APPENDIX

THE FOLLOWING LETTER WAS RECEIVED BY CHAIRMAN REUSS FROM PETER B. KENEN, CHAIRMAN, DEPARTMENT OF ECONOMICS, COLUMBIA UNIVERSITY

COLUMBIA UNIVERSITY,
DEPARTMENT OF ECONOMICS,
New York, N.Y., September 6, 1968.

Representative HENRY S. REUSS,
Chairman, Subcommittee on International Exchange and Payments, Joint Economic Committee, U.S. Congress, Washington, D.C.

DEAR REPRESENTATIVE REUSS: Following our conversations in Chicago, I set out below my own views on the work that should be done at the forthcoming meetings of the International Monetary Fund. I am sorry that long-standing commitments prevent me from appearing before your subcommittee, but hope that this brief note will be useful to you.

The last two years have seen enormous progress toward fundamental reform of the international monetary system. For the first time in modern history, the world is on its way to deliberate, considered management of international money. The SDR scheme approved at Rio was, of necessity, a compromise, falling far short of requirements, but much exceeding expectations. Few of us, indeed, believed that the Group of Ten and Governors of the Fund could reach significant agreement concerning the creation of reserve assets.

Yet the Rio agreement will not be meaningful until SDR's come into being, and the Fund meetings in Washington must make this task their first order of business. Few would agree that there, now, a serious shortage of reserves. But creation of a first tranche of SDR's need not and should not await strong evidence of shortage. On the contrary, the creation of SDR's before such a shortage appears is prerequisite to their effective use in meeting any shortage. Governments and central banks must become accustomed to holding and using the new reserve asset before events require that they take on SDR's in the significant amounts a shortage would imply. Put differently, prompt creation of SDR's on a modest scale is needed to prove that the central banks have confidence and faith in the Rio agreement. This year's meeting, then, should start the first five year period envisaged by the Rio agreement and should authorize creation of SDR's at a modest rate, say $2 billion per year, for the next five years.

This year's meetings have also to deal with two related questions: the future roles of gold and the U.S. dollar in the international monetary system. Last spring, in Washington, members of the now-defunct gold pool agreed that they would cease to sell gold to private purchasers and that their gold holdings were, in total, adequate, so that they would not buy gold in London or elsewhere. The first of these decisions was long overdue, and we have no reason to believe that it will come apart. The second, however, was not quite so firm and may well unravel unless the Fund's Governors endorse it with vigor. It is, in any case, a fragile agreement unless those who adhere to it recognize its corollary: If total gold holdings are to be adequate, each nation has also to be satisfied with its own holdings (or, more precisely, those who want to hold more gold are able to obtain it from those who want to hold less). There is as yet no evidence to this effect. France, though losing gold since the riots last spring, has not changed its policies; it would seek to buy gold if its reserves rose again.

The Washington declaration on the role of gold cannot be made fully effective so long as the demand for gold is an unregulated total of national demands, as these demands may well exceed global supplies. It cannot be made fully effective until monetary gold is "internationalized." Total gold holdings should be pooled in the IMF, with each country taking SDR's or comparable claims in exchange for gold turned over to the Fund. I would, in fact, go further, with Triffin and