

The Kennedy Administration, which took office early in 1961, thus started its term with the dollar under pressure.¹⁷ While acknowledging the importance of the capital outflows in helping to rebuild reserves in the major European countries and thereby providing them greater flexibility to promote economic growth and to reduce restrictions on international transactions, the United States began to have concerns and to give voice and effect to these concerns. As the 1963 Economic Report of the President noted:

"These U.S. payments deficits have persisted beyond the point where they improve the distribution of the world's monetary reserves. Indeed, continuing large payments deficits by the United States could create doubts about the stability of the dollar and threaten the efficient operation of the international payments system. As a result, the U.S. government has had to pay close and constant attention to the net financial outcome of its transactions, and those of its citizens, with the rest of the world. Important measures have been taken to improve the payments position of the United States, and domestic economic policy has been framed with attention to the balance of payments."

Here it will be recalled that the recovery from the 1960 recession in the United States was not particularly robust, with a disappointing slowdown in the pace of recovery in 1962. There was accordingly considerable pressure for domestic policy reasons to adopt expansionary fiscal and monetary policies. From an American perspective, the optimal way to resolve the balance of payments problem was, therefore, to deal with it

¹⁷ For example, in the run-up to the Presidential election of 1960, fears that the new Administration would devalue caused the price of gold on the London gold market to spike to US\$40 an ounce, compared to the Bretton Woods conversion price of US\$35 an ounce. See Michael D. Bordo and Anna J. Schwarz, "Under What Circumstances, Past and Present, Have International Rescues of Countries in Financial Distress Been Successful," NBER Working Paper 6824, December 1998, p. 31.