

1. Each deficit country should use its different reserve assets in settlement of its deficit in precisely the same ratios as it holds these reserves—gold, foreign exchange, and SDRs.

2. Each surplus country should acquire the different reserve assets in settlement of its surplus in the average ratios of gold, foreign exchange, and SDRs used by the deficit countries, so that all surplus countries would acquire the different reserve assets in precisely the same ratios.

These principles would have to be applied to cumulative deficits and surpluses, otherwise a country might have to pay a high ratio of gold when it is in deficit and receive a small ratio of gold when it is in surplus. Even if a country had a balanced payments position over a period of years, the composition of its reserves could change. However, if settlements were made on a cumulative basis, the composition of a country's reserves would be unchanged, apart from new allocations of SDRs, whenever its previous surpluses equal its previous deficits. There is another practical difficulty in operating a composite gold standard with multiple reserve assets. It would be cumbersome for a deficit country to transfer to a surplus country a mixed bag of reserves consisting of X amount of gold, Y amount of dollars, Y' amount of other foreign exchange, and Z amount of SDRs. For convenience, a single bookkeeping entry should suffice to transfer the desired amount of reserves in the ratios required by the composite gold standard.

These difficulties could be obviated by establishing a Reserve Settlement Account as an independent administrative department of the IMF in which countries would hold their reserve assets—gold, foreign exchange, and SDRs—denominated in a composite reserve unit (CRU), defined as one gold dollar of the present weight and fineness, and consisting of the different reserve assets in appropriate ratios. A transfer of reserves from a deficit country to a surplus country would be recorded as a decrease of CRUs in the account of the former and an increase of CRUs in the account of the latter. At any given time, a country whose balance of CRUs is less than the total of the various reserve assets it placed in the Reserve Settlement Account would be in cumulative deficit, and it would have implicitly settled this deficit *pro rata* in the same ratios as the reserve assets it placed in the Reserve Settlement Account. A country whose balance of CRUs is more than the total of the various reserve assets it placed in the Reserve Settlement Account would be in cumulative surplus. This surplus would have been implicitly settled in the different reserve assets in the average ratios that all cumulative deficit countries placed such reserves in the Reserve Settlement Account. An actual transfer of gold, foreign exchange, and SDRs in connection with these implicit settlements, however, would be made only when a country withdraws from the Reserve Settlement Account.

Some aspects of the Reserve Settlement Account

The basic feature of the Reserve Settlement Account is that participating countries would hold all of their reserves on earmark with that account—gold, dollars and other foreign exchange, and SDRs. The amount of reserves each country earmarked with the Reserve Settlement Account would be shown in its initial balance of CRUs. Gold tranche positions in the IMF, although properly regarded as reserves of individual countries, would not be placed in the Reserve Settlement Account as the aggregate amount of gold tranche positions fluctuates constantly with drawings and repurchases. The General Account of the IMF, which extends reserve credit, would however, acquire, hold and transfer CRUs.

Gold.—Every participating country would place its gold reserves on earmark with the Reserve Settlement Account and would be credited with an equivalent amount in CRUs. The earmarked gold could be held in the country's own central bank, at another central bank, or at a Fund depository of the country's choice. Title to the gold reserves would be retained by the participating country, as the earmarking with the Reserve Settlement Account would be solely for the purpose of recording the gold component of a country's CRUs. No actual transfers would be made from the earmarked gold except at the time of final settlement, when a member withdraws. At that time, the earmarking of the gold would be terminated, and all of the gold would be terminated, and all of the gold would be returned to the withdrawing country, subject to the obligation to settle its cumulative deficit, if it has one, *pro rata* in gold and other reserve assets.

With member countries using CRUs exclusively in the transfer of reserves, there would be no need for the IMF to hold gold. Instead, it would place its gold holdings on earmark with the Reserve Settlement Account and would be credited with an equivalent amount in CRUs. Ordinary quota drawings on the IMF (the