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GUIDELINES FOR IMPROVING THE INTERNATIONAL MONETARY SYSTEM—ROUND TWO

REPORT

OF THE

SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

DECEMBER 1967

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392

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ERRATA

COMMITTEE PRINT REPORT ENTITLED "GUIDELINES FOR IMPROVING THE INTERNATIONAL MONETARY SYSTEM—ROUND TWO"

Page v

Contents III., 2., line 3 and

Page 7

Guideline 2, line 3:

Delete "tackled as a matter of urgency".

Insert "considered".

Page 2

II. The New Plan, lines 12–13:

Delete "for adoption by the Governors of the IMF at its".

Insert "prior to the".

Page 7

Lines 29–31: Delete ", possibly by blanketing into the IMF quota system their commitments under the General Arrangements to Borrow,".

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LETTERS OF TRANSMITTAL

DECEMBER 7, 1967.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report of the Subcommittee on International Exchange and Payments entitled: "Guidelines for Improving the International Monetary System—Round Two."

The views expressed in this subcommittee report do not necessarily represent the views of other members of the committee who have not participated in hearings of the subcommittee and the drafting of its report.

Sincerely,

WILLIAM PROXMIRE,
Chairman, Joint Economic Committee.

DECEMBER 6, 1967.

Hon. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is the report of the Subcommittee on International Exchange and Payments entitled: "Guidelines for Improving the International Monetary System—Round Two." The report was approved unanimously by all members who participated.

The subcommittee wishes to express its gratitude and appreciation for the guidance it has received from the experts who appeared before it as witnesses.

Sincerely,

HENRY S. REUSS,
Chairman, Subcommittee on International Exchange and Payments.

CONTENTS

GUIDELINES FOR IMPROVING THE INTERNATIONAL MONETARY SYSTEM—ROUND TWO

I. INTRODUCTION [1]

In August 1965, shortly after the U.S. Treasury announced that the United States was ready to participate in formal negotiations for international agreement for the creation of new reserves, the International Exchange and Payments Subcommittee of the Joint Economic Committee issued its guidelines for improving the international monetary system. Those guidelines were:

1. World liquidity needs cannot adequately be met by existing sources of reserves (gold, dollars, and pounds sterling) or even by the addition of new reserve currencies. New ways of creating international reserves must be sought.

2. The United States should seek neither to expand nor reduce the international role of the dollar. At the same time, we must work for a plan for new reserve creation that would not encourage or require countries to convert existing balances or new acquisitions of reserve currencies into gold or the new reserve medium. In this way, the dollar will continue to play an important, perhaps even a growing, international role, according to the voluntary decisions of traders and bankers abroad.

   A. The role of the dollar in private transactions will be unimpaired, even if foreign monetary authorities choose to reduce their dollar reserves.

   B. The demand for the dollar as an official reserve medium is likely to remain high.

3. Gold should continue its present role as a universal medium of international exchange. The United States should not seek to undermine it. But nothing must be done to enhance its value in relation to other forms of reserve assets; no arrangements can be acceptable that provide incentives to convert reserve currencies into gold.

4. The new method of reserve creation should combine agreed minimum annual increases with supplements to be determined by annual decision.

5. The new arrangements should be carried out under the International Monetary Fund.

6. Newly created reserves should be distributed to all Fund members who qualify under criteria applicable equally to all countries.

7. While the new reserves cannot be used as a primary foreign aid device, because securing them by the credit of less developed countries might impair their acceptability, economic development can be respected by selecting suitable standards for allocating the new reserves.

[1] Representative Richard Bolling states:
"Since other responsibilities prevented my participating in the hearings on which this report was based or evaluating the arguments presented therein, I am unable to take a position on this report."

8. The International Monetary Fund can create new international reserves by developing a new reserve unit or claim, making drawing rights more automatic and larger in amount without requiring additional gold deposits, or by special operations in currencies, gold, or deposits. In choosing among these possible methods, the distinction between owned and borrowed reserves should not be critical.

9. The Fund's conditional credit facilities should be expanded at the same time that new reserves are created.

10. A better sharing of international financial responsibilities should be achieved through an improved structure of Fund quotas.

11. The present system of bilateral arrangements as a second line of defense against short-term instability, while not the solution to long-term liquidity needs, should be expanded.

12. International financial reforms, however desirable, are not sufficient. Substantial improvements are needed in the adjustment process which brings international payments imbalances to an end.

