

same time, the amount of gold in national reserves also has started to decline, largely because of private hoarding in Europe.

Some economists argue that these reductions are danger signals that could result in a slow-down in world trade. Thus they have argued that it's time to develop a contingency plan to add to world reserves.

France and some other nations, on the other hand argued that there was no shortage of reserves and that making it too easy for countries to continue having payment deficits might encourage loose fiscal practices and feed global inflation.

The debate continued for six years and was not resolved until the Big 10 settled on the special drawing rights formula.

Assuming approval by participating countries, the IMF would ration SDRs to each member country based roughly on economic size. In effect, each nation would get a free bond.

Of a hypothetical \$1 billion issue of SDRs the United States would be entitled to \$246,000,000. The United States could spend them directly in payment for surplus dollars held by another country if that country would accept them. However, nothing would prevent France, for example, from refusing to honor the SDRs as redemption for U.S. dollars; it could still demand gold.

If France didn't accept the SDRs the United States could turn the SDRs back to the IMF which would become a middleman and pick out another country with a fast-growing supply of dollars. Such a country would be obligated to take SDRs up to three times the size of its own allocation of SDRs. In exchange the United States would get a currency or currencies acceptable to France. In this way the United States