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[COMMITTEE PRINT]

EXCHANGE RATE POLICY

AND

INTERNATIONAL MONETARY REFORM

REPORT

OF THE

SUBCOMMITTEE ON INTERNATIONAL TRADE, INVESTMENT AND MONETARY POLICY

OF THE

COMMITTEE ON BANKING, CURRENCY AND HOUSING HOUSE OF REPRESENTATIVES

AND THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMICS

OF THE

JOINT ECONOMIC COMMITTEE

94th Congress, First Session

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LETTERS OF TRANSMITTAL

To all Members of the Committee on Banking, Currency and Housing:

I hereby transmit for the use of the Committee on Banking, Currency and Housing this report, with recommendations, on "Exchange Rate Policy and International Monetary Reform." It is issued with the approval of the Committee on Banking, Currency and Housing.

Sincerely,

HENRY S. REUSS, *Chairman.*

Hon. HENRY S. REUSS,
Chairman, Committee on Banking, Currency and Housing, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed for your consideration is a report, with recommendations, on "Exchange Rate Policy and International Monetary Reform." This report is based on joint hearings held, on July 17, 18, and 21, 1975, by the Subcommittee on International Trade, Investment and Monetary Policy, of the Committee on Banking, Currency and Housing, and the Subcommittee on International Economics of the Joint Economic Committee. It has received the approval of both subcommittees.

Sincerely,

THOMAS M. REES,
Chairman, Subcommittee on International Trade, Investment and Monetary Policy.

AUGUST 7, 1975.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report of the Subcommittee on International Economics entitled "Exchange Rate Policy and International Monetary Reform."

The views expressed in this subcommittee report do not necessarily represent the views of other members of the Committee who have not participated in the hearings of the Subcommittee or in the drafting of the report.

Sincerely,

HUBERT H. HUMPHREY,
Chairman, Joint Economic Committee.

AUGUST 1, 1975.

Hon. HUBERT H. HUMPHREY,
Chairman, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on International Economics entitled "Exchange Rate Policy and International Monetary Reform." It has been approved unanimously by the members of the subcommittee.

The subcommittee wishes to express its appreciation for the views it received from the Administration officials and the private experts who appeared before it as witnesses during the hearings preceding this report.

Sincerely,

HENRY S. REUSS,
Chairman, Subcommittee on International Economics.

EXCHANGE RATE POLICY AND INTERNATIONAL MONETARY REFORM

On July 26, 1972, the Board of Governors of the International Monetary Fund (IMF) established the Committee on Reform of the International Monetary System and Related Issues, popularly known as the Committee of Twenty, or simply the C–20. After the tumultuous events of 1971—the decision in May by Germany and other European countries to permit their currencies to float in exchange markets, the August announcement by the United States Government that the dollar would no longer be convertible into gold, and the attempt to establish a new set of exchange rate parities at the Smithsonian Institution in December—the Committee of Twenty was charged with drafting amendments to the IMF's Articles of Agreement to bring them into line with current realities and to establish the framework for a viable international monetary system.

Unforeseen events during 1973 made the Committee's task far more difficult than initially anticipated. In March the major industrial nations abandoned any attempt to maintain fixed parities for the external value of their currencies and decided to let the foreign exchange value of their currencies be determined largely by the interplay of private supply and demand. By the end of 1973 the Organization of Petroleum Exporting Countries had quadrupled the price of oil. This increase in oil prices imposed severe balance-of-payments adjustment strains on the industrial countries and on those developing nations unable to export primary commodities at high prices.

On June 4, 1974, the Committee of Twenty submitted its final report, which it termed an Outline of Reform. This report consisted of two parts: first, a general description of the reformed international monetary system as the C–20 envisioned it, and second, immediate steps towards reform. The general description left a number of specific issues unresolved. Possible alternative ways of resolving these issues were contained in several annexes accompanying the report. Among the immediate steps recommended in the second part was the establishment of an Interim Committee that would continue to discuss the unresolved issues. It was hoped that they could submit draft amendments of the IMF Articles by February 1975. Because of continuing disagreement on several issues, that schedule was not met. This year the Interim Committee convened in Washington in January and in Paris in June. It is scheduled to gather again in Washington immediately before the September annual meeting of the IMF.

