A Central Position for the Special Drawing Right in the Monetary System*

The amended articles of the IMF provide that the member countries must cooperate with the IMF and among themselves to make the special drawing right the principle reserve instrument of the international monetary system (art. VIII, section 7, art. XXII). Peter Kenen observed in this context: " These familiar words have migrated from the pious, inconsequential context of the Ministerial communique to the formal, binding context of a treaty having the force of law. To make them meaningful in this century, it will not be enough to use the Special Drawing Right as a unit of account in Fund transactions and statistics ".[1] It is also the concern to make this provision meaningful which led the Interim Committee at its meeting in Washington on April 28-29 to the conclusion that: " The Committee also agreed to request the Executive Directors to review the characteristics and uses of the S.D.R. so as to promote the purposes of the Fund, including the objective of making the S.D.R. the principal reserve asset in the international monetary system ".

This paper discusses some of the issues which will have to be analyzed in this framework. It deals first with the role of the S.D.R. after the important changes which have taken place in the international monetary system. It then stresses the present weaknesses of the S.D.R. and goes on to make suggestions as to how they could be dealt with.

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* This paper was written by J. van Ypersele for submission to the E.E.C. Monetary Committee. It was also discussed by the Villa Pamphili Group. The Group consists of Lord Cromer, Mr. Geoffrey Denton, Mr. Armin Gutowski, Professor Norbert Kloten, Mr. Alexandre Lamfalussy, Dr. Giovanni Magnifico, Mr. Stepen Marris, Dr. Conrad Oort, Mr. Andrew Shonfield, Mr. Niels Thygesen, Mr. Robert Triffin, M. Pierre Uri, M. J. van Ypersele.

1 PETER KENEN, " Techniques to Central International Reserves " paper delivered at the J. Marcus Flemming Memorial Conference, held at the International Monetary Fund, on November 12, 1976.

I. The Role of the S.D.R.

Before making suggestions about the strengthening of the S.D.R. one has first to ask oneself: does the S.D.R. still have a role in the new situation which has now developed? It was conceived in the middle sixties as a rational method of generating international liquidity. Since it was created, substantial changes have occurred in the international monetary system, including the floating of major currencies, the altered role of gold, the rapid growth of private sources of credit. To try to answer this question, one has first to show whether, even in the present managed floating system, reserves are still needed. If the answer is positive, one has to show whether, among the sources of reserve creation, the S.D.R. still has a role to play.

RESERVE NEED. — As the 1976 IMF annual report stresses, the balance between financing and adjustment has shifted " so that aggregate payments imbalances are likely to be smaller relative to the volume of international transactions than they would have been if, with the magnitude of balance of payments disturbances given, the world economy were still functioning under the Bretton Woods par value system ". However, as the report also points out, the majority of countries continue to peg their currencies to other individual currencies, to various baskets of currencies or to the S.D.R. They intervene of course on the market. Those with floating rates do a substantial amount of management of their rates to smooth out day-to-day fluctuations and to moderate longer terms trends. In the six-month period that ended January 31, 1977, gross exchange market intervention by the major central banks totalled $ 37 billion according to a recent estimate of the Federal Reserve Bank of New York.[2] From March 1973, the beginning of the widespread floating of exchange rates, through January 1977, gross exchange market intervention by these central banks is estimated at $ 172 billion.

It is thus obvious that countries will continue to need reserves and that questions of international liquidity are still actual.

COMPOSITION OF RESERVES. — If there is a need for liquidity creation, should it not be met exclusively through conditional liquidity i.e. by a *quota increase* in the I.M.F.? This raises the question of the distinction between " owned reserves " and official credit facilities available for temporary balance of payments financing. Reserve assets are defined by the I.M.F. as being at the disposal of the country owning them without any need for negotiation, without any conditionality as to the countries' policies and without any significant limitation as to the circumstances in which they can be used. Credit facilities are always subject to the first of these restrictions, and may be subject to the other one mentioned. The availability of credit facilities, therefore, provides less assurance to a country than the ownership of an equal amount of reserves that it will be able to meet unexpected changes in its external position. Ownership of reserves and access to balance of payments credit are therefore by no means full substitutes and it is thus understandable that countries should pursue some reasonable balance between the two. Given this preference on the part of countries, it is necessary to pursue a similar balance at the international level between the provision of conditional and unconditional liquidity. The IMF annual report of 1969 had already concluded:

> " The two types of international liquidity, conditional and unconditional, are, of course, interrelated, in particular in the sense that the one can to some extent serve the same purpose as the other so that the need for the one is not entirely independent of the availability of the other. At the same time, the composition of international liquidity is not a matter of indifference from an international standpoint. Any attempt to meet a growing shortage of liquidity solely by expanding conditional liquidity might leave countries without the readily usable assets they require to meet the payments disequilibria that inevitably arise from time to time, irrespective of the policies pursued. It would also be a mistake to assume that the creation of additional reserves would serve in any substantial way to meet the growing need for conditional liquidity."

