

Now, improvement in the U.S. balance of payments——

Senator PROXMIRE. Let me just interrupt at that point to say is it of significant size, however, to finance the increase in world trade? The increase in world trade has been so great, and we hope it will continue to increase at a rapid rate. Does the SDR offer sufficient flexibility, and so forth, so that in the absence of a U.S. deficit they will be in a position to finance a very sharp and continuing increase in world trade?

Mr. BERNSTEIN. This is another reason why I believe a small U.S. payments deficit, not financed by dollars, would not prevent activation.

Senator PROXMIRE. I see.

Mr. BERNSTEIN. In my opinion, the plan as it stands, requires the Managing Director to determine on an objective basis what is the appropriate growth of reserves.

If you put in not less than \$1 billion in SDR's, it would have some benefit in setting a floor. But there is a grave danger once more that this would prolong the debate on the amount of SDR's to be created: "Look, we can satisfy everything by just having this \$1 billion. Why do you want to debate so much? Why don't you compromise?"

I am very much in favor of having the flexibility in the system resting with the Managing Director, because I am confident that he will act objectively and on the basis of technical considerations. That is the best way of assuring an adequate growth of reserves by way of special drawing rights.

Senator PROXMIRE. Let me ask this one other small question. Does the British devaluation do anything, in your view, to hasten the feeling in the international community that we should or should not ratify and activate the SDR's?

Mr. BERNSTEIN. Well, of course, I cannot speak for the international community, Senator. If you ask whether I feel that it had improved the environment, my answer is "Yes."

Senator PROXMIRE. All right.

Mr. BERNSTEIN. I will tell you why.

In the first place, the British balance of payments is bound to become quite strong. I think the devaluation is in an excellent environment, and I think people are underestimating its magnitude.

This is a devaluation of 14 percent against 90 percent of the world trade, with no other great industrial country sharing the benefits of the devaluation.

In 1949 we had a 30-percent devaluation, just under 31 percent, but with countries accounting for 60 percent of the world trade then, much more now, devaluing against a handful of countries, of which the United States and Switzerland were the major ones not to devalue.

So if you take the two dimensions, the size of the devaluation and the extent of the economic area to which it applies, this is really a good-sized devaluation. It is going to be successful.

The impact of the British devaluation will ultimately have to rest on three big groups of countries, the United States, the Common Market countries, and the EFTA countries and other industrial exporters.

About one-fourth of the total impact will be on us. I estimate that the Common Market countries alone will be at least twice as much affected as we are, if for no other reason than that they account