



STATEMENTS AND SPEECHES

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STRENGTHENING THE INTERNATIONAL MONETARY SYSTEM

Speech by the Honourable Mitchell Sharp, Minister of Finance, to the Annual Meetings of the International Monetary Fund and the International Bank for Reconstruction and Development, Rio de Janeiro, September 27, 1967.

...The most important item on our agenda relating to the International Monetary Fund is the resolution dealing with the establishment in the Fund of a new facility, based on special drawing rights, to meet the need, as and when it arises, for a supplement to existing reserve assets. Through close consultation with the Executive Director representing Canada on the Board of the Fund, and through our membership in the Group of Ten, Canada has helped to develop the plan proposed in the resolution. Although the plan is not completely in accord with Canadian views, we are strongly in favour of it and I should like to explain briefly why.

The total volume of reserve assets in the hands of national monetary authorities has so far been basically dependent on the supply of gold for reserve purposes and the balance-of-payments positions and reserve policies of a handful of major countries. There has been growing recognition of the inadequacy of this system in the modern world. A number of *ad hoc* arrangements have been devised in recent years which have succeeded in shoring up the system when it was threatened by sudden shocks. But a more fundamental change was necessary to ensure that aggregate first-line reserves of the world's payments system would be brought under the deliberate management of the nations of the world acting together to meet their combined needs. As the Managing Director has said, the international community should be able to control reserves, instead of reserves controlling the community.

The regulation of the total supply of international liquidity will be achieved by creating, in controlled amounts, a supplement to existing reserve assets. The amounts actually to be created will be decided later for a five-year period on the basis of the anticipated overall needs of member countries and the actual and prospective supply of gold and reserve currencies.

For this system to work it is essential that the supplement to existing reserve assets be acceptable and attractive to the national monetary authorities who will be expected to hold it and to exchange it with each other, and convincing to the world at large. To this end, special drawing rights are to be created in a separate account in the IMF, which member countries in balance-of-payments need may use, without challenge or commitments concerning