In conclusion we believe that at least for the longer term (not necessarily in the immediate future), there will be a need for some increase in " reserve assets " or " owned reserves ". Countries have a specific demand for such assets, as ownership of reserves and access to B.O.P. credit are by no means a full substitute.

[2] See *I.M.F. Survey*: March 21, 1977.

ROLE OF S.D.R. — One might then consider: whether, within owned reserves, the S.D.R. still has a role to play. This prompts some remarks on the changes which have affected the other elements of owned reserves since S.D.R. creation.

(a) In this connection of course a first change that has occurred concerns *gold*. At the time of S.D.R. creation gold could be sold readily at the official price, it was then without question a liquid reserve asset comparable to reserve currencies, S.D.R.s and reserve position in the Fund. At the present, gold is no longer readily used as a reserve asset, as most members show little inclination to sell gold from their holdings even when their payments situation is precarious. Although the ownership of gold still countributes to a country's overall reserve ease — for instance it can be used as collateral — there is now obviously a question of the degree of liquidity. As a result the relative role of gold in reserves can be expected to decrease gradually and it certainly cannot be counted on to meet the increased need of reserves in the medium term.

(b) The other major change which has occurred concerns the much greater availability of *private credit*. Before 1974, an increase in dollar reserves of countries was associated with the balance of payments deficit of the United States and a fixed rate system. The increase was " supply-determined ". Since 1974, it has been mainly determined by the demand of countries which have borrowed in the international capital markets. Countries have used external borrowing extensively to move towards their desired reserve position.

Given this rather elastic supply of reserves, would S.D.R. creation not become superfluous in the medium term? In trying to answer this question one should ask oneself whether this method of gross reserve creation through private borrowing will be sustainable, and whether it is equitable.

The problem of sustainability is linked with the degree to which countries can and should accumulate debt. The major difference between an increase in reserves through private borrowing and S.D.R. allocation is that the first only increases gross (and not net) reserves since it also increases liabilities and the second increases both gross and net reserves. This problem is well summarized in the " McCracken Report "[3] where it is stressed that " Access to international

[3] O.E.C.D.: " Towards full employment and price stability." Summary of a report to the O.E.C.D. by a group of independent experts. June 1977, p. 51.

financing is, at times, so easy as to tempt governments to postpone needed adjustments, but can then abruptly become difficult as shifts occur in market sentiment regarding individual countries' creditworthiness ". The same report describes the effect of this situation on the process of liquidity creation. The consequence is that the limits of reserve creation have become ill-defined and fluid, being set more by the private market's judgment of the credit-worthiness of individual countries than by official multilateral evaluation of the policies being followed and the needs of a system as a whole. The international monetary system has taken on some of the characteristics of a domestic credit system without a central bank ".

There is also a problem of equity in the provision of international liquidity to too large an extent through borrowing in the capital markets. This is the problem of countries which because they are too poor lack the access to international capital markets.

(c) To a much larger extent than was the case a decade ago, countries — in particular those with floating rates — can influence the amount of reserve currencies which they own, by adjusting their exchange rate and their *intervention policies*. In some cases, however, such interventions, made purely for purposes of changing the amount of owned reserves, might not be in conformity with the arrangements for the surveillance of exchange rate policies.

As a conclusion, we believe that, even though a number of circumstances have changed since the creation of the S.D.R., it still has a role to play in the future in the provision of owned reserves.

Besides this rationalization of the needs for S.D.R., there is also a safety reason for keeping the instrument alive. One does not know exactly how the monetary system will evolve. In the future one might want to have the *S.D.R. play additional roles*, e.g. in substitution accounts or for intervention. Also, the S.D.R., if adequately defined, could enhance its role as a unit of account.

