has been no increase in reserves in the form of sterling in this entire period. While there has been a large increase in foreign official holdings of dollars, the growth of reserves in this form will come to an end when the U.S. balance of payments is restored. Net creditor positions in the IMF are, in a real sense, reserves at the disposal of creditor countries; but they are matched by equal obligations of the deficit countries. They must repay these credits to the IMF in three to five years and when they are repaid, aggregate reserves decrease. The fact is that under the present system, with a balanced pattern of international payments, the growth of reserves would be about $500 million a year, all in gold, that is, less than 1 per cent of aggregate reserves. With this rate of growth in monetary reserves, a balanced pattern of international payments would inevitably lead to world-wide deflation.

To assure an adequate but not excessive growth of monetary reserves in the future, it is necessary to supplement the present system of reserves in the from of gold, dollars and other foreign exchange, with a new reserve asset. This reserve asset could be backed by the currencies of the great trading countries and be administered by the IMF. The amount of reserves to be created annually should be determined for a period of five years ahead by an appropriate growth trend of reserves, rather than by the needs of individual deficit countries for reserve credit or of developing countries for development finance. The new reserve assets created should be distributed equitably among all countries and should be used along with gold and dollars in the settlement of international payments. With such a reserve system, reserves would grow at an appropriate rate, countries could hold adequate but not excessive reserves, and the adjustment of payments deficit and surpluses would take place with deliberate speed—not so fast as to necessitate harsh deflationary measures in the deficit countries, not so slow as to result in the spread of inflation to the surplus countries.

Coordination of domestic policies

Even if the conditions for international monetary stability were actually fulfilled, this would not insulate a country from inflation unless its own policies were conducive to monetary stability. In a very real sense, therefore, the precondition for monetary stability is to have national policies that avoid a rise in the wholesale price index of domestically produced industrial goods and that limit the rise in wages and other labor compensation to the trend increase of productivity in the export industries—essentially in manufacturing. For this purpose, guideposts can be useful, but they must be made effective through fiscal and credit policies in which the trend growth of aggregate demand is properly related to the trend growth of real output (allowing for the normal secular rise in consumer prices relative to wholesale prices) and in which even cyclical expansion does not result in such a rise in the wholesale price index of industrial goods and of wages as to bring about a permanently higher level of prices and costs.

All that the conditions for international monetary stability can do, if they are realized, is to assure countries that if they follow appropriate national policies, monetary stability will not be upset by the international monetary environment. This environment is created by the combined effects of national policies in all of the great trading countries, and particularly in the United States. Because there is an international interest in the national policies of the great trading countries, it is desirable that they cooperate in securing complementary policies conducive to international monetary stability. This process has already been begun through international surveillance. The practical significance of this new form of international monetary cooperation will become evident only with experience. It is, however, a great step forward to have the great trading countries recognize their common responsibility in coordinating their national policies and in creating a stable international monetary environment.

Mr. BERNSTEIN. So, Mr. Chairman, you now have my order of importance of the issues we have before us. The most important is the prompt activation of the SDR's. The second is study and formulation of a system for the balanced use of all reserve assets; I prefer to call it the composite gold standard.

The third important question is to remove the whole question of private holdings of gold from the international monetary system. My