

and commission involved in the creation of SDRs. The sin of omission is that it does not offer a solution to the so-called co-existence problems. The sins of commission are its gold-value guarantee (which may ultimately make them an albatross around the neck of the U.S.), its veto provisions, and its absence of "backing." I do not wish at this point to go into the delicate, most important question of the gold-value guarantee. I would like to say something, however, about an international money with zero backing. I have always regarded it as the culminating point of mutual trust,¹⁷ the end of a long, evolutionary process in which confidence in the workability of an arrangement and the acceptability of a new currency is gradually built up. In the case of the SDRs, it has been made the beginning point of the arrangement, and I believe that will have deleterious consequences for their growth in the future. I do not believe that the authorities will place sufficient faith in the new drawing rights to create the quantity of new assets that will be needed. If I am right, it means that the quantity of reserves, based on 100 per cent trust, as the SDRs are, will be allowed to rise only gradually. You can get 100 per cent trust invested in only a small fraction of reserves at the present stage of international collaboration. I would prefer 80 per cent trust applied to all reserves, because that would produce a better spreading of the risk, even if, as one would hope, the risk is purely psychological.

Because this point is of great importance, it is worth showing how the question of backing and trust are related to the issue of the gold-value guarantee. There was, initially at least, a difference of opinion among the Group of Ten as to whether the SDRs had a gold guarantee. But the issue was resolved in the amendment to the Articles. The "unit of value" of the SDR units is .888671 grams of gold (the equivalent of a dollar at the official price). If any currency is devalued by a given proportion, an SDR unit will buy a proportionately larger amount of that currency. If all currencies are devalued, say in half, by an official reduction in the par values of all currencies, an SDR unit will buy twice the number of currency units as before (the same amount of gold) *unless* an 85 per cent majority of votes in the Fund waives this provision. It would be extremely unlikely, therefore, that this majority could be obtained, particularly since an 85 per cent majority is (now) also required to effect a uniform reduction in par value. This is because the constellation of countries whose interests would be furthered by a reduction in par values is likely to differ from those whose interests would be furthered by an exception to the maintenance-of-gold-value clause. For example, surplus countries with large (non-guaranteed) dollar holdings would tend to oppose a uniform reduction of par value, but would want to make an exception of the maintenance of gold value, while countries with large SDR holdings may or may not want a uniform reduction of par values, but they would be extremely unlikely to vote for it unless it *had* a maintenance-of-gold-value clause.

If, for example, the EEC countries wanted an increase in the price of gold with the maintenance of gold value (because they held strong general and special account positions at the IMF) and the rest of the world wanted an increase in the price of gold, but the U.S. would agree only if there was a waiver of the maintenance-of-gold-value clause, there would be no agreement to increase the price of gold. Effectively, therefore, the probability of an increase in the price of gold without the application of the maintenance of gold value is practically nil. It follows, therefore, that gold and SDRs will be very close substitutes, and should engender on this ground alone (assuming inviolability of contract) the substitution of SDRs for dollars, particularly since SDR holders will receive interest, as between gold and SDRs abroad, since the U.S. continues to be the residual holder. But as between dollars on the one hand, and gold plus SDRs on the other, the movement will depend on the probability of a change in the par value of the dollar—first, *vis-a-vis* other currencies, and then *vis-a-vis* gold and SDRs. However, if, as I have argued elsewhere,¹⁸ the possibility of dollar devaluation *vis-a-vis* other currencies is unlikely at the present time (with the possible exception being a couple of European countries) whereas a uniform reduction in the par value of all currencies is unlikely *after SDRs become substantial elements in the balance sheet* (because of conflicting interests of the U.S. and Europe with respect to the maintenance of gold value), uniform devaluation becomes feasible, in view of the voting arrangements recently adopted, only if it takes place in the near future.

¹⁷ I discussed the relation between "trust" and reserve ratios in my "The Optimum Structure of a Central Bank" (Frank Graham Memorial Lecture delivered at Princeton University, May 1968, mimeo).

¹⁸ "Should the U.S. Devalue the Dollar?" (*loc. cit.*).