ratifies, many other countries will say, "They are getting ready for business, let's ratify, too."

I think to insist on January 1, 1969, or any other specific date for activation, and spending a year trying to get agreement on such a date, is more likely to delay ratification and activation than to speed it up.

The second question is how do we get prompt activation. Well, there are two points we must bear in mind. The first is to retain the provisions that are in the agreement because they give to the people on whom we can rely most for objectivity the initiative in proposing activation—that is the Managing Director of the International Monetary Fund and his staff.

Second, create an environment in which there will be a consensus of reasonable people that activation is necessary, and that brings me to your point. If the U.S. balance of payments is improved, if there is no big deficit on an official reserve settlements basis so that reserves in the form of dollars are not growing, then I think the Managing Director will feel that it is up to him to move quickly to activate the plan. On the other hand, if foreign holdings of dollars keep growing, while the Managing Director might still go ahead, his case for activation is much stronger when he finds there are no dollars or very few dollars being added to monetary reserves.

I do not think the world needs a zero deficit in our balance of payments, even on an official reserve settlements basis, before it activates this plan. But it certainly will be encouraged if there is an improvement in our balance of payments on an official reserve settlements basis.

Senator PROXMIRE. Dr. Harrod?

Sir ROY HARROD. There is just the one point that the United States might pay its deficits in gold, rather than through the increased holding of dollars by the monetary authorities in other countries, so that if you just leave out the United States, well there would have been the point—the U.S. deficit is still causing an increase in world reserves.

Mr. BERNSTEIN. No.

Sir ROY HARROD. Wait, now, let me finish my sentence. Of course it is true that when the United States pays for its deficit in dollars there is an increase in world reserves, while, if it pays in gold, there is not, since what the outside world gains, the United States loses.

But some European powers do not look at it in this way. They very much dislike the U.S. deficit. When gold flows out of the United States that increases reserves outside the United States. The fact that it at the same time decreases reserves in the United States, they regard as a good thing, because it finds pressure on the United States to terminate its deficit.

So they do not regard the position as unsatisfactory if reserves outside the United States rise while the U.S. reserve goes down.

Mr. BERNSTEIN. I think there would be a feeling that if the growth of aggregate reserves is pretty much halted, which means we are not adding dollars to the official reserves, there is a strong case for increasing world reserves.

No country, even among the Common Market countries, really believes that the allotment we would get from the creation of a new reserve asset is of significant size in financing a large and continuing deficit, and that is what they are disturbed about.