when required. Drawings on the IMF are intermediate-term credits, as they must ordinarily be repaid (except super-gold-tranche drawings) in three years, with an outside limit of five years. Although the IMF has immense resources for extending reserve credit, very large drawings by a great trading country may be regarded as a sign of weakness. In any case, countries cannot become more and more dependent on larger and larger use of reserve credit, with an obligatory schedule of repayments, without losing the comparative freedom in policy making provided by their own reserves.

*Quantitative and qualitative reserve problems*

Although it has hitherto been possible to secure the necessary growth of monetary reserves through a steady increase in the dollar component of reserves, this method cannot be continued much longer. This is not entirely because of a lack of confidence in the dollar, although the continued U.S. payments deficit has been a disturbing element in the international monetary system in recent years. The fact is that no national currency, including the dollar, can provide for an adequate growth of reserves over an indefinite period. That is because at present only gold is a final reserve asset. The strength and stability of the international monetary system depends not only on having adequate reserves, but on having a large proportion of them in the form of final reserve assets.

The nature of the gold problem is evident in the steadily declining proportion of gold in aggregate monetary reserves. The ratio of gold to the gold and foreign exchange reserves of all countries, excluding the Communist countries, was 94 per cent in 1938, 71 per cent in 1948, and is about 57 per cent at present. The sharp decline in the ratio of gold to total monetary reserves reflects the relatively small increase of gold reserves and the very large increase of foreign exchange reserves. The reserve position of the United States has deteriorated with the decrease in U.S. gold reserves and the concomitant increase in U.S. reserve liabilities. Confidence in the dollar probably depends more on the underlying strength of the U.S. balance of payments than on the U.S. reserve position. Nevertheless, without the creation of new reserve assets, the reserve position of the United States cannot be improved except by raiding the gold and dollar reserves of other countries.

The ratification of the Amendment authorizing the establishment of the Special Drawing Account and the activation of the plan for SDRs will solve some of the reserve problems. Their issue at regular intervals in accordance with the trend need for reserves will assure a steady and adequate growth in reserves. Their allocation to all members of the IMF will enable them to increase their reserves without forcing a reduction in the reserves of other countries. The SDRs will be defined in terms of gold, and within the holding and use limitations they will be a final reserve asset. They will not, however, deal with the gold aspect of the reserve problem. In brief, even after the activation of SDRs, the international monetary system will remain exposed to the disruptive effects of the preference that the monetary authorities have for gold relative to other reserve assets.

The preference for gold as a reserve asset did not arise from the burst of speculation that preceded and followed the devaluation of sterling. It has grown steadily with the declining growth of gold reserves and the rising growth of dollar reserves. The preference for gold is indicated by the fact that the proportion of the U.S. payments deficit settled in gold became progressively larger in the 1950's and 1960's. From 1950 to 1957, the U.S. deficit on a reserve transactions basis was about $7.6 billion. As the U.S. gold tranche position increased by $500 million in this period, the United States transferred $8.1 billion of reserves to other countries, of which $2.3 billion was gold and $5.8 billion was dollars. Thus, the gold settlements in this period were 32 per cent of U.S. reserve transfers to other countries.[1] From 1958 to 1965, the U.S. deficit was about $21.6 billion. As $1.4 billion was financed by drawing on the U.S. gold tranche, the United States transferred $20.2 billion of reserves to other countries, of which $9.4 billion was in gold and $10.8 billion was in dollars. Thus, the gold settlements in this period were 46 per cent of U.S. reserve transfers to other countries. The preference for gold was reflected in the larger proportion of gold to foreign exchange that nine continental European countries added to their reserves.[2]

[1] The gold transfers to other countries are calculated by the decline in U.S. gold reserves after adjustment for gold acquired from IMF investment in U.S. Treasury bills. The gold transfers are overstated to the extent that domestic consumption of gold exceeded gold production in the United States.

[2] Austria, Belgium, France, Germany, Italy, Netherlands, Portugal, Spain, and Switzerland.