

balances and investments and, therefore, large increases in world reserves.

The problem of a world liquidity shortage might therefore arise—paradoxically, and contrary to the Group of Ten's analysis—from the persistence, rather than from the elimination, of our deficits.

In view of these uncertainties—both as to the future course of our deficits and of their impact on switches between gold and dollars—it is impossible to determine in advance how many SDR's should be created in future years.

The obvious solution would be to create SDR's in whatever amounts may prove necessary to preserve any desirable level of world reserves in the future. If a presumptive growth of 4 percent a year in overall world reserves were deemed desirable, for instance, we should undertake to create SDR's to the extent necessary to fill the gap between this presumptive target and the actual growth of reserves from other sources; that is, gold, foreign exchange and reserve positions in the Fund.

I might mention in passing that, if such a rule has been adopted in 1962, it would have resulted in the creation of no SDR's at all in 1963, but in a growing creation of SDR's in subsequent years, with an average creation of about \$1,250 million a year over the period as a whole. That is pretty close to the figures which have been informally mentioned in the discussions—\$1 billion to \$2 billion a year.

Taken by itself, however, such a solution is hardly negotiable with the major surplus countries which would be called upon to finance it. Indeed, it would mean that the new SDR system would become the "garbage can" of the reserve-center countries' failure to retain, or pressure, other countries into their "dollar area" or "sterling area."

It would call for the automatic creation of SDR's whenever foreign countries refused to absorb and retain a sufficient amount of dollars and/or sterling in their monetary reserves and tried instead to convert such dollars and sterling into gold. Well over a third of the new SDR's created would be given—according to the Rio "distribution" rules—to the two reserve centers and enable them to pass them on to any country that wished to convert its dollars or sterling into gold.

In other words, if foreign central banks refused to finance the United States or United Kingdom deficits bilaterally—through dollar or sterling accumulation—they would have to finance them through SDR accumulation. This they are hardly likely to agree to do.

Therefore, the tentative solution which I have just indicated must be supplemented by other provisions, making it a reasonable basis for negotiation.

The reserve center countries could legitimately ask to be protected against the sudden cashing into gold of dollar and sterling reserves acquired in the past, thus preserving at the same time the world reserve system itself against the ensuing contraction of the world reserve pool. New SDR's, carrying adequate guarantees against unilateral blocking or devaluation, should be created to *substitute* for the dollars or sterling balances which countries no longer wished to retain as reserves.

Countries other than reserve centers, on the other hand, could properly insist that all future additions to the world reserve pool in