

etc. The monetary authorities of the latter countries would not accept to sell indefinitely their own currency in exchange for the other currencies dumped upon them by hoarders and speculators.

We must build before we can afford to destroy. Gold cannot be definitely eliminated—as it should—from the international monetary system until agreement has been reached on an acceptable substitute—other than full surrender of monetary sovereignty to a “dollar area” solution—and until confidence has been built up in this substitute on the basis of some years of experience with the soundness and fairness of its management.

Two major obstacles still need to be overcome before the proposed Special Drawing Rights can offer such an acceptable substitute. First of all, they are not supposed to be “activated”—i.e. created—until “a collective judgment [has been reached] that there is a global need to supplement reserves, and the attainment of a better balance-of-payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future” (Article XXIV, Section 1, b).

The history of the negotiation makes it clear that this so-called “prerequisite” to SDR activation refers essentially in fact to a better—or even, in some previous language, full and durable—equilibrium in the balance-of-payments of the reserve-currency countries, primarily the United States.

This is obviously absurd. The reform of an international monetary system threatened by a catastrophic collapse should not have to wait until the United States has demonstrated perfect or near-perfect luck and wisdom in the management of its own affairs. The “prerequisite” should be re-worded instead in such a way as to make the world reserve system less dependent than it now is on the balance-of-payments fluctuations of the reserve-center countries.

This is precisely where agreement could be reached between the major opponents in the current debate on monetary reform. Contrary to widespread misapprehension and distortions, President de Gaulle has never advocated the return to a pure gold standard. All his speeches—and those of his Ministers—have admitted the need for a truly international credit superstructure that would not, however, bear the imprint of any particular country or currency. His constantly reiterated objective has been the elimination of what he calls the inequitable and exorbitant privilege of the reserve-currency countries to settle their deficits with their own IOU’s, instead of being subject to the same adjustment pressures which all other countries have to accept.

This “exorbitant privilege,” however, has now turned in fact into a “horrendous threat” or even an “excruciating burden” for both of the reserve currencies, which find themselves exposed to repay overnight the sterling and dollar indebtedness incurred by them over many years past, under the rules of the game of the absurd Monte-Carlo roulette dignified under the name of gold-exchange standard.

The interests of reserve debtors as well as reserve holders now converge and should prompt an early agreement on the orderly elimination of this absurd and unviable system. The British Government has now affirmed itself as anxious as President de Gaulle to reach such an agreement and our Under-Secretary of the Treasury, Mr. Deming, has recently testified in Congress that “these things are worthy of study,” although he also felt that “things like that are probably premature.”² Having proposed myself “things like that” nearly ten years ago, I cannot but feel that we have had plenty of time for study already, and that action is now long overdue rather than still “premature.”

Recent press reports indicate that such an approach is now actively discussed, as far at least as sterling is concerned. My proposal for a Gold Conversion Account has recently been joined by similar, and even more radical and ambitious, proposals of Fritz Machlup, E. M. Bernstein, and James Tobin. Otmar Emminger, Governor of the Bundesbank and former Chairman of the Group of Ten Deputies, recently remarked³ that “this ingenious scheme would certainly solve the problem of a dangerous shift between foreign exchange and gold. . . . The philosophy behind the proposal does broadly correspond to what a number of us had in mind in our earlier international discussions and negotiations.” He also expressed doubts, however, about the negotiability of the proposal at the

² *The International Monetary Fund's Special Drawing Rights Proposal and the Current International Financial Situation*, Hearing before the Subcommittee on International Finance, April 12, 1968, p. 43.

³ In an address on “The Role of Gold in Our Monetary System” at the National Industrial Conference Board, in New York, February 14–15, 1968, pp. 15–16.