II. Weakness of the Present S.D.R.

In the first section, we have tried to recall briefly why in the future the S.D.R. has a real role to play. Now we would like to stress why the S.D.R. with its present characteristics cannot play this role adequately. As to the general criteria which should guide us in assessing whether the S.D.R. has the proper characteristics of value

and interest, we think the principles agreed to in the " Outline of Reform " are the right ones. They provided that: " The effective yield on the S.D.R. will be high enough to make it attractive to acquire and hold, but not so high as to make countries reluctant to use the S.D.R. when in deficit. The value of the S.D.R. in transactions against currencies will be determined in such a way as to protect the capital value of the S.D.R. against depreciation... The interest rate on the S.D.R. will be set from time to time by the Executive Board in such a way as to maintain an appropriate effective yield in the light of changing market interest rates ".[4]

In other words, our point is that the present effective yield on the S.D.R. is not " high enough to make it attractive to acquire and hold ". By effective yield we mean the combination of interest rate and any variation in value vis-à-vis the currencies.

How is the S.D.R. too weak. — At present, we should recognize that the S.D.R. is a weak asset inferior in all respects to its main competitor as a reserve instrument, the dollar.

Indeed,

(i) its capital value has deteriorated vis-à-vis the dollar during most of the period of the new valuation method, i.e. since July 1974 (see graph 1 and 2 and table 1);

(ii) its interest rate too, is lower than that on three months U.S. Treasury bills (see graph 3);

(iii) accordingly its effective yield in terms of U.S. dollars has been less than half of that on U.S. Treasury bills (2.7 per cent per annum for the S.D.R. against 5.6 per cent for Treasury bills). The effective yield in terms of dollars of short-term assets, denominated in DM, French francs and Japanese yen, was still higher (see table 1);

(iv) it is clearly not as usable as the dollar.

Tests of his weakness. — One should try to assess whether countries are unwilling to hold the outstanding stock of S.D.R.s in preference to reserve currencies.

Of the 110 participants receiving allocations in 1970-1972, the holdings of 87 were below their allocations by more than the

[4] Paragraph 26 of " Outline of Reform." See: *International Monetary Reform: Documents of the Committee of Twenty* (Washington, 1974), p. 15.

amount of annual assessments as of the end of 1976, and the holdings of 57 on that date were less than one half of their allocation. Information available to the IMF for 1976 on the 87 members which were net users of S.D.R.s at the end of 1976 show that 87 per cent (65 members) increased their total reserves during the period 1970-1976. This indicates that in many countries S.D.R.s have been less attractive as reserve assets than reserve currencies.

If deficit countries have been quick to use their S.D.R.s even when they increased their total reserves, surplus countries have shown in several cases reluctance to accumulate S.D.R.s. Of course, as countries are designated by the IMF to accept S.D.R.s, it is more difficult to find indications of this reluctance. One interesting indication was given however when one important holder of S.D.R. was at its acceptance limit of the IMF, i.e. three times its allocation. At that time this country, which is a member of the E.E.C. snake, was offered S.D.R.s in settlement of a snake debt which according to E.E.C. rules has to be settled in accordance with the composition of the reserves of the debtor. The creditor was very reluctant to accept S.D.R.s arguing that the IMF rules superseded the E.E.C. rules. Finally, after much argument, it was convinced to accept S.D.R.s. This was a clear indication of how S.D.R.s are viewed by these countries which have been net recipients of it.

III. How to Improve the S.D.R.

The new IMF articles stipulate that the member countries must cooperate with the IMF and among themselves to make the S.D.R. the principle reserve instrument of the international monetary system (art. VIII, section 7, and art. XII). To achieve this target, a number of conditions must be fulfilled, through a gradual process:

— the S.D.R. must have an *effective yield* which is attractive enough in comparison with other existing assets. This is true, of course, for any monetary asset.

— The holders of the asset must be able to *use it easily*, which means that the use of the S.D.R. must not be subject to too many constraints.

— If the S.D.R. is to assume a central role in the system, it must also have a *growing* role in the *supply* of *international liquidity* and in the *circulation* of *international liquidity*.

We feel that essentially this is the order in which the conditions should be fulfilled. The first essential measure is to improve the effective yield. Only when this condition has been fulfilled will it be possible to liberalize to any substantial extent the effective use of the S.D.R. and to increase its volume.