A. We must work toward an improved system for harmonization of national fiscal and monetary policies.

B. We should agree with other countries upon codes of national behavior with respect to restrictions on capital movements for balance-of-payments reasons.

C. The advantages and disadvantages of widening the permissible limits of exchange-rate variation must be examined thoroughly as an essential part of a comprehensive program for improving the international monetary system.

II. THE NEW PLAN

The negotiations led to an agreement on August 26, 1967, at London, of the Ministers of Finance and the Governors of the Central Banks of the Group of Ten countries on a plan for establishing a new reserve facility. It was approved in September by the executive directors of the International Monetary Fund.

At the annual meeting of the IMF in Rio de Janeiro on September 25–29, 1967 the Board of Governors adopted a resolution to prepare an amendment to the articles of agreement to carry out the recommendations of the plan. Under the resolution, the plan is to be converted into legal amendment form by March 31, 1968. The timetable further envisages that the legislatures of the members of the IMF should ratify the amendment for adoption by the Governors of the IMF at its annual meeting in Washington in September, 1968.

The resolution of September 30, 1967, looks to a parallel amendment to the existing articles of agreement, which would have a similar timetable for ratification. The precise language of this amendment to the existing articles is not presently known. The Common Market countries, however, would like to require an 85 percent majority of the voting power, as opposed to the present 80 percent, for approval of an increase in quotas.

An additional resolution directed the IMF to study schemes for the "stabilization of prices for primary products."

Secretary of the Treasury Fowler and Under Secretary Deming appeared before this subcommittee of the Joint Economic Committee on September 14, 1967, immediately prior to the Rio meeting. As

Secretary Fowler's testimony indicates, the plan is substantially in accord with the August 1965 Joint Economic Committee guidelines:

"In appraising the agreement we have reached, it is also useful to review the extent to which we have been able to attain international agreement along the lines set forth 2 years ago by this subcommittee.

* * * * * * *

"Clearly, we have accomplished the first point in the guidelines, that a new way of creating international reserves must be sought. We have sought and we have found and agreed upon a plan that will make it possible to add supplementary reserves to the existing sources of reserves.

"Secondly, the subcommittee cautioned that the plan should not encourage or require countries to convert existing balances or new acquisitions of reserve currencies into gold or the new reserve medium. They wished to maintain the role of the dollar both as a transactions currency and as an official reserve medium, without basically expanding or reducing its present role. In this connection, the committee concurred with the view that we have continually expressed in the executive branch, 'that the Nation's objective in international monetary reform is not to find a device for enabling the United States to finance balance-of-payments deficits painlessly.' The agreement that we have reached has, in my judgment, avoided impairing the role of the dollar in the future and leaves the position of the dollar in the status desired by the committee.

"Third, the committee found that gold should continue its present role but that nothing should be done to enhance its value in relation to other forms of reserve assets. The outline plan should confirm the permanence of the price of gold, and it is our hope that it will also increasingly operate to remove any special enhancement of the position of gold that may have developed as a result of uncertainty regarding the future growth of the world's reserves.

"The subcommittee's fourth point called for a new method of reserve creation combining minimum annual increases with supplements determined by annual decision. At a relatively early stage in the negotiations, it became clear that there was a strong feeling that it would not be feasible to reach international decisions, on the difficult matter of the amount of special drawing rights to be created, at periods so short as 1 year. Decisions on the amounts of special drawing rights to be established will normally cover 5-year periods, with actual allocations made at intervals within those 5 years—which intervals could be annual. It is, however, possible to review a 5-year plan at any time if there are important changes in the world situation.

"As the fifth point, the 'Guidelines' called for the arrangements to be carried out under the International Monetary Fund, and there has now clearly been a full acceptance of this point. It was also suggested that the new reserves should be distributed to all fund members who qualify under criteria applicable equally to all countries. After extensive negotiation, the principle of participation of all IMF members, with distribution across the board to all participating fund members in proportion to their quotas, has been fully agreed.

"The committee found that the new reserves could not be used as a primary foreign aid device, and this view was strongly evidenced by other Group of Ten countries. There is no direct connection between the new special drawing rights and the financing of economic development. The developing countries will, however, obtain benefits like other countries, in the form of additions to their reserves, and will also benefit more generally, insofar as adequate growth in reserves serves as a protection against a cumulative tendency to excessive restrictions on capital flows, aid expenditures, and trade expansion that could be the the result of a global shortage of reserves.

