Mr. TRIFFIN. Mr. Chairman, I think all those difficulties about activation as well as the ones I have mentioned about the distribution, the allocation of SDR's among various countries, spring really from a single source, and it is the fact that we pretend to create a reserve creating machinery and to direct it rationally by addressing ourselves only to one of the three pieces of the machine.

The world reserve pool, after all, is made up of gold, dollars and sterling, and some IMF liabilities to be expanded now by the new SDR system.

We say we are going to direct rationally the evolution of the world reserve pool by directing rationally the creation of SDR's. But in the absence of any inkling as to what may happen to gold and to dollar and sterling reserves, we are unable to do that.

It is quite clear, for instance, that if foreign countries continue to be willing to take large amounts of gold and sterling in future years it might very well be that——

Chairman REUSS. Dollars and sterling?

Mr. TRIFFIN. Yes.

Chairman REUSS. Large amounts of dollars and sterling?

Mr. TRIFFIN. Large amounts of dollars and/or sterling. If they take large amounts, well, there will be no worldwide shortage of reserves. You might even have inflationary problems in this case.

Chairman REUSS. But can't you adjust as you go along if this turns out to be the case?

Mr. TRIFFIN. Create fewer SDR's.

Chairman REUSS. Turn the other needle valve.

Mr. TRIFFIN. No, that is where I am not quite sure that the shoe is not on the other foot than what Sir Roy was saying.

If too many reserves emerge already from the traditional reserve sources, creating no SDR's does not fully solve the problem. There still may be too much reserves, and you cannot really destroy the SDR's already created by asking for their repayment since 70 percent of them are nonrepayable.

Chairman REUSS. True. But is this really a danger that the world will be drowned in reserves, that central banks will hold so many——

Mr. TRIFFIN. Probably not.

Chairman REUSS (continuing). Dollars?

I do not really think it is serious.

Mr. TRIFFIN. No. Surely I agree with you that the likelihood may be the other way.

Chairman REUSS. They will grab gold and fracture the reserves.

Mr. TRIFFIN. They will even get rid of old dollars and sterling, and this is what I want to protect us against. As you know, I have been arguing for this since 1959, the first time I appeared before the committee on this subject, and I think we have disregarded that danger.

Now, what I mean by the "garbage can" is this, really: That you have on the one hand gold reserves which, for some absurd reasons, they are always willing to take. They do not question that.

But then you have alongside of that a second form of reserve which is "credit reserves": reserves that are also credits either to the IMF or to the United States and the United Kingdom. Both forms are credit reserves.

Now, suppose that at a certain time those credit reserves are used by the borrowers to finance policies with which the lenders disagree.