinted from *International Payments Problems: A Symposium* (Washington, D.C.: American Enterprise Institute, 1966)]

* 4. Fritz Machlup, World Monetary Debate—Bases for Agreement. [Reprinted from *The Banker*, Vol. 116 (Sept. 1966)]

SEPARATE PUBLICATIONS

† (1) Klaus Knorr and Gardner Patterson (editors), A Critique of the Randall Commission Report. (1954)

† (2) Gardner Patterson and Edgar S. Furniss, Jr. (editors), NATO: A Critical Appraisal. (1957)

* (3) Fritz Machlup and Burton G. Malkiel (editors), International Monetary Arrangements: The Problem of Choice. Report on the Deliberations of an International Study Group of 32 Economists. (Aug. 1964)