The Subcommittee on International Trade, Investment and Monetary Policy of the House Committee on Banking, Currency and Housing is the subcommittee charged, in the 94th Congress, with legislative responsibility for international monetary reform and exchange rate policy. The Joint Subcommittee on International Economics has similar oversight and study responsibilities. On July 17, 18, and 21, 1975,

these two subcommittees held combined hearings entitled "Problems of International Monetary Reform and Exchange Rate Management". The purpose of these hearings was to review the advantages and disadvantages of floating exchange rates in the light of over two years' experience with floating, and to review the unresolved issues of international monetary reform.

At the most recent Paris meeting of the IMF Interim Committee agreement was blocked by differences of opinion among the members on three issues: (a) how an agreed increase in IMF quota subscriptions should be allocated among the individual members, (b) whether authorization from the Fund should be required if a member wishes to let its currency float in exchange markets, and (c) certain details regarding the future international monetary role of gold. The first question is essentially a political, rather than an economic, matter. The following report therefore deals with the second and third of these issues only.

Summary of the Hearings

The hearings focused on five specific questions. First, what are the advantages and disadvantages of floating versus fixed exchange rates? Second, for what reason and to what extent should central banks intervene in exchange markets? Third, should an IMF member country desiring to let its currency float in exchange markets be required, under a reformed monetary system, to obtain from the Fund authorization to float? Fourth, schemes have been proposed to sell monetary gold in the market and use the profits for the benefit of developing countries. However, large sales could drive down the market price and eliminate those profits. Do these schemes imply an official guarantee of a minimum market price for gold? What nations would indeed be the chief beneficiaries? Fifth, should dollar balances held by foreign monetary authorities, the so-called "overhang", be funded through an exchange for Special Drawing Rights or otherwise be consolidated?

Testimony was solicited from some academic economists who favor, and some who oppose floating exchange rates, from bankers and businessmen with practical experience in dealing with floating, and from officials of the Treasury and Federal Reserve System responsible for international monetary policy. The economists included Professors Rudiger Dornbusch (University of Chicago), Charles P. Kindleberger (Massachusetts Institute of Technology), Arthur Laffer (University of Chicago) and David Meiselman (Virginia Polytechnic Institute). Commercial bank officers in charge of foreign exchange trading who gave testimony were Mr. Dennis LeJeune, of the Harris Trust and Savings Bank of Chicago, Mr. Renaldo Levy, of the Marine Midland Bank of New York, and Mr. Vincent Poma, of the Union Bank of Switzerland. Two businessmen testified, Mr. Alva O. Way, Vice President in charge of finance for the General Electric Corporation and Mr. William D. Wooldredge, Vice President and Treasurer for B. F. Goodrich Company. General Electric is largely an exporter of heavy equipment embodying advanced technology, such as jet engines and power generating stations, while B. F. Goodrich is a producer of tires and chemicals. The Department of the Treasury was represented by Secretary William E. Simon, accompanied by As-

sistant Secretary Charles A. Cooper. The Federal Reserve Board was represented by Governor Henry C. Wallich.

With the exceptions of Professors Kindleberger and Laffer, the private witnesses concluded that under present circumstances, it is preferable for the United States to float rather than maintain a fixed parity and that the Federal Reserve and Treasury should not intervene in exchange markets to resist basic trends in exchange rate movements. Most witnesses agreed that the U.S. Treasury and International Monetary Fund should sell gold from their stocks as a means of gradually reducing its reserve-asset role. Treasury and Federal Reserve testimony also supported these conclusions.

The specific advantages of floating exchange rates cited by various witnesses may be summarized as follows: [1]

First, national monetary authorities enjoy greater independence for implementing monetary policy under floating than under fixed rates. With floating rates, the authorities are no longer obliged to buy the domestic currency with foreign exchange reserves or sell it and acquire reserves in order to maintain a fixed value for the local money. Therefore, external conditions need not induce purchases or sales of the domestic currency that can decrease or increase commercial bank reserves.

Second, private speculative capital movements are smaller under floating than fixed rates because individuals with liquid assets can no longer be certain which way an exchange rate will move. They are therefore deprived of the guarantee that, if fixed parities are maintained, their potential losses will be minimal, and the prospect that, if fixed rates are changed, their profits could be huge.

