Three: The third line of inquiry has to do with the link between special drawing rights and economic development aid.

Discussion of that possible link enters the picture because the IMF at Rio did decide to take a look at methods of stabilizing the prices of basic commodities exported by developing countries. Once you put your mind on that, you are necessarily looking at the process of economic development and we, therefore, thought it useful to ask the panel whether there is some way of linking aid and SDR's.

Four: The fourth series of questions has to do with possible regional pooling of special drawing rights, whether countries should be permitted to pool them in order to marshal them most effectively.

We also, needless to say, would welcome the panel's comments on more recent events, particularly the devaluation of sterling over the weekend, its effect on the dollar, and if anybody wants to comment on what that does to the necessity for, or prospect of, a tax increase, we would be happy to hear views on that.

I think, perhaps, it will be most useful, if it is agreeable with members of the panel, if we take these subject matters up one by one, consider them for a while, and then go on to the next, and when I am through I would hope to throw it open to the widest discussion possible.

Does that sound all right, gentlemen? If so, I will call on Mr. Bernstein first and then Sir Roy; would you address yourself to the first question which has to do with the activation of special drawing rights? What should be the position of the United States on that? Should we accept the pleas of the French for no activation without either a great improvement or perfection in the balance of payments of the United States? Do we undergo any risk by entering into an international monetary agreement which could, in theory at least, be stalemated by the refusal of other members to activate even though by any rational standard activation is necessary?

Mr. Bernstein, would you first address yourself to that?

STATEMENT OF DR. EDWARD M. BERNSTEIN, FORMERLY DIRECTOR OF RESEARCH AND STATISTICS, INTERNATIONAL MONETARY FUND

Mr. Bernstein. Mr. Chairman, it seems to me that the time to activate the proposal for a new reserve asset is when the world economy has reached the stage where its need for the additional reserves has become clear.

The purpose of the new reserve asset, the special drawing rights, is to assure an adequate growth of reserves. When the managing director of the International Monetary Fund, with the advice of his technical staff, comes to the conclusion that the growth of reserves in the form of gold and foreign exchange is not adequate for an expanding world economy, that is the time the plan should be activated.

I think in a practical sense this means activation about as soon as the technical facilities for managing the new reserve asset can be arranged. We know that there is not going to be a large increase, if any at all, in the gold reserves of the world. On the contrary, there is a strong probability that in this new environment and in this coming year, there will be a drain from the monetary stock of gold into private holdings of gold.