"On the eighth point, the 'Guidelines' suggested that the distinction between owned and borrowed reserves should not be critical, and that reserve units or drawing rights could be used by the Fund to create reserves. While there was considerable feeling that there are important differences between owned reserves and borrowed reserves, there was agreement that reserve assets can be created in the form of drawing rights or of units.

"The committee went on to suggest an expansion in IMF quotas, both general and selective. They suggested that provisions should be made for periodic increases in the Fund's conditional borrowing facilities to maintain reasonable balance between them and owned reserves. There were general and selective increases in IMF quotas early in 1966, following a review that was made in 1964–65. While there is a general recognition that periodic quota increases are desirable, there is no present indication that the member countries wish to proceed at the present time with action along this line. The next quinquennial review of quotas would be due about 1969–70.

"A recommendation was made that bilateral arrangements should be expanded as a second line of defense against short-term instability. The network of these arrangements has been enlarged from time to time.

"As point 12, the subcommittee suggested that substantial improvements are needed in the adjustment process. As mentioned elsewhere a basic study on this matter was prepared by working party 3 of the OECD in 1965–66. Efforts to improve national policies through cooperation and consultation are going forward as a continuing process.

"This brief catalog of the points covered in the 1965 'Guidelines' makes clear that the largest part of the subcommittee's judgment as to the practical course to follow, made in 1965, has now become the collective international judgment of 1967. This is an impressive tribute to this earlier judgment."

The adoption of the Rio resolution for the creation of new international reserves is in substantial compliance with the 1965 guidelines and represents heartening progress. Still, the period ahead, during which the negotiating and ratifying process will reach its final stages, and work on related matters will proceed, is crucial.

III. GUIDELINES—ROUND TWO

As a result of our study of the plan and taking into account the testimony before the subcommittee hearing of November 22, 1967, we recommend the following guidelines for Round Two in the process of strengthening the international monetary system:

1. (a) The amendment to the Fund's articles embodying the new plan should be promptly ratified so that the amendment may be in effect before the September 1968 meeting of the Fund and the plan activated as soon as possible thereafter.

(b) A preferred method of activation would be the creation, over a 5-year period, of a minimum of special drawing rights sufficient, when added to foreseeable inputs of gold and reserve currencies, to achieve an aggregate reserve growth of at least 3 percent a year. Discretionary supplements should be added as needed during the 5-year period.

(c) It is highly important that the United States move toward equilibrium in its balance of payments, but the fact that the United States has not yet attained equilibrium should not preclude prompt activation of special drawing rights. The true inquiry ought to be whether world reserves are expanding at a proper rate.

(d) The United States must point out the risks inherent in undue delay, not only for the effectiveness of the new special drawing rights, but also for the stability of the monetary system itself. Moreover, in the event of failure of the Fund to arrange for a necessary, timely and adequate activation, the United States and other likeminded nations will have to explore alternative international monetary arrangements.

The experience of recent years shows that traditional sources of international reserves—gold, dollar and sterling liabilities, and IMF drawing rights—are unlikely to provide sufficient additions to match the needs for world reserves. Moreover, the British devaluation of November 19, 1967, has diminished existing global foreign exchange reserves by almost $1 billion in terms of U.S. dollars. A sizable part of the apparent growth of reserves in the past 2½ years has been dependent on the fortuitous occurrence of deficits—deficits which the countries of continental Europe wish to see terminated. Even if present U.S./U.K. balance-of-payments deficits continue at their recent rate, there still would be a serious shortage of new international reserves. If, as we hope, the U.S./U.K. payments deficits are diminished, the shortage of overall reserves would be even greater.

The Rio plan itself contains no agreed conditions for the activation of special drawing rights. Articles III(1) and III(3b) of the plan refer, without spelling them out, to "special considerations" that must be met before there is any activation of the new system for creating special drawing rights. The Group of Ten in its ministerial communique of July 25–26, 1966, at The Hague, had hinted at what these "special considerations" might be when it said "the prerequisite for * * * activation * * * should include the attainment of a better balance-of-payments equilibrium between members." The French Minister of Finance in his speech at Rio on September 26, 1967, went further, saying that France requested as a condition of agreement that the plan should not be activated until the reserve currency countries had terminated their balance of payments deficits. But, while improvement in the balance of payments of the United States and of the United Kingdom is certainly indispensable, it should not be considered as a prerequisite for activation of the first 5-year period of special drawing rights.

