

\$60 million of dollars, \$20 million of other foreign exchange, and \$70 million of SDRs. The Reserve Settlement Account would debit each deficit country's earmarked account with the amount of reserves it would implicitly have used in settling its cumulative deficit.

Interest.—The CRU would be a composite reserve asset consisting partly of gold and partly of fiduciary reserves—that is, foreign exchange and SDR's. It is characteristic of fiduciary reserves that such holdings earn interest. There is every reason for continuing this practice, as fiduciary reserves are acquired through a net transfer of real resources—goods, services, and capital assets. The plan for Special Drawing Rights provides for the payment of interest at a rate of $1\frac{1}{2}$ per cent per annum on average net holdings of SDRs in excess of a country's cumulative allocations and the charging of interest at the same rate to countries on their average net use of allocations of SDRs. In the case of foreign exchange reserves, the interest paid or earned differs according to the currency and the form in which the reserves are held or invested. No such distinctions are necessary for foreign exchange earmarked with the Reserve Settlement Account. All of the earmarked foreign exchange reserves have the same exchange value guarantee and they are all held in the same form of non-negotiable interest-bearing obligations. For these reasons, the interest charged on earmarked foreign exchange should be uniform for all currencies. The rate could be the same as on SDRs or $\frac{1}{2}$ per cent per annum higher. The small differential could be justified by the non-reciprocal character of foreign exchange as fiduciary reserves.

The Reserve Settlement Account would collect $1\frac{1}{2}$ per cent per annum from all countries on their cumulative allocations of SDRs. It would collect 2 per cent per annum from the countries whose currencies were placed on earmark with the Reserve Settlement Account. The practical problem is not in connection with the collection of interest, but with its payment. The simplest method would be to pay interest at a relatively low but uniform rate on the average balances of each country's CRUs during the financial year. This might seem inequitable to countries whose CRUs were acquired by earmarking foreign exchange and SDRs rather than gold. The argument in favor of this basis for paying interest is that it would emphasize the fundamental equivalence of all CRUs, regardless of their imputed composition, whether mainly gold or mainly foreign exchange and SDRs. The alternative method would be to pay interest at the rate of 2 per cent per annum on the foreign exchange component and $1\frac{1}{2}$ per cent per annum on the SDR component of a country's average holdings of CRUs. This would not be a difficult calculation to make—in fact, no more difficult than that required for computing net interest on SDRs.

Alternatives to the composite gold standard

The functioning of an international monetary system with multiple reserve assets depends on assuring the appropriate use of all reserve assets in international settlements. A preference by the monetary authorities for holding gold rather than dollars or sterling has already emerged, and this preference will become more marked in the future as the monetary gold stock becomes frozen at about its present level. The activation of the plan for issuing SDRs may make it more difficult to maintain the equivalence of all reserve assets. The addition of a new fiduciary reserve asset (SDRs) with characteristics of its own—particularly the gold value guarantee and interest on net acquisitions—may give countries a further inducement to alter the composition of their reserves.

The need for some rules regarding the use of different reserve assets, particularly after the plan for SDRs is activated, is now generally recognized. The practical question is whether this should be done automatically through a composite gold standard or whether it should be done *ad hoc* through guidance by the IMF. The Amendment authorizing the Special Drawing Account in the IMF contains a number of provisions designed to make sure that the new reserve asset is not used by members to alter the composition of reserves and that it is used by deficit countries and acquired by surplus countries in an appropriate relationship with other reserve assets. The basic principle set forth in Article XXV, Section 3 of the Fund Agreement as amended states:

"... [A] participant will be expected to use its Special Drawing Rights only to meet balance of payments needs or in light of developments in its official holdings of gold, foreign exchange, and SDRs, and its reserve position in the Fund, and not for the sole purpose of changing the composition of the foregoing as between SDRs and the total of gold, foreign exchange, and reserve position in the Fund."