of $2 billion a year might have to be created if foreign central banks not only refuse to pile up more dollar and sterling balances as reserves, but convert into gold—as they did in 1965—large amounts of such balances accumulated over fifty years past. On the other hand, any creation of new reserve assets would be objected to by many countries as inflationary if dollar and sterling accumulation were to be resumed on a substantial scale in the future.

Although improbable at first view, this second possibility cannot be ruled out in view of the enormous financial, economic and political leverage which the United States can use on many countries to deter conversions of their dollars into gold. We can suspend our foreign aid to some, apply the interest-equalization tax to those not now subject to it, withdraw our troops from others, refuse to deliver to them military equipment or repair parts, etc., etc. Some such pressures were probably applied to Germany, for instance, to wrest from it last March a famous "declaration of intention" placing it in fact, at least temporarily, in the "dollar area," and to Canada and some other countries to induce them to *sell* gold to us, rather than convert their surplus dollars into gold at our Treasury.

## POSSIBLE REMEDY

This is undoubtedly the reason why the future activation of the Rio plan was made conditional upon "the attainment of a better balance-of-payments equilibrium," as already noted above. This is an absurd decision, since the inability of the U.S. and/or the U.K. to reach such equilibrium might indeed induce a dangerous flight from outstanding dollar and/or sterling reserves into scarce gold metal. A better solution would be to gear the creation of Special Drawing Rights to any actual gap that may develop between reserve increases from present sources—gold, foreign exchange, and reserve positions in the IMF—and a targeted presumptive rate of increase of global reserves of let us say, 4 (or 3, or 5?) % a year.

The accompanying table shows what such a rate would have implied if adopted a few years ago. It would have barred any creation of SDR's in 1963, for instance, but authorized a growing creation of SDR's in the following years. Over the quinquennium 1963–67 as a whole, the average annual rate of authorized SDR creation would have been about $1250 million, i.e. close to the minimum amount informally mentioned in recent Group of Ten discussions ($1 billion to $2 billion a year).

ACTUAL EVOLUTION OF GLOBAL RESERVES AND HYPOTHETICAL CREATION OF SDR's, 1963–67

[In millions of dollars]

| | Global reserves | | Authorized SDR creation (col. (a) minus col. (b)) |
|---|---|---|---|
| | Targeted 4-percent increase | Actual increase | |
| | (a) | (b) | (c) |
| 1963 | 2,540 | 3,370 | −830 |
| 1964 | 2,650 | 2,230 | 430 |
| 1965 | 2,740 | 1,745 | 995 |
| 1966 | 2,810 | 1,370 | 1,440 |
| 1967 | 2,865 | −1,350 | 4,215 |
| 1963–67 | 2,725 | 1,475 | 1,250 |

SOURCES AND NOTES

1. Calculated from reserve estimates of International Financial Statistics.
2. Estimates for 1967 based on a yearly projection of January–June estimates.
3. The estimates in the 1st 4 lines are actual estimates which would have been modified in fact by the creation of SDR's. The last line gives average annual rates, based on actual developments (2d column) and on the maintenance of a cumulative 4-percent rate of increase in global reserves (1st column) through SDR creation (3d column).
4. The estimates in the 1st and last column are based on the assumption of a presumptive 4-percent rate of targeted reserve growth, and should be modified if a different rate were selected, and/or if this targeted rate were modified in the light of current developments.

This proposed criterion, however, might have to be modified to overcome two legitimate objections.

The first, and less controversial, is that no creation of *additional* reserves can meet the danger of *inflationary* excesses in the growth of other reserve media, and particularly of the foreign exchange reserves which might flow from our deficits as long as enough countries choose—or are induced by bilateral "arm-twisting"—to finance such deficits by dollar (or sterling) accumulation.[4]

[4] Gold reserves themselves might grow at an excessive pace in the—still-unlikely—event of large disgorging by speculators from the massive private hoards accumulated in recent years.