

The second is that the creation of SDR's should not become a sort of "garbage can" for the dollar and sterling balances which central banks might choose to drop into it. In other words, it expresses the fear that we shall continue to finance our deficits through the accumulation of dollar and/or sterling IOU's by foreign central banks, and the call for the creation of SDR's only when this policy fails and central banks decide to convert the dollars or sterling previously accumulated by them.

To take care of these objections, we should agree that *future* accumulation of dollar and sterling balances by central banks, beyond normal working balances, should properly be limited in accordance with the proposed so-called "multilateral surveillance" criteria, and that our future deficits should be financed—like those of other countries—from our own gross reserves, *plus* borrowings from the IMF.

We should, on the other hand, claim protection against the massive cashing into gold of old dollar and sterling balances accumulated over many years past. Unwilling holders should be given instead the alternative of converting such balances, if they wished, into SDR's, carrying a gold-value guarantee, but a much lower rate of interest than we are now paying. If we are really sincere in our determination to eschew a dollar devaluation, the guarantee should be costless, while interest-savings should be substantial.

Let me note in addition that—

(1) Such an agreement would be a main deterrent to gold speculation and might release for dollar and sterling investments a large portion of current and past gold hoarding by speculators;

(2) This would enhance the interest of central banks themselves to hold on to the dollar and sterling balances accumulated in the past; and

(3) Many central banks—particularly in Japan, Latin America and most underdeveloped countries—would not be really free to liquidate dollar and sterling balances which they must hold as a condition—and informal collateral—for their borrowings, and those of their residents, in New York and London.

I have long been convinced⁵ that our past reluctance to discuss similar suggestions by Italy, Germany, the Netherlands, etc., constitutes a total misunderstanding of U.S. vital interests in this matter.

General agreement on sensible and viable reforms of our anachronistic world monetary system thus depends on the development of such a comprehensive approach, encompassing the respective role of be assigned in the future to all *three* components of world reserves, *i.e.*, to gold and foreign exchange as well as to collectively created reserve assets.⁶

Fortunately, or unfortunately, the sterling and/or dollar crises that are most likely to recur again over the forthcoming months will require new salvage operations and should induce the United States and the United Kingdom, as well as their prospective lenders, to re-open this co-existence problem which they have so far tried to sweep under the carpet. The problem of sterling balances is also recognized now as one of the major issues in the British application of admission into the European Economic Community. Its most obvious solution, and the one most beneficial to *all* concerned, would be along the lines suggested above, but which might also be recast provisionally into an agreement between the United Kingdom and the European Community as long as the United States continues to fight a rear-guard battle against its own true interests in this matter. Such a solution of the sterling problem, however, could not fail to stimulate also renewed interest in a broader agreement covering the reserve role of the dollar as well as of sterling in the world-wide framework of the IMF.

There are good reasons to hope, therefore, that some progress will be made on this front before the Rio agreement is ready for activation, some two years from now.

OTHER DESIRABLE AMENDMENTS

While this is undoubtedly the most urgent revision needed to make sense of the Rio agreement, other improvements should also be considered as soon as practicable.

⁵ and have argued elsewhere, particularly in *Guidelines for International Monetary Reform*, Hearings of the Subcommittee on International Exchange and Payments, July 27-29, 1965, Part I, pp. 164-184, and *Contingency Planning for U.S. International Monetary Policy*, Joint Economic Committee, December 1966, pp. 136-138.

⁶ This problem was last debated between academics and officials at Bellagio, in June 1967. See my article on "The Coexistence of Three Types of Reserve Assets" in the *Banca Nazionale del Lavoro Quarterly Review*, June 1967, pp. 107-131.