In view of the danger of inadequate growth of world reserves, the report that is to accompany the amendment to the IMF articles of agreement should take account of the need for prompt activation for an initial 5-year period, of at least a minimum of special drawing rights to provide for at least a 3-percent growth rate in reserves, or a total of about $2 billion new reserves a year, with discretionary supplements as needed during the 5-year period.

While there are uncertainties as to just how much in SDR's will be needed in the period 1968–73 as a supplement to gold and dollar/sterling liabilities, any later 5-year period is fraught with equal uncertainties.

1. It will remain uncertain how much gold Russia and the Union of South Africa will mine, and release to the outside world; what will happen to private holdings of gold; and hence what will happen to international gold reserves.

2. It will remain uncertain whether central bank holdings of dollars and sterling will increase or decrease over the 5-year period ahead. This depends less on the size of the U.S./U.K. deficits—themselves uncertain—than on the choice by central bankers as to the future composition of their reserves between gold, reserve currencies, and SDR's.

3. It will remain uncertain whether the needs for structural adjustment in international trade and investment in the next 5 years will be greater or smaller. The greater the need for adjustment, the greater the need for reserves.

Thus, the existence of uncertainties should not prevent the activation of an adequate amount of SDR's promptly following ratification rather than at some time in the indefinite future. Provision of a 5-year target can, under the plan, be accompanied by measures for decreasing or increasing the rate of SDR creation, depending on the changes in estimates of increases in gold and dollar/sterling liabilities. The minimum initial allowance of SDR's can be revised upward or downward as the accuracy of the estimates becomes apparent. If less gold and dollar/sterling comes into the system than assumed, the quantity of the SDR's should be increased; if more comes in, the quantity of SDR's should be decreased. This flexibility is set out in our August 1965 Guidelines No. 4:

> "(4) *The new method of reserve creation should combine agreed minimum annual increases with supplements to be determined by annual decision.*
>
> "Agreement on appropriate increases in liquidity may not always be possible among the countries concerned. But lack of agreement on the exact amount of liquidity needed should not preclude an agreement to increase liquidity periodically in minimum amounts.
>
> "We favor regular, annual additions to liquidity through the new method. This could be achieved by dividing annual increases

into two parts. (1) The automatic part should be clearly noninflationary and modest in relation to the rate of growth in world trade. It might be related to the rate of increase in world exports in the most recent year, to a moving average of world exports, or to other economic variables. (2) The discretionary part would consist of an additional amount to be agreed upon, so that the overall rate of increase in liquidity would be adequate, taking into account the growth of international reserves from other sources and all other relevant considerations."

We believe that the criteria for creating SDR's (to be stated in the report accompanying the amendments to the articles of agreement) should concentrate on the need for the growth of aggregate reserves rather than on any one country's balance-of-payments position.

2. The increase in Fund quotas for Common Market countries such as France, Germany, Belgium, and the Netherlands should be tackled as a matter of urgency. Application of the Bretton Woods formula to these countries would in itself be almost enough to give the voting of all members of the European Common Market a veto power on a justifiable basis. The United States should strive for such quota increases in the proposed amendment on regular IMF voting procedures rather than give the Common Market an unearned veto.

When the quotas of the IMF were increased in 1965, the House Committee on Banking and Currency, in its April 1, 1965, Report No. 222 on the proposed increase, observed that France, the Netherlands, Belgium, and Germany had very substantially improved their levels of international reserves, but "have fallen far short of meeting their responsibilities for contributing to the supply of international credit." An increase in their Fund quotas, possibly by blanketing into the IMF quota system their commitments under the General Arrangements to Borrow, could result in a justified Common Market veto of regular IMF action by raising Common Market voting power to at least 20 percent of the total. Thus the Common Market could be given a veto by reason of the present 80-percent voting arrangements under the IMF charter.

It would be a mistake to grant the Common Market an unearned veto by raising the voting requirements to 85 percent rather than to allow the Common Market to earn its veto by keeping the lower voting requirement at 80 percent and increasing Common Market contributions.