Third, since rates of productivity growth, inflation, and wage rate increases will inevitably differ among countries, exchange rates can never remain constant for long, and some type of adjustment mechanism is essential. Floating exchange rates will tend to reflect the underlying trend of real economic forces. The smaller continuous exchange rate adjustments permitted by floating are less costly to international traders and investors than the large abrupt changes that occur when fixed rates can no longer be maintained in the face of these trends.

Fourth, with floating exchange rates, nations can make smaller investments in stocks of monetary reserves than if rates are fixed.

Fifth, under floating exchange rates, controls over international capital movements are likely to be less extensive than if rates are fixed. Since the introduction of floating rates, U.S. capital export controls have been eliminated.

Some of the consequences of the move from fixed to floating exchange rates are subject to conflicting interpretations. Among the major questions are the following:

First, while fluctuations in exchange rates around trend values have been larger since the move to a floating rate regime than had generally been expected, several witnesses judged that these fluctuations were more the consequence of abrupt shifts in underlying economic realities, such as the oil price increase, than instability inherent in exchange markets.

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[1] For more detailed account of some of the arguments pro and con regarding floating exchange rates, see "Making Floating Part of a Reformed Monetary System," Report of the Subcommittee on International Economics of the Joint Economic Committee, Congress of the United States, January 9, 1974, pp. 3–10.

Second, floating exchange rates have been described as more inflationary than fixed rates due to a "ratchet effect". Since prices and wages in industrial countries are generally rigid downwards, cyclical variations in exchange rates produce price increases in nations with depreciating currencies but no corresponding reductions in other countries whose monies are appreciating. On the other hand, it has been maintained that the fixed exchange rate system of the late 1960's and early 70's became an engine of inflation as a result of very large increases in the exchange reserves and, consequently, the domestic money supplies of some surplus countries. Furthermore, floating rates help contain inflation within the nation that generates it.

Third, some analysts have maintained that floating rates discourage international trade because of the increased costs of covering exchange risks. But trade, until the onset of the current recession, continued to expand briskly. Moreover, in a given country at a specific time the cost to an exporter of hedging an exchange risk is a similar discount to an importer, or vice versa.

Fourth, it is sometimes maintained that floating exchange rates complicate medium and long-term planning for businessmen. But exchange rate adjustments must occur: the choice is whether they take place in small continuous steps or in major jumps. The decision by U.S. authorities to let the dollar float made businessmen more aware of the difficulties of predicting exchange rates some years into the future. Their planning has become, therefore, more realistic.

Professor Kindleberger argued that we need an "international money" to provide the same benefits we derive from domestic money, which serves as a medium of exchange, a unit of account, a store of value, and a standard of deferred payment for long-term contracts. Under floating rates, the international financial system fails to satisfy all but the first of these functions. This problem, he maintained, is especially acute for smaller firms who cannot easily afford the costs of managing the risks of floating, i.e., the risks of not being able to utilize a money that can fulfill all these functions. The solution, Professor Kindleberger argues, would require a system of absolutely fixed exchange rates, which would be synonymous with a regime of one world currency. But he acknowledged that the institution of immutable exchange rates would require closer coordination of monetary and fiscal policies than exist today. "Optimists certainly, perhaps utopians," he said, "we recognize that this coordination is difficult and perhaps impossible in a world of neomercantilism where each country looks after its national good and is rarely willing to modify it in the international interest."

He also noted, however, that pursuit of the short-run national interest can be just as damaging under floating rates since countries may be tempted to manipulate the rates to gain competitive trade advantages. Though we can congratulate ourselves on avoiding this danger, by and large, during our experience with floating to date, the threat may become more acute now that recession has replaced inflation as the dominant concern of most countries. As long as inflation was virulent, governments were happy to see their currencies appreciate, since that reduced inflation. When unemployment becomes the major social ill, Professor Kindleberger observed, the temptation is nigh to stimulate the economy by competitive, beggar-thy-neighbor

exchange rate practices. Thus international cooperation remains, under floating rates, requisite for economic stability and political concord.

Professor Laffer emphasized the balance-of-payments discipline that defense of unchanging exchange rates would impose upon the nations of the world. Given the constraint of avoiding persistent balance-of-payments surpluses or deficits, he argued, inflationary or deflationary excesses in the rate of money creation would be curbed.

