

9. *The Rio Agreement*

The famous SDR agreement, reached last year at Rio, provides the main hope that this problem will be solved at some future time. Yet, the amounts usually mentioned—\$1 billion to \$2 billion of annual SDR creation—can only be deemed niggardly and, most of all, the system is supposed to remain on ice until the U.S. and U.K. have succeeded in restoring viable equilibrium in their balance of payments. This is plainly absurd. In fact, the gold dishoarding and revival of confidence in dollar and sterling investments which would be triggered by such a success of U.S. and U.K. policies would remove, for some time at least, any danger of world illiquidity and make superfluous—or even inflationary—any immediate activation of the SDR system. Conversely, continued U.S. and U.K. deficits would risk to prompt more conversions of dollars and sterling into other currencies by speculators, and into gold by central banks, thus accelerating the contraction of world reserves and the need for SDR creation.

In any case the SDR plan pretends to solve only one of the three problems—i.e. the liquidity problem—of the present international monetary system. It offers no hint of a solution to either the “adjustment” problem, or the “stability” problem.

The automatic distribution of SDR among all countries on the basis of their relative IMF quotas means that prospective creditors are supposed to underwrite in advance the future deficits resulting from national policies, whether wise or foolish, whether acceptable or distasteful to them. This hardly fulfills the recurrent theme of previous Group of Ten reports that the creation of world reserves should be geared to a strengthening of the adjustment process and desirable balance-of-payments disciplines.

The other problem left unsolved is that of the so-called “stability” or “confidence” problem created by the large overhang of unrequited dollar and sterling balances, resulting from the operation of the gold-exchange standard over the fifty years past. The growing threat of liquidation of such balances into gold is by no means warded off by the two-tier gold system hurriedly adopted last March, in an atmosphere of panic.

I have no time left to rehash here my own proposals with relation to these two unsolved problems. I am, however, somewhat encouraged by the growing interest shown in recent months by academics and officials alike in the creation of a so-called “Gold Conversion Account” dealing not only with the proposed SDR’s but with all three of the present components of the world reserve system, i.e. gold, foreign exchange reserves and reserve positions in the IMF. I am further encouraged by the sterling agreement announced at Basle earlier this month, and which might be a first—even though still modest and imperfect—step toward a broader agreement encompassing the dollar as well as sterling, and paving the way to the gradual substitution of a truly international reserve system for gold as well as for the reserve currencies of today.

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The main policy issue of 1969, however, is whether our so-called world “leaders” will be able to agree in time and to lead the future evolution of the world monetary system, or will once more, as they have invariably in the past, be overtaken by events and let the future be shaped, not by them, but by another world monetary crisis and a relapse into the mutually defeating nationalistic policies of the 1930’s.