The United States, accordingly, should endeavor to separate the questions of special drawing rights and the existing IMF voting procedures. This approach calls for the IMF to retain its existing voting procedures for regular operations, and to consider whether the Common Market countries are willing to increase their quotas, thus justifiably obtaining a veto power over the regular operations of the IMF. In addition to the quota question, there may be other regular IMF amendments of a constructive nature, to which the United States may wish to agree.

3. The Rio resolution calling for IMF studies of schemes "for stabilization of prices of primary products" enables the United States, after the agreement has been ratified and acti-

vated, to raise the question of channeling part of the new SDR's through the International Development Association for economic development purposes.

This resolution, proposed by a number of the less-developed countries, squarely places before the IMF the question of development aid. Fluctuations in the prices of primary products, with their devastating effect on the development plans of less-developed countries, bring into the open the reality that the less-developed members of IMF believe that IMF should not be oblivious to the need for their development. More than 80 less-developed countries legitimately complained at Rio at having to share a meager one-fourth—their quota allotments—of the total SDR's that would be created; some two dozen of the developed countries would get the remaining three-fourths of the new SDR's, with the United States and the United Kingdom alone entitled to one-third of the total.

While the activation of the new SDR agreement should not be delayed, the U.S. governors of the World Bank and the IMF, after the agreement has been ratified and activated, should start to direct thought and dialog in both organizations to the possibility of linking the new reserve creation with the provision of additional assistance to the less-developed countries.

The World Bank is now discussing replenishing IDA contributions to the tune of some $3 billion in the next 3 years from the regular budgetary appropriations of the aid-giving countries. A most useful supplement to this replenishment could be obtained were the World Bank and IMF to agree that a small fraction of new SDR's—say, 20 percent, or $400 million a year if the annual rate of new SDR creation is $2 billion a year—be allotted to international economic development through the purchase of long-term IDA bonds with currencies obtained by cashing this fraction of the new SDR's. The purchase could be undertaken by agreement either by all IMF countries, with respect to a fraction of the total SDR distribution or by the wealthy IMF countries, with respect to a fraction of their share of SDR's. In either event, most of the new SDR's would shortly end up in the reserves of the wealthy countries from whom the development goods were purchased. But on their way into the coffers of the wealthy countries, the new reserves would have achieved much needed development of the underdeveloped countries. The Joint Economic Committee print of December 20, 1965 (Off Dead Center: Some Proposals To Strengthen Free World Economic Cooperation, pp. 16–17), gives the case for such linkage of new reserve creation with the provision of new additional assistance to the less-developed countries:

"*The World Bank should take the initiative in proposing a plan to link new reserve creation with the provision of additional assistance to the less developed countries.*

"A major drawback of the present method of providing aid is that each country measures its own effort against that of other countries providing assistance. Opponents of foreign aid inevitably compare their own country's effort with that of all others in an effort to scale down contributions to a percentage of national income comparable to that of other aid-giving nations. Levels of aid thus tend to be determined on the basis of the lowest common denominator.

"There should be more discussion on how to develop two distinct but complementary sets of foreign aid formulations. One would be based on conventional contributions out of national budgets and financed by domestic taxation. The other would involve setting aside a portion of new reserve creation for the developing countries.

"As an experienced and well-regarded multilateral instrument for extending aid, the World Bank should take the initiative in asking the IMF to dedicate some part of reserve creation to long-term aid. Once the IMF and the Group of Ten have tentatively agreed on a new mechanism for creating reserves, the World Bank should propose that the International Development Association be financed in part by the conventional national contributions and in part by IMF purchases of IDA bonds, guaranteed by the World Bank, with a portion of the new reserve assets.

"The plan would have the following advantages:

"*First,* it provides additional needed foreign aid over what countries are able and willing to contribute through their domestic budgets.

"*Second,* the plan would help marshal the unused capacity of the free world for foreign aid by attacking the paradox of unused capacity in the advanced countries and unmet needs in the developing world. When a country with less than full employment provides foreign aid out of its national budget, it reduces domestic demand and, at the same time, drains off funds that might otherwise be used to attack the structural components of unemployment. If a part of foreign aid were provided through new reserve assets, the deflationary effects of national budget contributions would be avoided. The economy also would experience an employment-inducing increase in demand to the extent that the less developed countries used their new reserves to buy exports from that country.

"*Third,* this additional foreign aid would also have the advantage of being distributed through a multilateral agency, such as IDA, with its expert personnel and its ability to impose conditions more gracefully than can be done bilaterally.

