

Professor Triffin has submitted a longer statement entitled "The International Monetary Problem After Rio," and without objection that will be made a part of the hearing record and printed in full.

(The above-referred-to document follows:)

THE INTERNATIONAL MONETARY PROBLEM AFTER RIO

BY ROBERT TRIFFIN, Yale University

An ecumenical council of the world monetary "establishment" assembled at Rio de Janeiro, last September, to initiate the long overdue "aggiornamento" of an anachronistic and crumbling international monetary order.

Writing on the eve of this September gathering, I irreverently introduced as follows my summary of its probable achievements and shortcomings: "The pregnancy has been inordinately long. Four years have elapsed since the launching of the official debate on international monetary reform at the 1963 IMF meeting in Washington. Everybody will be relieved, therefore, even though the Agreement to be delivered by the official midwives at Rio to an expectant world rather looks like a mere EGG, whose hatching will still require one and a half years, or more, of legal drafting, approval by Governments, and ratification by Congresses or Parliaments before it can come into actual operation."¹

MAIN SHORTCOMING OF THE RIO AGREEMENT

Looked at in a short-run perspective, the Rio achievements are thus extremely meager. The so-called new "reserve assets" or "credit facilities" will not see the light of day until this protracted hatching process is over, and the chicken can burst out of its shell. Even then, they will not be activated—the bird will not be allowed to walk, and even less to fly—until the United States (and the United Kingdom?) have achieved a substantial and durable improvement—or even equilibrium—in their balance of payments and members agree that the adjustment process is likely to work better in the future than in the past.² The Rio decisions will not come into operation, therefore, until *after* the major problems that threaten the international monetary system today have been solved.

At that point in a still distant time, the nations of the world will try to fill the foreseeable gap in world liquidity by agreeing on the deliberate creation of international reserves, in the form of special IMF drawing rights (SDR, for short), adjusted to the requirements of non-inflationary growth in world trade and production. Unfortunately, the dimensions of this foreseeable gap will remain totally unpredictable as long as no agreement is reached on the role that the other two, and more traditional, components of world reserves (about 90% of the total) should play in the *overall* reserve system of tomorrow.

The first of these is monetary gold, whose supplies will continue to be governed by the hazards of gold production in the non-Soviet world, gold sales by the USSR, and gold purchases by industry, dentists, jewelers, hoarders, speculators, and mainland China. Gold supplied more than 80 percent of world reserve increases in the late 1930's, and was expected by the IMF, only a few years ago, to supply at least seven-eighths (87%) of the requirements for additional reserves over the decade 1958–1967.³ My own estimates were less sanguine, ranging from 29% to 55%, but were still overoptimistic. Gold has provided in fact only 26% of reserve increases over these ten years, and its contribution has now become negative. Over the last year, private and Chinese purchases have exceeded total gold production in the Western world by more than \$300 million, while USSR sales have stopped entirely, after accounting for nearly 85% of the increase in Western monetary gold over the preceding four years (1962–1965).

The second of the two traditional components of world reserve increases is foreign-exchange reserves, *i.e.* the balances in *national* currencies—overwhelmingly dollars and sterling—accumulated by central banks as *international* reserves, alongside gold itself. Their actual role in reserve creation oscillates between a maximum—about \$2.3 billion in 1963, for instance—determined by the vagaries of U.S. and U.K. balance-of-payments deficits, and a minimum—*minus* \$2

¹ "Alchemy in Rio: The Problems Ahead," *Interplay*, November 1967.

² These "prerequisites" for activation have been spelled out in various ways, at various times, by the various participants in the negotiation, but have been repeatedly emphasized, in some form or other, by all of them. See, for instance, the *Communique of the Ministerial Meeting of the Group of Ten* on July 25th and 26th, 1966, in The Hague, paragraph 6A and *Report of the Deputies*, paragraphs 48 and 98(8).

³ *International Reserves and Liquidity*, IMF, Washington, D.C., 1958.