payments of interest to holders of SDRs; if the yield is to increase it would seem to involve an increase in the charge. In part these revenues will come, if and when holdings of dollars and sterling come to be converted into SDRs, from New York and London; but in part, and increasingly as the years go by, they will come, as at present, from those countries to which SDRs are originally issued each year. Since there are strong reasons to favour increases in the issuance of SDRs to developing countries (see the next section of this paper), and since these countries are most unlikely to retain all the SDRs that are annually issued to them, it may be questioned how far these countries have a strong interest in high charges related alike to issuance and holdings of SDRs.

III. DEVELOPMENT AND THE LINK

All of the major issues involved in international monetary reform are political as well as economic, and of none of them is this more clearly true than of the proposal to associate, to link, the issuance of SDRs and SDR-like assets with the development needs of the developing countries. To the authorities of these countries the association seems sensible enough; with them the over-riding needs of development make it natural that financial institutions, including in many cases their own central banks, should be involved in provision for development requirements. But this, of course, is just the point which gives rise to profound and sincere worries on the part of authorities in certain other countries who have staunchly defended the integrity of national monetary systems by drawing a firm line between the processes of creation of money and the insatiable demands of political leaders espousing worthy causes.

Quite apart from any special issuance of SDRs based on the Link, there is at present opposition to any issue, or at least any substantial issue, of SDRs in 1973. The reason advanced is that the total of world reserves has, in the recent past, been greatly inflated; several countries have financed the balance-of-payments deficits of the United States by acquiring large amounts of additional "unwanted" dollars. However, as the recently-issued Annual Report of the IMF Executive Directors for 1972 makes abundantly clear, these additional reserves have come into existence under very peculiar circumstances, are held by a very few countries, and can scarcely be considered as a valid argument against continuation of the issuance of SDRs.

Nevertheless, such considerations strengthen the view that if the Link is to gain acceptance (and there are increasing signs that it will), it must be in a form or forms that not only meet the basic requirements of the developing countries but also give reassurance to those countries, those authorities, whose attitudes are more traditional. Indeed, the developing countries themselves have a very clear interest in the stability of the value of the new reserve asset; they are well aware of the damage to themselves that has arisen from erosion of the value of certain reserve assets in the recent past. Against this background the following suggestions and comments are put forward in the hope that they may prove helpful.

One approach to the Link is for developing countries to press for another general increase in their IMF quotas that would go beyond any simultaneous increase in the quotas of other countries*. This approach has several attractions. It would not only, under the present system of SDR allocation, give to developing countries a larger share of the annual issue, whatever that may be, but it would also increase their access to financing from the Fund, both regular and compensatory. Moreover, and this may be a point of some political interest, it would give the developing countries increased voting-power and, formally speaking at least, a stronger voice in IMF management, including the management of the SDR system itself.

On the other hand it must be admitted that, within the framework of the relative quota increases that are likely to be found acceptable by other groups, the gains to be achieved from this approach are unlikely to be very substantial. Other approaches must be considered. And these, for the most part, would require a new rationale.

One rationale for the Link which is to be found, amongst others, in the Executive Directors' Report on Reform of the Monetary System is that, because the developing countries will find the proposed system of more flexible exchange rates amongst major countries less comfortable, less easy to live with, than the relatively fixed parities of the past, they should be given a sort of consolation prize in the form of a Link.

This rationale is not entirely satisfactory. If the new exchange rate system works better, is less crisis-prone, more favourable to orderly conditions in world exchange and commodity markets and to the provision of international aid than the system that we have come to know in the last few years, it is a better system for all countries concerned – not better for some and worse for others. All should share, and should want to share, in setting it up and making it work. If, as the Executive Directors rather seem to suggest at one point, the purpose of the Link is not economic development but merely to compensate those developing countries that need to establish facilities for forward dealings in exchange rates for the cost of doing so, the amount of development assistance to be justified on the basis of such a Link will be modest indeed.

---

*At the time of the last quinquennial review of IMF quotas, those of the developing countries were accorded increases that were generally 25 per cent greater than those of other countries.