Effective yield. — The present rules with regard to effective yield are tending to penalize the holding of S.D.R.s as compared with other reserve instruments. If the effective yield of the S.D.R. is to be made competitive enough, in comparison with the effective yield of other reserve instruments, arrangements must be made to raise its interest rate and protect its capital value. Section 4 of this note is devoted specifically to suggestions to this end.

Use. — The S.D.R. is at present severely handicapped on this point vis-à-vis the reserve currencies. First, the reserve currencies, unlike the S.D.R., are also market instruments. A monetary authority can therefore dispose of them or acquire them without the direct opposite number in the transaction being necessarily a monetary authority. On the other hand, any transaction in S.D.R.s must involve sale or purchase as between monetary authorities.

Second, transactions in S.D.R.s are still subject to other constraints. For instance, under the present articles, a participant may carry out a transaction in S.D.R.s by mutual agreement with another participant, i.e. without designation, only if the seller of the S.D.R. exchanges them against his own currency held by the acquirer or if the IMF authorizes the transaction. Moreover, participants using the S.D.R. must comply with the reconstitution rules.

The new IMF articles do, however, include a relaxation in the rules concerning the use of the S.D.R., and this is a step in the right direction. One of the most important extensions made in the use of the S.D.R. under the amended articles is that participants are now free to make transactions by mutual agreement in all circumstances without obtaining IMF authorization (article XIX, section 2, paragraph b). On the other hand, the rules concerning the reconstitution of assets in S.D.R. have not been amended, but the IMF may review them, and can adopt, amend or revoke these rules as a result of a review at any time not only at the end of each base period. Decisions relating to the reconstitution rules can be adopted by a majority of 70 per cent instead of a majority of 85 per cent of the total number of votes cast (Article XIX, section 6, paragraph b).

The possibility should be studied of replacing the reconstitution requirements by other, flexible rules, designed to ensure broader distribution of the S.D.R.s in the reserves of the participating countries. This approach would supplement the other arrangements to be made to render the S.D.R. more attractive and to liberalize further the rules concerning its use by turning to good account the enabling clauses in the new Articles.

Volume. — At the present time, the S.D.R. represents only a tiny fraction (5 per cent) of all international liquidity. The achievement of the objective of giving the S.D.R. a central position in the international monetary system presupposes a reversal of the respective importance of the roles to be played in the future by the reserve currencies and the S.D.R. in the supply and circulation of international liquidity. The reversal of roles can only come about gradually. It means that the S.D.R. must become an asset desired for its own qualities with regard to yield and liquidity.

IV. How to Increase the Effective Yield

(A) The Belgian proposal. — In a proposal set out in a note of February 21, 1977 to the E.E.C. Monetary Committee, which has also been circulated for information to the IMF Executive Board, we have made a specific suggestion. It consists of two parts. First, to raise the interest rate on S.D.R. and, second, to provide a floor for the capital value of the S.D.R.

Interest rate. — If the effective yield of the S.D.R. must be sufficiently competitive with the other reserve instruments, one should take measures, not only to protect the capital value of the S.D.R., but also to give it a sufficient interest rate. Under the present rules, the interest rate on S.D.R.s is determined for each quarter. The rate is equal, unless decided otherwise by the Executive Board, to three fifths of the weighted average of money market rates in the five countries, which have the largest weights in the S.D.R. basket. The weights in this interest rate basket are the following: U.S., 47 per cent; Germany, 18 per cent; the United Kingdom, 13 per cent; France, 11 per cent and Japan, 11 per cent. The weighted interest rate is calculated for the 6 weeks period ending the 15th day of the last month preceding the quarter for which the rate is determined. For the quarter ending on September 30, 1976, the S.D.R. rate has

been set at 3.75 per cent. It has been brought to 4 per cent for the last quarter of 1976. This rate has been maintained for the first quarter of 1977.

It would seem appropriate, given the purpose of our formula, to suggest an interest rate corresponding to the weighted average of money market rates. In our formula, however, we have suggested an interest rate for the S.D.R. equal to four fifths of this rate. This discount is included because of the capital value protection suggested below.

Chart 3 shows the evolution of short term market rates and the interest rate on the S.D.R. The horizontal continued lines from mid 1976 on, show what the interest rate would have been during these quarters, had one applied the 4/5ths of the market rate instead of the 3/5ths. (It will be noted that because of rounding differences, they were identical.)

