The first is the restoration of the traditional link, which it purports to break, between reserve creation and development financing. The past accumulation of sterling and dollar IOU's by foreign central banks was largely used by the United Kingdom and the United States to sustain far larger outflows of foreign aid and development capital than they could have sustained otherwise. If claims on the IMF are to substitute for such sterling and dollar accumulation, the IMF should also use the consequent increase in its lending potential to provide, directly or indirectly, such development financing to the underdeveloped nations.

A familiar objection raised against such a link was that the *liquid* monetary obligations of the IMF could not be properly invested in *long-term* assets. Professor Machlup refuted wittily this unwarranted extrapolation from commercial banking norms to the norms applicable to a world-wide institution in his *Quarterly Journal of Economics* (August 1965) article on "The Cloakroom Rule of International Reserves: Reserve Creation and Resources Transfer." An institution encompassing virtually—as the Fund—all the nations of the world, need not retain liquid assets in order to finance settlements between its customers: For international payments in the same world, the assets (amounts, quality, composition, liquidity) of the international reserve bank (or an appropriately organized IMF) are irrelevant; they become relevant only for payments to persons, banks, or reserve banks on other planets, that is, for interplanetary payments." (p. 343)

In any case, if the old taboo against long-term IMF lending had any shade of validity, the Rio agreement would sin far more in this respect than my own proposals, since it requires only the "reconstitution" of 30% of the SDR's actually used by deficit countries. In common parlance, this technical language means that 70% of the credits granted under the new system will not even be long term credits: they will be grants, never to be repaid at all, except if the borrower becomes a creditor or, more hypothetically and in this case mysteriously, in the event of withdrawal from, or liquidation of, the SDR system.

The automatic allocation of the new Drawing Rights in proportion to IMF quotas is as indefensible economically as it is morally. It assigns about one-third of the total to two countries alone—both among the richest in the world—and about three-fourths to the developed countries, leaving the 81 less developed countries of the Fund to share little more than one-fourth of the total amount. Any automatic system of allocation contravenes, moreover, the sacro-sanct principle repeatedly affirmed by the Group of Ten: that is the need to link the creation of new reserve assets to the strengthening of the balance-of-payments adjustment mechanism. Can one seriously believe that countries would be willing to underwrite indefinitely, through the automatic distribution of drawing rights, persistent deficits ascribable to policies with which they fundamentally disagree, whether economically or even politically—such as, for instance, our present war escalation in Viet-Nam?

Fortunately, the Rio Agreement on automatic distribution of Special Drawing Rights is limited to the first five years of operation of the new system. It should be revised at the first opportunity to earmark this new lending potential of the IMF for the support of *agreed* policies rather than of *unilateral* national policies. These agreed policies could encompass a wide variety of objectives, such as national stabilization policies, development financing, etc., including—why not—peacemaking activities of the United Nations.

An early opportunity for amendment may be provided by another resolution, initiated by France and fourteen French-speaking African countries, and unanimously adopted at the Rio meeting. This resolution calls for a study of the conditions in which IMF, IBRD and IDA could participate in the elaboration and financing of suitable mechanisms for price stabilization of primary products at a remunerative level. This could indeed be one, among many others, of the collective objectives to which the lending resources derived—as a by-product—from collective reserve creation could be assigned in the future.

Finally, future amendments to the Rio Agreement should ease the awesome task of collective decision-making in this field by decentralizing the responsibilities of the IMF through their systematic coordination with the regional economic and monetary groups and organizations now emerging in various parts of the world. This should also facilitate cooperation between such groups across a—let us hope—vanishing "iron curtain" and facilitate in time the reintegration of Eastern Europe and the USSR in the world economic community.

These, however, are tasks for the future. Rio will be a success only if we all regard it as a starting point rather than a dead end, and as opening toward further evolution of the world monetary system a path long blocked until then by the age-old myths and taboos of conservative bureaucrats and nationalistic politicians.