The generally positive attitude toward floating expressed by the exporters appearing before the subcommittees was traceable, in part, to the boost their sales have enjoyed from a depreciated dollar. They claimed this change represented only an adjustment from a previously overvalued dollar, and enabled them to compete once again on an equitable basis. But foreign exporters see the problem in a different light. It will not be easy to control the political pressures toward greater "stability" from whichever group of exporters is currently suffering from the movement of the exchange rates. It is still an open question whether floating can continue without controls on trade or capital movements and without massive intervention during a period when American exporters must adjust to an appreciating dollar.

Recommendations

In the light of the testimony offered in these hearings, we offer the following recommendations:

Recommendation 1: Authorization To Float

Floating should require no IMF authorization. Any amendment of the IMF Articles of Agreement should treat the adoption of a fixed parity or the decision to let the foreign exchange value of a nation's currency be determined by private supply and demand in exchange markets as equally acceptable policy options. Each option should be accompanied by a set of agreed guidelines designed to prevent Fund members from manipulating exchange rates to export domestic economic problems.

The international trade of the United States has expanded rapidly in recent years and is now approximately 15% of gross national product. Nevertheless, the trading sector of the U.S. economy is still far too small to warrant inflating or deflating the entire economy in order to achieve a specific balance-of-payments objective. In this respect, the United States is quite different from nations such as France, Germany, or the United Kingdom that trade over 40% of their GNP. For this reason it is imperative that the United States, even more than other industrial countries, not be required to subject its fiscal or monetary policies to the maintenance of any fixed exchange rate for the dollar.

The private and official witnesses agreed that the currencies of many industrial countries are likely to continue floating for the foreseeable future. At this time, most IMF members are in violation of the Fund Articles because they are not maintaining the value of their currencies within the specified margins of agreed fixed parity exchange rates. The Articles have consequently become an anachronism. Any amendment should conform with reality.

According to the Secretary of the Treasury, "The Articles should impose neither a moral nor a legal obligation to establish par values, now or in the future . . . There are some countries that want all nations to accept an obligation to return to par values, and to this the United States will not agree." The revised articles should not be used as a device to induce nations to adopt an exchange rate regime that they consider contrary to their own best interests. Each IMF member should be free to choose whether to let its currency float in exchange markets or to maintain a stated parity. No prejudice should be associated with either option, and no authorization from the Fund should be required to make either choice.

Just as individual IMF members should be free to select the exchange rate regime that best suits their own individual needs, each must accept responsibility for containing its own problems within its own economy. No country should export either inflation or unemployment.

The function of the International Monetary Fund ought to be to monitor the exchange rate and domestic economic policies of member countries to assure that domestic problems are not being exported. In addition, it should coordinate joint action to combat difficulties that affect several Fund members simultaneously. As Governor Wallich observed in his statement, "A commitment to cooperative behavior, rather than to a particular form of exchange rate regime, should be at the core of a country's obligations to the IMF."

Recommendation 2: Intervention

The United States monetary authorities should intervene in exchange markets only to combat or to prevent the emergence of disorderly conditions. Intervention should not attempt to influence the trend of exchange rate movements. Swap borrowings and loans entered into between the Federal Reserve and foreign monetary authorities should normally be liquidated, i.e., the position fully reversed, within six months of the initial transaction. Only as a result of the most extraordinary circumstances should swaps remain outstanding for more than a year. U.S. monetary authorities should not accumulate additional reserves in the form of foreign exchange.

Most of the private witnesses testifying emphasized that intervention should be occasional, short-term, and only to combat disorderly conditions in exchange markets. Some would prefer *no* intervention. The exporters were particularly apprehensive that efforts to prop up the exchange value of the dollar might undermine their competitive position abroad and decrease employment in the United States. Disorder emerges in exchange markets when for any reason dealers are unable to form reasonably firm expectations about direction or extent of exchange rate movements in the immediate future. In effect, fear overwhelms normal expectations upon which the ability to do business is based. Disorder is manifested by unusually wide spreads between bid and asked prices for currencies and by a severe drop in the volume of transactions from normal levels.

Monetary authorities naturally prefer to initiate intervention before disorder has become extreme. They maintain that smaller amounts of

intervention can be effective if undertaken before psychological attitudes have deteriorated sharply. While most outside observers are at a disadvantage with respect to the authorities in terms of immediate knowledge of market conditions, and should therefore view arguments advocating intervention skeptically, certainly in some instances intervention is appropriate to prevent the further spread of irrational fears. Probably the best objective tests of whether intervention is appropriate are, first, whether it is reversed within a reasonably brief time period, such as a few months, and second, whether it is, on average, profitable.

