

present time and concluded that "for some time to come the only practicable answer to our problem will be: to keep the dollar so strong and stable—literally 'as good as gold'—that the confidence problem does not really arise."

I have no doubt myself about the need to proceed along *both* of these lines of action, but do not think that either the success or failure of the latter should dispense us from pursuing the first. On the contrary, a Gold Conversion Account agreement would greatly facilitate our task of restoring equilibrium in the U.S. balance of payments, by eliminating a major source of instability and speculative capital flights.

I was greatly encouraged to read last week the comments of Governor Carli in his annual report to the General Assembly of the Bank of Italy (May 31, 1968): "The reform of the Fund Charter lays the foundation for a progressive concentration of all reserves in an institution whose framework can permit a more effective management of international liquidity and the settlements required by expanding levels of world trade. Foreign official circles are exploring the creation, within the Monetary Fund, of special accounts (the so-called conversion accounts) in which could be deposited dollar, and eventually sterling, balances which, in the judgment of central banks, exceed the working funds needed for intervention in the exchange markets."

This is indeed the essence of my proposal. Central banks would retain in the form of foreign-exchange reserves—i.e. of foreign national currencies, primarily dollars—only the working balances needed for market intervention. Excess foreign exchange would be deposited in a reserve account with the IMF, with appropriate exchange guarantees and interest-rates, and the account holders would draw on these accounts at any time to finance later deficits in their balance-of-payments. Current foreign-exchange accruals deposited in such accounts in the future would be debited immediately from the account of the debtor countries. On the other hand, outstanding foreign-exchange balances accumulated over many years past, and deposited with the IMF at the start of operations, would no longer be exposed to sudden and massive repayments, but would be held by the IMF as investments, with repayment provisions geared to the general stabilization objectives of the Fund.

Guaranteed and interest-earning reserve deposits with the Fund should be more attractive to central banks than either of the traditional reserve assets, i.e. unguaranteed foreign-exchange holdings and sterile gold metal. The \$40 billion of sterile gold now held by central banks would gradually be exchanged by them for such deposits, and could be used by the Fund to regain control of the gold market and to facilitate the orderly liquidation of official gold stocks that would be called for when agreement is reached on the international demonetization of gold and its gradual replacement by reserve deposits in the IMF.

The future growth of world reserves could then be systematically oriented by the Fund, through its loans and investment operations, to support feasible, non-inflationary, growth rates in the world trade and production, and to support national adjustment and stabilization policies by Fund members. This would require, in time, an important amendment in the Rio agreement which foresees an *automatic* allocation of future SDR's among all countries, *pro rata* of their Fund quotas. This has the absurd result of allotting 36% of all SDR's to two of the richest countries in the world—the U.S. and the U.K.—and only 25% or so to more than eighty less developed countries. It would, moreover, help finance *automatically* national policies, irrespective of their soundness or folly, even when they are in total contradiction with the judgment and/or interests of the lenders.

It is obvious that such a system would be as unacceptable in the long run, to the lenders, as it is inequitable to the underdeveloped countries. The potential lending power derived from the creation of a new international reserve asset should be used to support agreed international objectives rather than unilaterally determined national policies. It should help finance monetary stabilization programs, offset disturbing movements of short-term funds among major money centers, and could even be used, in part, to supplement the resources of institutions such as the IBRD, IDA, and the commodity stabilization program unanimously endorsed in the second resolution adopted at Rio last September.

Another amendment of the SDR agreement should aim at a decentralization of the Fund operations, taking full advantage of emerging regional monetary integration and institutions in Europe, Central America, etc., and facilitating in time, the reintegration of the U.S.S.R. and Eastern Europe in the international monetary and economic community.