

the form of dollar or sterling balances, as well as SDR's, should be subjected to international agreement. International credit reserves—in either form—should be created only in the amounts necessary to preserve the targeted increases in overall reserves, let us say, of 3 or 4 percent a year.

Whether such increases should then take the form of additional dollar or sterling reserves, or of SDR's, should be left to international decisions, rather than to the hazards of the United States and United Kingdom balance-of-payments deficits, and unilateral action.

II. ALLOCATION

A second amendment to the present Rio agreement seems to me also vitally needed in the future. This refers to the distribution rules of the new SDR's.

I feel that international decisions should govern the allocation of SDR's among members as well as their overall amounts. The international lending power derived from SDR creation should logically be earmarked for the support of internationally agreed policy objectives, rather than of unilaterally chosen national policies.

These internationally agreed objectives might include, among others:

(a) The support of monetary stabilization programs by countries experiencing difficulties in their balance of payments—as is the case for traditional IMF operations;

(b) The neutralization of speculative movements of private funds, now financed by the IMF "General Arrangements to Borrow;"

(c) The purchase of IBRD obligations, or contributions to IDA, et cetera, in support of agreed development programs in the less-developed countries;

(d) The financing of price stabilization mechanism for primary products, such as envisaged in the second resolution unanimously adopted at Rio, last September;

And, finally, possibly in the longer run, SDR's might even finance, also, other agreed activities of the United Nations, FAO, WHO, UNESCO, and so on. I see no limit to what could be done in that respect in the long run.

The investment of short-term funds into such long-term financing used to be condemned as unsound, on the basis of a totally unwarranted extrapolation of commercial banking criteria to the operations of a worldwide reserve center.

The opposite—and correct—view was, however, adopted at Rio: if a contraction in the world reserves is to be avoided, the assets of a world reserve center should continue to increase, and could take the form, therefore, of long-term investments, or even grants, to its members. The provision, adopted at Rio, of a 30-percent reconstitution of SDR's means, in effect, that 70 percent will not be subject to any fixed repayment obligation.

If this is true, the bankers have indeed changed their minds completely over the last few months, and many of the objections, some of which were presented again this morning in our discussion, would, of course, fall to the side.