If loans and borrowings among monetary authorities are repaid within a few months, then intervention can be presumed not to be forcing exchange rates to deviate significantly from longer term trends. Profitability indicates that the authorities are indeed purchasing the domestic currency when it is cyclically low and selling it when the currency is cyclically high. Unless these short-term cycles are around a rather severe declining trend, the authorities should at least be able to avoid losses resulting from their intervention activities.

The authorities should also refrain from intervening to smooth cyclical exchange rate movements that do not threaten to cause unwarranted fears and create disorderly conditions in exchange markets. In his testimony, Treasury Secretary Simon said, "Nor do I believe that movements in rates that prove ultimately to be temporary can serve no useful purpose. On the contrary, tolerance for rate movements may serve quickly to stem speculative flows and thus to prevent the truly disorderly consequences of attempts to maintain fictitious or artificial rates that are obviously at variance with market judgements." The smoothing of benign cycles should be left to private interests.

Currently the Federal Open Market Committee Authorization for the Federal Reserve Bank of New York to intervene in exchange markets stipulates that swap drawings "shall be fully liquidated within twelve months after any amount outstanding at that time was first drawn, unless the Committee because of exceptional circumstances specifically authorizes a delay." Although no change in this particular language contained in the Authorization may be required, in practice an even shorter time span for the full reversal of swap transactions is desirable, such as six months.

The American public has over $11 billion invested in gold reserves, valued at the official price of $42.22 per oz. This investment is lying idle and neither accruing interest nor producing any good or service of value to the U.S. government or to individual citizens. This gold stock far exceeds any conceivable or desirable balance-of-payments financing requirements in the foreseeable future. Given this excessive investment in gold reserves, there is no need for U.S. monetary authorities to accumulate foreign exchange reserves in addition.

Recommendation 3: Gold Sales

Sales of gold by the International Monetary Fund should adhere to an agreed schedule for disposing of Fund gold holdings.

The communique issued by the IMF Interim Committee on June 12 reported the extent of agreement on the future monetary role of gold. Points agreed upon were the following:

"(i) The objective [of monetary reform] should be an enhancement in the role of the SDR as the central asset in the international monetary system and, consequently, a reduction in the role of gold.
(ii) The official price of gold should be abolished.
(iii) Obligations to use gold in payments between the Fund and members should be abrogated.
(iv) There should be the sale of a portion of the Fund's gold at the approximate market price for the benefit of developing members in general, and particularly those with low income, and the sale of another portion to members at the present official price."

Profits derived from the sale of IMF gold stocks would be proportional to the amount by which the market price exceeds the official price. Use of these profits to benefit developing countries could lead to a commitment by the IMF and its individual members to support the market price of gold or to avoid sales that would depress the market price below some specified level.

Linking the future monetary role of gold and financial assistance to developing countries risks confusing two independent issues, with counterproductive results. The Interim Committee's decisions to abolish the official price of gold and to dispose of Fund gold holdings are entirely appropriate. But the future international monetary role of gold should be determined by the pace at which Fund members choose to shift the reserve basis of the system toward SDRs. If profits accrue from IMF gold sales, and if the member countries agree to use these profits for the benefit of developing nations, excellent! But the pace of IMF gold sales should not be influenced by the financial needs of developing countries.

Any plan to support explicitly or implicitly the market price of gold, ostensibly to assure profits for the benefit of poor nations, raises the question of what other countries might benefit and who in fact would benefit most. Surely, a high market price for gold benefits the gold producers and countries with a high proportion of gold in their monetary reserve stocks. A high market price also benefits individual hoarders who have purchased gold in previous years. The Congress has over the years persistently opposed any large general upward revaluation in the official price of gold. An arrangement to hold the market price above some specific level would have many of the same adverse effects as an official revaluation, such as delaying the introduction of an SDR-based international monetary system and rewarding gold producers and hoarders.[2]

The phasing out of the international monetary role of gold will proceed more rapidly the larger the portion of the Fund's gold stock sold in the market and the smaller the portion sold to members at the present official price. The latter portion should be minimal. In addition, to assure a smooth transition the IMF should announce a schedule for the gradual disposition of its gold holdings. Similarly, sales of gold by the U.S. Treasury should be based on a policy for converting the bulk of this nonproductive asset that is the common property of all Americans into a form yielding the maximum possible real returns.

