A plan for SDRs was submitted to the annual meeting of the Board of Governors of the IMF at Rio de Janeiro in September 1967 (see our *Review* for fourth quarter, 1967). In accordance with a resolution of the Board of Governors, the Executive Directors of the IMF prepared an amendment to the Fund charter which will authorize the issue of SDRs and their allocation among the 107 member countries. The amendment will also change the voting requirements for some of the decisions of the IMF in order to give greater voice to the European surplus countries and to make sure that drawings on the IMF in excess of a country's net creditor position (the gold tranche) will be treated as reserve credit and submitted to appropriate tests for reserve credit.

The ministers and central bank governors of the Group of Ten met in Stockholm on March 29-30, 1968, to consider a tentative draft of the amendment to the Fund charter. They reaffirmed their determination to co-operate in the maintenance of exchange stability and orderly exchange arrangements based on the present $35 official price of gold and they agreed that the plan to establish SDRs will make a very substantial contribution to the strengthening of the international monetary system. In the next few days, the final text of the amendment will be mailed to the governors of the IMF for their approval. When this approval is given by correspondence, the amendment will be submitted to member countries for ratification. The ratification may be completed in 10 to 12 months. Some further time will be necessary before a decision is taken to activate the new reserve facility. The French delegation did not associate itself with the parts of the Stockholm communique on the maintenance of the present price of gold and the agreement on SDRs and changes in the rules and practices of the IMF.

The French Government stated that it wants fundamental changes in the international monetary system. In the opinion of the French Government, the recent difficulties have their origin in the gold exchange standard; that is, the use of dollars and sterling as reserves. The privileged position of dollars and sterling as reserve currencies, in the French view, tends to encourage persistent deficits in the payments of the United States and the United Kingdom. The French propose, therefore, that the monetary price of gold be raised substantially, doubled or more, and that dollars and sterling no longer be used as reserves, so that monetary reserves hereafter would consist exclusively of gold valued at the higher price. Facilities for reserve credit would be available through the IMF, but under rigorous conditions.

The French position has no support in the Group of Ten. An international monetary system cannot be based on gold if the price of gold is to be responsive to the same market influences as other metals. The very essence of the gold standard is that the monetary price of gold should remain a fixed reference point for the value of currencies. As for dollars and sterling, it is not possible to reverse the historical process by which large amounts of these currencies came to be held as reserves. Nevertheless, it is not desirable to have any further growth in the foreign exchange component of monetary reserves. Thus, with the stock of monetary gold frozen and foreign exchange reserves fixed at about the present level, the only source of further growth of international monetary reserves would be SDRs. This would greatly simplify the problem of assuring an adequate growth of aggregate monetary reserves.

The plan for the new reserve facility contains a provision under which a member of the IMF may refuse an allocation of SDRs (opting out). When the plan is ratified and activated, it will be possible for France to decide to opt out of an issue of SDRs. It is doubtful whether it would be in the interest of France to refuse an allocation of SDRs in order to insist on gold settlements exclusively when all other great trading countries will be using SDRs and foreign exchange, as well as gold, to settle their payments surpluses and deficits. While it would be unfortunate if France were to dissociate itself from the operations of the new reserve facility (SDRs), the international monetary system could function reasonably well despite its abstention.

While France did not associate itself with some parts of the Stockholm communique, it did subscribe to Paragraph 6 in which the ministers and governors of the Group of Ten and Switzerland said that "they intend to strengthen the close co-operation between governments as well as between central banks to stabilize world monetary conditions." The common interest in the successful functioning of the international monetary system far outweighs any temporary advantage that could be achieved in a clash of national policies. That is why France will undoubtedly decide to play its full part in the new gold standard.

The basic principles of this new gold standard are clear. The Bretton Woods system of fixed parities will continue unchanged, with the par values of all curren-