"It is sometimes said that proposals of this nature would lead to inflationary demands on the real resources of the advanced countries at full employment. This need not be the case any more than through foreign aid provided by conventional budget devices.

"Inflation in such advanced full employment countries can be avoided by following appropriate fiscal and monetary policies. It would also be possible for the government of such a country to counter any inflationary effects of increased exports by lowering its own tariffs or by imposing a temporary tax on exports for foreign aid. The latter device would then serve to channel purchases of the less-developed countries to those countries fighting unemployment. In addition, the IDA could keep excessive foreign aid orders from full employment countries so requesting by restricting procurement to noninflationary advanced countries.

"Development of a plan by the World Bank for submission to the Group of Ten and the IMF would minimize the likelihood of complicating even further the already difficult negotiations on new monetary arrangements. It would also put the formulation in the hands of a world agency which approaches the aid question on its merits, as it should be.

"The objection that the plan would lead to the creating of excess liquidity obviously needs careful attention. However, no one can determine precisely how much liquidity is needed in the world. At the margin, where considerable uncertainty exists, reserves could be created for the less developed countries without necessarily creating inflationary pressures. In any event, the advanced industrial countries are likely to have control over the total amount of new reserves created and, in the final analysis, would determine the amount which the IMF could use to buy IDA bonds during any given period, as well as the amount of to-be-retained conventional reserves."

4. The United States should consider sympathetically arrangements for marshaling SDR's on a regional basis.

At Rio, the Governor for Brazil, speaking on behalf of 19 Latin American countries and the Philippines, requested the Fund "to consider the contribution (that contemplated Fund reforms could make) to support the movements of regional monetary integration."

The CIAP experts in March 1966 recommended concretely that the Latin American countries earmark the new reserve assets allotted to them for the establishment of a Common Latin American Reserve Fund aimed at organizing reciprocal balance-of-payments assistance on a nondiscriminatory basis, and strengthening confidence in their currencies. This recommendation has been endorsed by CEMLA (Centro del Estudios Monetarios Latino Americanos), and by several countries of the Andean region.

The UNCTAD experts in 1966 stressed a similar interest in the establishment of regional, but nondiscriminatory, multilateral credit arrangements, "supported by contributions to a central fund from the member countries themselves."

Mutual balance-of-payments assistance within the EEC is already provided for by the Rome Treaty (Article 108) and the Commission—as well as Jean Monnet's Action Committee for the United States of Europe—have pronounced themselves repeatedly in favor of the creation of a common reserve fund to serve this and other monetary stabilization and integration objectives.

Finally, a group of official experts from the ECAFE region endorsed unanimously, in August 1967, a recommendation that their governments explore actively the setting up of such a common reserve fund for the ECAFE countries.

The United States should consider sympathetically, in the implementing of the SDR plan, arrangements whereby countries are allowed to pool the currencies obtained with their SDR's so as to marshal them on a regional basis.

IV. CONCLUSION

While the Rio agreement is a hopeful beginning toward meeting the world's need for liquidity, important work remains to be done to strengthen the international monetary system.

Although other aspects of the international monetary situation were not dealt with explicitly in the recent hearings, the subcommittee cannot ignore the possibilities of imbalances arising from the existence of different types of reserve assets. Specifically, the system must shore up its defenses against the destabilizing threat of speculative attack on the reserve currencies.

The aftermath of the sterling devaluation of November 18, 1967, emphasizes once more that the international monetary system requires mutual cooperation and support not only for its effective operation but for its very survival. We have been heartened by the actions of responsible central banks and Government financial officials during that period. The necessary financial assistance has been provided to sterling. No major trading power has moved to match and thereby to cancel out the sterling devaluation. Finally, the London gold pool has proved its value in cushioning the shock that was almost inevitably to follow the devaluation.

For the future, as for the recent past, the lesson is clear. Cooperation is in the common interest, and the United States intends to maintain its close collaboration with other countries in assuring the improvement of the world's monetary system.

An increase in the supply of liquid assets deals with one aspect of a difficult question. The subcommittee considers that the improvement of the world's monetary system calls for a more thorough examination of the adjustment process between surplus and deficit countries, and in particular of the role of short-term capital movements. This requires attention at the highest governmental levels. The subcommittee, for its part, intends in the near future to devote further study to the problem.

O