

4. While I would welcome agreement on the all-encompassing plan for my colleagues, I cannot but consider—with Senator Javits—such an agreement as difficult to negotiate in the short time at our disposal, since foreign countries may be unwilling to switch 100% from gold to IMF deposits until they have been able to gain familiarity with the new system and confidence in the wisdom and fairness of its actual management.

This practical consideration—rather than my own preference—has led me to propose a more gradual move, allowing countries to retain—if they wish—in gold metal a proportion of their total reserves equal to the average ratio of gold to total reserves for the participating countries as a group.

5. In order to facilitate and accelerate agreement on the implied commitments and ease management problems, I have recommended in the past to initiate my proposed “Conversion Account” with a limited membership encompassing only the major gold and reserve holders, but taking fully into account the interests of other countries. (See my book on *Our International Monetary System: Yesterday, Today and Tomorrow*, pp. 146–164.)

The Table appended to this paper, however, revamps my previous tables to show the implications of a world-wide “Conversion Account” on the reserve composition of all members, as of March 31, 1968, i.e. the last date for which IFS estimates are now available to non-officials.

Recommendation 4

I remain, for reasons too long to develop here, somewhat hesitant—even though not flatly opposed—to this recommendation.

Intellectually, I would prefer to the proposed “band” between intervention rates, agreement on a “fork” between maximum and minimum reserve levels, barring—or limiting gradually—stabilization interventions by central banks in the exchange markets—either as buyers, or as sellers—when their reserves reach the upper or lower of these two levels.

Such a suggestion, however, raises many difficulties that would have to be explored further, but is also, in any case, unlikely to be considered seriously by the officials.

Exchange rate readjustments should certainly be made easier and more prompt and frequent than they have been in the recent past for the major countries. They should also be implemented more often through upward revaluation of the stronger currency or currencies, rather than biased in favor of devaluation of the weaker currency or currencies.

Countries should not be encouraged, however to *rush* into *excessive* exchange readjustments, when overspending—as is now the case in the U.S.—or underspending—as has been the case, at times, for some surplus countries—are clearly responsible for all, or most, of the imbalance between deficit and surplus countries. Exchange rate readjustments are a proper remedy for the cost and price uncompetitiveness or overcompetitiveness inherited from *past* policies or accidental developments. They are neither an appropriate nor an effective remedy for *current* levels of inflationary overspending or deflationary underspending. Countries should be encouraged to correct the latter policies, and to consider then whether equilibrated spending levels still leave them with unacceptable deficits or surpluses as a result of the international cost disequilibria inherited from previous policies.

Additional suggestions

1. May I refer to some other important suggestions of mine in previous hearings of your Subcommittee, most recently on November 22, 1967:

(a) The *automatic* allocation of SDR's among all IMF members is in blatant contradiction with the recurrent theme of previous Group of Ten reports that reserve creation should be linked with a strengthening of the adjustment process. It is, moreover, morally repugnant as it assigns the lion's share (36%) of such allocations to two of the richest and most capitalized countries in the world, irrespective of the wisdom or folly of the policies responsible for their deficits and of the acceptability of such policies to the prospective lenders called upon to underwrite their financing in advance by their SDR commitments. Thirdly, such a system of allocation is, for these very reasons, unviable politically and would merely lead, in the event of deep-seated policy disagreements, to a refusal to recognize an actual liquidity shortage and to activate SDR's. Finally, it would break the traditional link which has always existed in the past between fiduciary reserve creation—i.e. primarily dollar and sterling reserve accumulation—and the financing of overseas developments. It would enable the developed countries