Capital value. — Rule 0-3, which served as basis of the valuation of the S.D.R. in national currencies, was based successively on two different principles:

— Until July 1, 1974, the value of the S.D.R. in dollars corresponded to the last declared parity of the dollar. The last parity gave a fixed rate of one S.D.R. = 1.20635 dollar. The value of the S.D.R. expressed in other currencies was determined on the basis of this rate and of the representative rates of currencies for the dollar.

— From July 1, 1974 on, the value of the S.D.R. was determined on the basis of a *basket of 16 currencies.*

These two rules gave disappointing results, as far as the preservation of the value of the S.D.R. is concerned. Our proposal tends to *combine the application of these two rules* in such a way that the S.D.R. would be valued by the IMF, every day, according to the one of these two methods which gives the higher value. In other words, the value of the S.D.R. would always equal either 1.20635 dollar or *a higher quantity* of dollars determined by the basket principle applied at the present. Compared to the dollar, the S.D.R. could not depreciate further when it reaches the floor value of 1.20635 dollar.

To avoid any possible misunderstanding, one should stress that our proposed formula:

— has *nothing to do with the asymmetrical basket formula* discussed in earlier times. There is no question of altering the composition of the basket, according to the evolution of the value of currencies. Rather we distinguish at each moment which of the two baskets (the 16 currencies, or only the dollar with S.D.R. = 1.20635 dollar) should determine the value of the S.D.R.

— It *does not give a double value to the S.D.R.* There is no question of giving an option, either to participating countries, or to the IMF, to chose between these two valuation methods. The daily comparison between these two methods, indicates automatically which of the two determines the value of the S.D.R.

If our proposal had been applied in the past, the 16 currencies basket would have been applied in the July-August 1974 and in November 1974-July 1975 periods. Indeed one can see from chart I that during this period the S.D.R. was stronger than the dollar.

For the rest of the time, the dollar was stronger than the S.D.R., by an average of 4 per cent. During this period according to our proposal, the S.D.R. would, following the old rule 0-3, have corresponded to a 100 per cent dollar basket.

(B) Raising only the interest rate. — Another way would be to increase the interest rate on S.D.R.s to the full average of the money market rates instead of the 3/5 in the present formula or the 4/5 in our proposal. In doing this, one will have to keep in mind however its effect on the rates of remuneration and the level of charges. Indeed the amended articles (art. V, section 9) provide that: " The rate of remuneration which shall be determined by the Fund by a 70 per cent majority of the total voting power, shall be the same for all members and shall be not more than, nor less than 4/5ths of the rate of interest under article XX, section 3 " (which is the rate of the S.D.R.).

Table 1 shows what the effective yield would have been during the last three years if this method had been applied. The effective rate on S.D.R. would have been slightly higher than the rate on short term assets denominated in dollars, but much lower than in DM, French francs or Japanese yen.

(C) The Rome proposal. — If it were desired to raise the effective yield of the S.D.R. without at the same time having to consider a substantial increase in charges, the yield could be raised by providing for regular periodic increases in its capital value. This could be done by specifying an equiproportionate daily increase in

TABLE 1

EFFECTIVE YIELDS OF THE SDR AND OF SHORT-TERM ASSETS DENOMINATED IN MAJOR CURRENCIES: ANNUAL AVERAGES FOR THE PERIOD JUNE 28, 1974 - APRIL 1, 1977 [1]

(In per cent per annum)

	U. S. dollar	Deutsche mark	Pound sterling	French franc	Japanese yen	SDR [2]	
						Without security discount	Actual
Short-term interest rate [3] . .	5.6	5.2	11.1	9.1	9.0	7.4	4.2
Change in exchange rates (appreciation +)	—	2.4	−11.3	−0.9	1.0	−1.4	−1.4
Effective yield in terms of U.S. dollars [4]	5.6	7.8	− 1.4	8.1	10.2	5.9	2.7

[1] The present method of valuation of the SDR became effective on June 28, 1974.

[2] The rate of interest on the SDR is equal to the rate of remuneration, which is determined on the basis of the average of short-tem interest rates in the five major member countries whose currencies head the first five columns. To arrive at the SDR interest rate, a security discount of 40 per cent is applied to this average and the result rounded to the nearest quarter of one per cent. The calculation of the effective yield of the SDR in terms of U.S. dollars is shown both without and with this security discount.

[3] The interest rates are as follows: for the United States and the United Kingdom, the yield on three-month Treasury bills; for Germany and France, the rate of three-month interbank deposits; and for Japan, the call money rate (unconditional).

