

deflate their money supply because their reserves are below some fixed ratio that at one time was thought to be appropriate.

Countries no longer regard the historical gold parities as the sole objective of economic policy. If the currency is overvalued or undervalued, they are expected and entitled to request the International Monetary Fund to approve of a change in parity instead of deflating the economy or in exceptional cases inflating it.

Even in the provision of reserves the old gold standard has moved a good deal but much less than in these other aspects of the gold standard. Countries have not yet—they are only beginning—to agree on a rational means of providing for the growth of reserves, and gold still remains the most important reserve asset, in some respects a unique reserve asset, because it is the only final reserve asset.

It is quite true that we have developed on an enormous scale the use of foreign exchange, especially dollars, to supplement gold as reserves, but only gold is the final reserve asset. And in a period of crisis there remains the risk that dollars and sterling will be presented on a massive scale for conversion into gold.

We have also developed on a very big scale the use of reserve credit—through the International Monetary Fund itself, the swap arrangements, and the ad hoc credits made from time to time by central bankers through Basle.

All this, of course, is great progress in the further evolution of the international gold standard. It does seem to me, however, that there remain some important difficulties especially on the reserve side, and it is these difficulties that we ought to be concerned with in the near future. I am not suggesting, of course, that we don't have other problems.

The plan for special drawing rights, SDR's, which will be ratified by the end of this year or early next year, will give us an orderly system for the growth of reserves according to trend needs, without regard to the balance-of-payments position of any country. It will not deal, however, with the problem of gold as the only final reserve asset, and we are confronted with the fact that there is a very strong preference for gold relative to other reserve assets.

It seems to me that an international monetary system operating with multiple reserve assets—gold, dollars and sterling, other foreign exchange, and SDR's—must have some means of assuring the appropriate use of all of the reserve assets if it is to function properly. Otherwise, there will be a tendency to move away from some reserve assets and to hoard other reserve assets, and this can be very disruptive to the international monetary system.

It seems to me that this danger of a disruptive preference for gold may become greater when the plan for SDR's is activated. The SDR's are, after all, a reserve asset with a gold guarantee, and they pay interest, too.

The danger that there will be a preference for other reserve assets rather than for SDR's is recognized in the plan for SDR's, and elaborate provisions are made for assuring the appropriate use of other reserve assets, gold and foreign exchange, along with SDR's in international settlement.

It seems to me that while this is quite proper, it doesn't really go far enough because it deals with a possible preference of other reserve