

The second was the broadening of the negotiations to include all members of the IMF through joint meetings between representatives of the Group of Ten and the executive directors of the IMF. The first joint meeting was held in Washington at the end of November, and the second took place in London on January 25 and 26, 1967.

Two major remaining problems concern the provisions regarding the acceptability and the holding and use of new reserve assets, and the procedures under which decisions are to be taken. These matters will be the subject of intensive negotiations during the spring of this year, and I believe there are already some signs that opinions are converging.

The outlines of a contingency plan are beginning to emerge, and I hope that the major elements will become sufficiently clarified for them to be presented to the annual meeting of the Board of Governors in Rio de Janeiro in September.

It is important to understand both what we can expect from a contingency plan for reserve creation, and what we cannot expect from such a plan. Over time, the new reserve assets, like any other reserves, will provide substantial resources that countries may on occasion use to meet short- and medium-term exigencies arising out of fluctuations in their international accounts. But they should not be regarded as a means for financing persistent deficits.

Nor should we regard reserve creation as a form of international assistance to developing areas. This, I believe, is fully recognized by the representatives of these developing countries. There is no doubt, however, that these countries need reserves and that an adequate growth in their reserves is one of their legitimate concerns. One of the major benefits which these countries may expect to derive from an adequate system of reserve creation is the indirect effect of a more liberal trading and investing pattern on the part of industrial countries, thereby enlarging the scope of their own trade and their capital availabilities.

These considerations have a bearing on a second aspect of the question of reserve creation—its urgency.

This committee and its members have made timely and imaginative suggestions in the field of international economics and financial co-operation, and they have recently called attention to the urgency of the problem. We are in full agreement that the events of the past year underline the desirability of establishing a contingency plan as early as possible. There is a growing recognition of this need in international circles.

CONCLUSION

As we enter the seventh year of the current expansion, the economy remains strong and further progress has been made toward better international financial arrangements.

Domestically, last year's shift from fiscal stimulus to restraint helped place the economy on a more sustainable path of advance. Now, we must maintain the forward momentum of the economy while restoring relative stability in costs and prices.

New challenges may be ahead. As in the past, these will require our best efforts. I am confident that flexible and sensible adaptation of our economic and financial policies will enable us to meet our responsibilities—at home and abroad.