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[2] For a more detailed discussion of these effects, see "The 1974 Joint Economic Report." Report of the Joint Economic Committee, Congress of the United States on the February 1974 Economic Report of the President, March 25, 1974, pp. 8–9.

Recommendation 4: The Dollar "Overhang"

The United States Government should not guarantee either the foreign exchange value or the real purchasing power of dollar balances held by foreign monetary authorities. During the foreseeable future, no dollar balances should be exchanged for special drawing rights issued by the IMF or other long term obligations bearing exchange rate or purchasing power guarantees.

For a variety of reasons, including the intensity of the recession in the United States and a drop in interest rates in this country below levels abroad, the dollar was worth less in exchange markets during the last quarter of 1974 and the first quarter of this year than it had been previously. During this period discussion of a "dollar overhang" revived, and oil exporting countries threatened to switch the pricing of petroleum from dollars to Special Drawing Rights. Prior to 1971, the "overhang" referred to dollars held by foreign monetary authorities that they desired to convert into gold but had been persuaded by the U.S. Treasury to retain. Some recent discussions have included privately held dollars also as part of the "overhang". Some individuals concerned about this issue have suggested that dollars held by foreign monetary authorities, private foreigners, or both be exchanged for IMF-issued SDRs, which would then bear an exchange rate guarantee.

It is questionable whether there is any "overhang" in the form of dollars held involuntarily by foreigners. Treasury Secretary Simon asked, "Who is it that is trying to dispose of unwanted dollars? I am unable to find them." Private foreigners are in no way constrained to hold dollars. To the extent that they do, they must be presumed to be acting in their own best interests. The major foreign official holders of dollars have acquired these assets in either of two ways. The OPEC countries increased the price of oil fourfold and achieved the expansion of foreign exchange receipts they were seeking. Dollars held by these countries are not reserves in the traditional sense but medium-term investments that will probably be used mainly to purchase imports as the oil producers industrialize.

The other major dollar holders are industrialized countries that have not let their exchange rates appreciate to levels required to spend dollar balances accumulated largely before March 1973 and the widespread adoption of floating. Perhaps the adverse impact exchange rate appreciation would have on domestic export and import-competing industries prompts such countries to avoid spending dollar balances. If this is the reason other countries are continuing to hold rather than spend dollars, then this action reflects the judgment of foreign policymakers that an immediate gain in employment is preferable to increased imports for consumption or investment. Such a judgment other sovereign nations are free to make, but it in no way implies that the United States should do anything to induce others to continue holding dollars. In fact, doing so at this time would not be in the best interests of the U.S. A period of high domestic unemployment is the best time for this country to export goods and services in return for payment from foreign-owned dollar balances.

In sum, most dollar balances retained by foreigners are held willingly, and to the extent that they are not, the holders have no claim based in equity that the United States should guarantee the value of their holdings. An exchange of dollars for special drawing rights or other obligations bearing a foreign exchange value or purchasing power guarantee is neither necessary nor desirable.

SUPPLEMENTAL VIEWS OF CONGRESSMAN JOHN H. ROUSSELOT

Many, including myself, would prefer a world in which governments did not intervene in the gold market. Market forces should be permitted to determine the prices of both currencies and commodities. Individuals should be allowed to make contracts involving gold, and no aspersions should be cast upon the decisions of those who choose to trade in gold.

The most serious and persistent economic problem is inflation, which itself is responsible for a large measure of what is often referred to as a separate problem—unemployment. Accordingly, my primary concern regarding any new monetary system which may emerge from the current series of negotiations is that it not become an engine of inflation. Avoidance of inflation will require a considerable amount of discipline in the conduct of national and international monetary affairs which has been lacking at crucial times in the past.

The solution to inflation does not lie in the imposition of oppressive controls over wages and prices in order to conceal or to delay the effects of excessively rapid monetary expansion, a combination of policies which was employed in this country during the period 1971–73. There is no substitute for effective limitations, which are difficult to devise and to enforce, upon the power of central banks to increase domestic money supplies faster than real economic growth would justify.