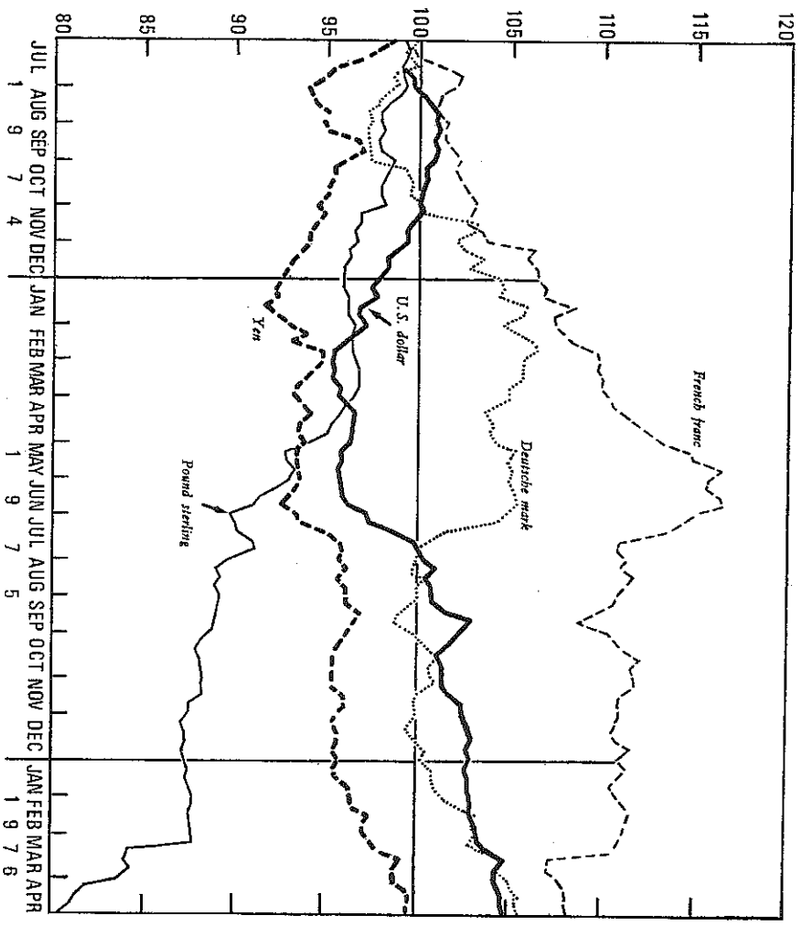
[4] Calculated so as to make allowance for both interest earnings and changes in capital value in terms of U.S. dollars resulting from exchange rate changes.

Source: I.M.F. Staff calculations.

CHART 1

CHANGES IN EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JULY 1974 - APRIL 1976 (June 28, 1974 = 100)



the number of currency units of all basket currencies with the result of raising the value of the S.D.R. in terms of currencies in general, and therefore also in terms of any particular currency, by a small percentage, say 2 or 3 per cent per annum. The effective yield of the S.D.R. would then be the sum of nominal rate of interest and the percentage of capital appreciation. This proposal was considered at the meeting of the Interim Committee in Rome in January 1974, but was rejected as not being materially different from a higher interest rate.

The Rome proposal would raise the effective yield of the S.D.R. in terms of currencies in general in a regular and predictable manner. Predictability is particularly important, since the expected effective yield is more important for the financial conduct of S.D.R. holders than the yield which is found to have been realized over a past period.[5]

COMMENTS ON THE VARIOUS PROPOSALS. — Each formula has its own advantages and drawbacks which will have to be weighted against each other:

— the Belgian formula has the advantage that in providing a floor value to the S.D.R., it gives to the holders an insurance against one of the risks against which they want to protect themselves, namely that the S.D.R. would in the long run regularly have a weaker value than the dollar. Some may find it a disadvantage that there would be sudden shifts from one method of valuation to another. It has been argued for instance that this formula would make it rather difficult for commercial banks to hedge any of their S.D.R. liabilities. They would have to switch from holding U.S. dollars against these liabilities to holding the 16 currencies contained in the basket whenever the daily S.D.R. rate changes from the threshold value to the basket value and vice-versa.

— Increasing the interest rate to the full average of money market rates has the advantage of simplicity, and would be logical.