There are other approaches that can carry more weight. One of these relates to a basic defect in the working of the present exchange mechanism to which reference has been made above. This is the apparent desire of industrialized countries, individually, to develop balance of payments objectives that are at present collectively incompatible. As the Executive Directors point out, industrialized countries are generally anxious to plan for and achieve current-account surpluses; this anxiety is particularly evident in those countries confronted by unemployment. These planned surpluses, in aggregate, substantially exceed the present or probable provision by the countries for capital exports and for assistance to developing countries. Hence, there is a propensity amongst some of them to embark on competitive exchange depreciation and an unwillingness amongst others to revalue their currencies upwards. This situation already constitutes a threat to the stability of the international monetary system. It could be relieved by an enlarged flow of financial assistance to the developing countries from a multinational source, i.e. by the Link in some form.

If this line of approach were to be followed it would be advantageous to all concerned for those reserve assets created for this particular purpose to remain fairly stable in amount from year to year, leaving such annual fluctuations as are to occur in the issuance of reserve assets to be absorbed by those to be distributed on some other basis, such as the present one. In this way the reserve assets created under the Link would provide a continuing and reliable basis both for development planning in developing countries and for the achievement of balance of payments surpluses by industrialized countries. Moreover, if short-term fluctuations are confined to reserves distributed on other bases, the risk that those distributed to finance development under the Link will precipitate world inflation will be lessened.

Another rationale which could be used in support of the same sort of approach to the Link lies in another defect in the present system, i.e. in the chronic deterioration of the terms of trade of the developing countries and their consequently diminishing capacity to finance from abroad their own developmental requirements. This adverse movement of their terms of trade is clearly not the "fault" of the developing countries themselves; indeed it is nobody's fault. But it impairs the capacity of the developing countries to stand on their own feet and purchase their requirements from the industrialized countries. Thus it hurts all types of countries, both developing and developed. A sense of justice can combine with a sense of expediency in a decision to allocate reserve assets to developing countries on this account.

Without embarking on extensive statistical computations (which might well be undertaken by the IMF) it is not possible to suggest whether any quantitative relationship can be established between the amount of reserve assets to be provided on either of the bases outlined above. What is here suggested are two possible approaches, not a pair of yardsticks.

Another range of questions arises in relation to the way in which reserve assets, to be provided on the basis of the Link, are best distributed amongst the developing countries. In this regard, the interests of different developing countries differ considerably. Many would like to receive such assets, as they now receive SDRs, without any strings attached as to their use. Others, which for one reason or another are in a better position to make a case for assistance from development agencies (whether world-wide agencies like IDA or regional agencies) might think that their opportunities for development would be improved if the additional funds were channelled through these agencies. Moreover, it should be added that traditionalist opinion will be more likely to accept such channelling into approved development programmes and projects than to accept what might be considered a simple hand-out.

The Link, and the issues surrounding it, will obviously be very extensively discussed and negotiated in the Committee of 20. It is quite impossible to tell, at an early stage, what form of Link will be most acceptable to others.

It may, however, be of some relevance to recall, by way of conclusion, a point noted by Professor Triffin amongst others. The present method of creating and distributing SDRs has no historical precedent either in the creation of international reserve assets (gold or reserve currencies) or in the creation of national reserve assets (central bank deposits and notes). Historically, reserves have come into existence in connection with investment-financing or deficit-financing. In the particular case of gold, the reserve-asset was created by investment in developing regions of the world, such as California, Australia, South Africa or Canada, but it was not retained in those regions. On the contrary, it was "earned" by the industrialized countries of the world which collectively ran balance-of-payments surpluses to acquire it and added it to their reserves.

IV. CONSTITUTIONAL AND ORGANIZATIONAL ISSUES

The formation of the Committee of Twenty (C20) marks an important achievement and also an important opportunity for developing countries.

It is an important achievement because other approaches to the reform of the world monetary system that were much less palatable to developing countries were being considered. The OECD apparently made an effort to play a central role, if not the central role, stressing the interrelationships between monetary, trade, and development matters all of which fall within the purview of that Organisation. However, this proposal was dropped partly because the OECD is dominated by industrialized countries, to the virtual exclusion of developing countries, and partly because, amongst the industrialized countries, the European group is in a powerful majority position in that Organisation. Another