

are actually very favorable, although it might be bad constitutional procedure to have some of them subject to very restrictive voting requirements.

Let me show you what I mean. First, the Belgians want to declare the gold tranche as, in fact, a deposit-type asset that can be withdrawn without any repayment obligation.

I would say that making the gold tranche a deposit-type asset is not a bad idea.

It is true that the Common Market countries have proposed that the regulations established by the executive directors for quota drawings, the granting of credits, in each separate credit tranche should be frozen as they are today, and that it should require an 85-percent vote to change these regulations.

What they fear, of course, is that these credit tranches, or one of them, will be made automatic. This fear is unfounded. Actually the Fund does not have the resources to permit automatic drawings in the credit tranches. Besides, the more we build up the SDRs to be a reserve asset, the less important the reserve-substitute aspect of the present Fund will be, and the more important will be its recognized reserve-credit function, giving loans of reserves.

There is something to be said for having this distinction clearly understood. The probability is that in the future, far from wanting to loosen the present regulations to make the credit tranches automatic, the directors might want to make drawings even more like credit, with more rigorous tests of credit worthiness.

If the Common Market countries succeed in freezing the present regulations, they are going to make it impossible to tighten the credit-worthiness provisions in the present regulations.

I think some Common Market countries are aware of this point.

Mr. Chairman, my proposition is that the natural evolution of the general account of the International Monetary Fund is toward becoming a lender of reserves on tests that are likely to become stricter on credit worthiness precisely because reserves will be created in the form of special drawing rights and will be allotted to all members of the Fund.

If the Common Market countries freeze the present tests for drawing on the credit tranches of the IMF, they will really freeze their own capacity to set up tighter rules in the future. That is precisely the opposite of what they want to do.

Chairman REUSS. Let us look at the worst possibility. Suppose the Common Market countries, instead of adopting the constructive approach to the amendment of the regular IMF articles which you have suggested, suppose the Common Market countries stick to the point which they, at least, have been hinting at, namely, that without any increase in quotas for them or anybody else, the voting majority required for quota increases shall be increased to 85 percent, which would give them, in effect, a veto.

Now, you have said that that—

Mr. BERNSTEIN. I do not think that is reasonable.

Chairman REUSS. That is unreasonable.

Mr. BERNSTEIN. I do not see any need to change very reasonable working rules in the Fund agreement, especially as the quotas of not only the Common Market countries, but of Japan and Canada, are too small. The only countries in the Group of Ten whose quotas are