However one would also have to take into account the effect of such move on the charges of the Fund.

— The Rome proposal would avoid the consequence on charges, but some might find it more complicated than the second formula.

Conclusion

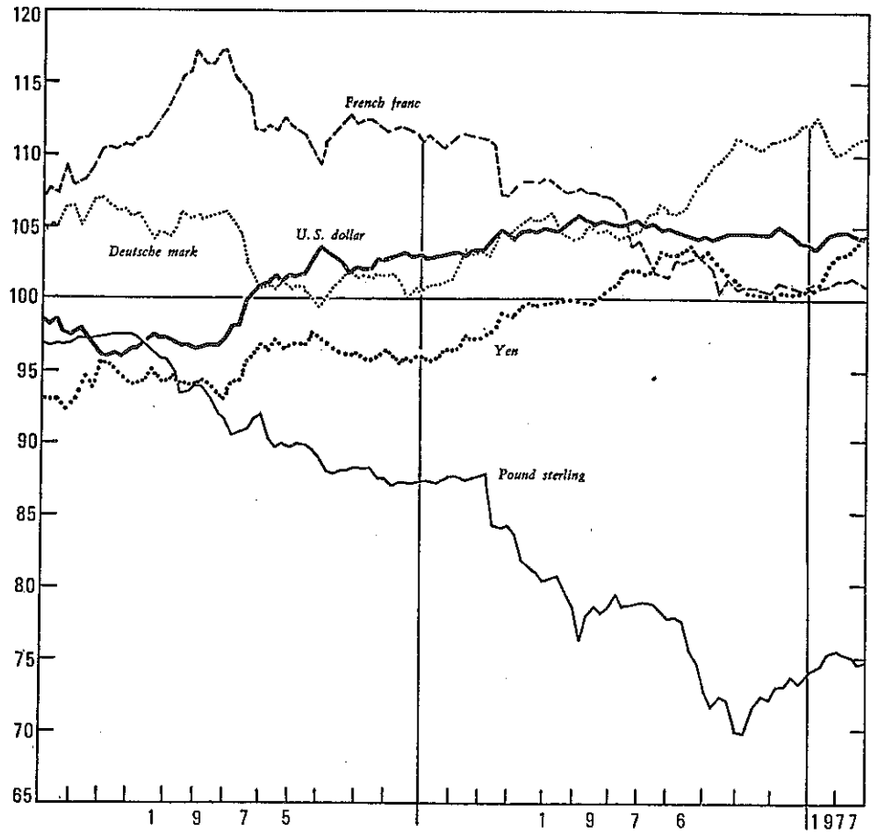
The choice between these three technical formulas will have to be made in the I.M.F. Executive Board.

What is important to us is that this choice be made and that the S.D.R. be made effectively more attractive. To achieve this aim one will have to avoid among other things the mistake made when creating the S.D.R. At that time " the decision to set the original

5 See J. J. POLAK: " Valuation and Rate of Interest of the S.D.R." *International Monetary Fund.* Washington D.C., 1974.

CHART 2

CHANGES IN EXCHANGE RATES
OF FIVE MAJOR CURRENCIES AGAINST THE SDR
JANUARY 1975 - FEBRUARY 1977
(June 28, 1974 = 100)

