

of dollars, the IMF could request the United States to retire some of the dollars held in the Reserve Settlement Account by debiting its balance of CRUs. The IMF could replace the dollars with an extraordinary issue of SDRs in the same amount, allocating them to all members in the same way as regular issues of SDRs. Aggregate reserves would be unaffected by the replacement of dollars with SDRs and other countries would be helped in meeting their deficits. Such a provision would contribute to the flexibility of the composite gold standard, while continuing the appropriate trend growth of reserves, without regard to the balance of payments of any country.

Special Drawing Rights.—The SDRs that each country receives from regular and extraordinary issues would be placed on earmark with the Reserve Settlement Account, precisely as with reserves in other forms. There would be one major difference, however, between SDRs and other reserve assets. While the amount of gold earmarked initially by a participating country would remain unchanged, and the amount of foreign exchange earmarked by a country would remain the same unless some of the foreign exchange were retired, the amount of SDRs in a country's earmarked account would be increased at regular intervals through the issue of SDRs. Thus, the one earmarked account of participating countries with the Reserve Settlement Account that would continue to grow would be the SDRs.

Whenever a country is allocated SDRs, the amount of its allocation would be placed in its earmarked account and it would be credited with an equivalent amount in CRUs. No transfers would be made in SDRs, as all settlements would be in CRUs. When a country withdraws from the Reserve Settlement Account, the SDRs as well as its other earmarked reserve assets, would be returned to the withdrawing country, subject to final settlement for any cumulative deficit it might have. The IMF would arrange the orderly liquidation of any deficiency or excess of SDRs below or above the cumulative allocations of a country in accordance with the provisions governing the Special Drawing Account.

Transfers and settlements.—As all of the reserves of a country would be earmarked with the Reserve Settlement Account, there could no longer be transfers of reserves directly in the form of gold, foreign exchange, or SDRs. Actual transfers of reserves between the monetary authorities of participating countries would be solely in the form of CRUs and would be made by debits and credits in their accounts. In such a system, all of the reserve assets earmarked by a country would comprise a composite supply of reserves, represented by CRUs, and these reserves could be used only jointly by transfers of CRUs. Of course, each transfer of CRUs would involve an implicit transfer of the different reserve assets earmarked with the Reserve Settlement Account, but no actual transfer of the specific reserves would be made except in connection with a final settlement.

There would be no great difficulty in calculating the rights and obligations of participating countries when a country withdraws from the Reserve Settlement Account. Suppose, for example, a country with a cumulative deficit withdraws. Its cumulative deficit position would be shown by the amount by which its balance of CRUs is less than the total of the different reserve assets it earmarked with the Reserve Settlement Account. Suppose that the withdrawing country had a balance of 800 million CRUs and that the reserves it earmarked with the Reserve Settlement Account amounted to \$1 billion, so that it had a cumulative deficit of \$200 million. The withdrawing country would then be entitled to the return of 80 per cent of its earmarked gold, 80 per cent of its earmarked foreign exchange, and 80 per cent of its earmarked SDRs. Twenty per cent of the different reserves that had been placed on earmark by the withdrawing country would be retained by the Reserve Settlement Account for settlement of the cumulative surplus of the remaining members.

Suppose instead that the withdrawing country had a balance of 1.2 billion CRUs and had earmarked \$1 billion of different reserve assets, so that it had a cumulative surplus of \$200 million. The withdrawing country would be returned all of the reserve assets it earmarked with the Reserve Settlement Account. The remaining \$200 million would be settled in gold, foreign exchange and SDRs, in the same ratios as these were earmarked by the deficit countries. Suppose that the cumulative deficit of all deficit countries amounted to \$2 billion and that this would have had to be settled by these deficit countries with \$500 million of gold, \$600 million of dollars, \$200 million of other foreign exchange, and \$700 million of SDRs. Then the withdrawing country would receive settlement for its \$200 million surplus in one-tenth of the amount of each of these reserve assets implicitly used by all the deficit countries—\$50 million of gold,