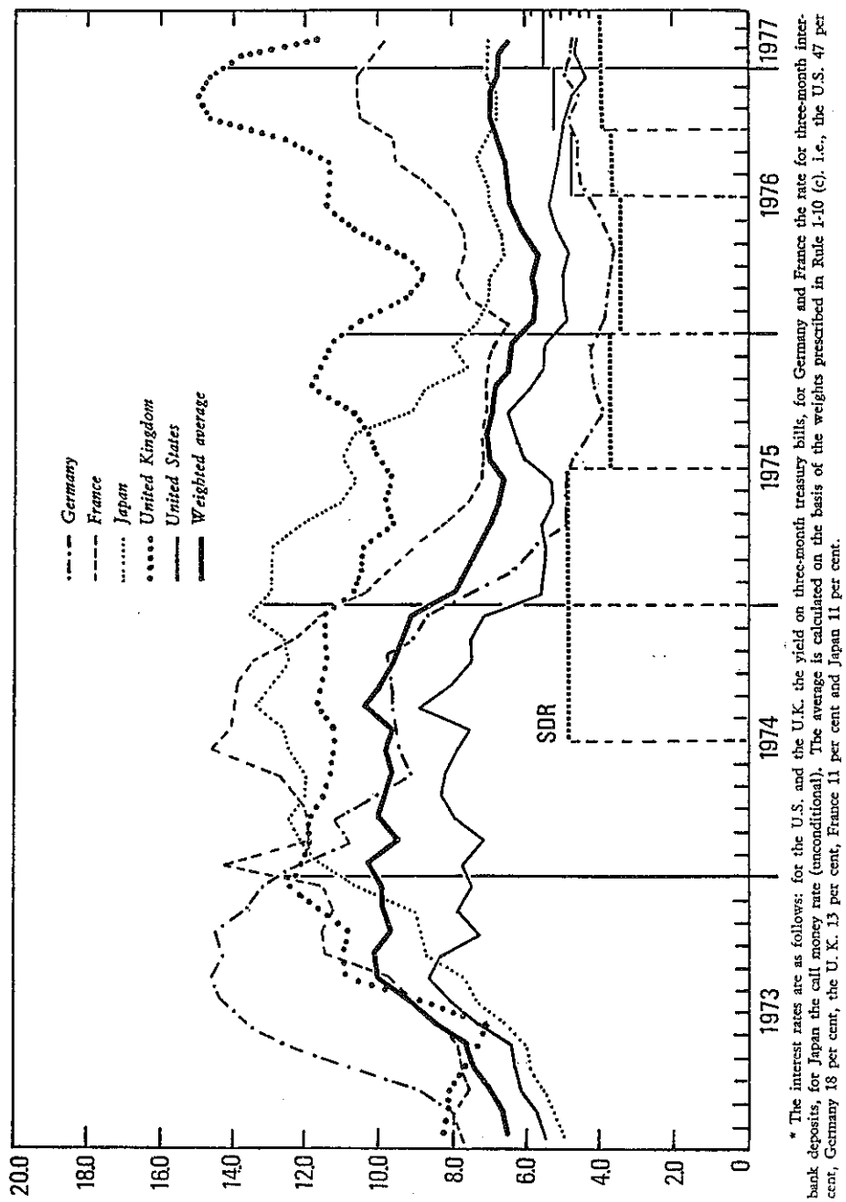


rate at 1.5 per cent per annum was mainly the result of the strong desire on the part of the United States for a low interest rate on the S.D.R., in order to minimize competition with the U.S. dollar as reserve asset." [6]

6 J. J. POLAK: " Valuation and Rate of Interest on the S.D.R." *International Monetary Fund*, p. 8 and 9. Washington D.C., 1974.

CHART 3

SHORT-TERM MONEY MARKET RATES * AND THE INTEREST RATE ON THE SDR
(Monthly average)



* The interest rates are as follows: for the U.S. and the U.K. the yield on three-month treasury bills, for Germany and France the rate for three-month interbank deposits, for Japan the call money rate (unconditional). The average is calculated on the basis of the weights prescribed in Rule 1-10 (c), i.e., the U.S. 47 per cent, Germany 18 per cent, the U. K. 13 per cent, France 11 per cent and Japan 11 per cent.

At the present, like then, it is also argued by some, that an improvement in the attractiveness of the S.D.R. would lead to shifts from holdings of reserves in dollars into S.D.R.s, and that this would have a destabilizing effect on the monetary system as a whole and should thus be resisted. In aswering this objection one can make the following comments. First one can point out that what this argument really means is that the dollar should continue forever to be alone in the center of the system which is not what the amended articles provide for. Second it should be stressed, as we have tried to do, that at the present and as long as the effective yield on the S.D.R. is lower than the one on dollars, there is an inducement for countries to shifts from S.D.R. into reserve currencies. This is the real anomaly and not the risk of the reverse as is stressed in the above argument. Third it should be pointed out that the creation of the S.D.R. is controlled by the I.M.F., so that if shifts from dollar holdings into S.D.R. holdings do occur, as a result of an improvement in the S.D.R., these shifts would happen in a gradual and orderly way within the limits set by the international community.

The members of the I.F.M. should address themselves to the issue of how to implement gradually the objective set in the new IMF article of making the S.D.R. the principal reserve instrument in the international monetary system. In our opinion this objective implies making the effective yield of the S.D.R. more attractive, decreasing the constraints to the use of the S.D.R. and having it play a growing role in the supply and circulation of international liquidity.

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