assets for SDR's, but it doesn't deal with the most dangerous of all preferences, the preference for gold, say, instead of foreign exchange, dollars and sterling.

To my mind this international monetary system into which the gold standard is evolving with its multiple reserve assets, can function properly only if it is based on the nondiscriminatory use of all reserve assets.

I would say it must be based on two principles of reserve use. The first is that deficit countries should use all of their different reserve assets in international settlements in the same proportions in which they hold them and, on the other side, all surplus countries should receive settlement through accepting reserve assets in the average proportions that all the deficit countries are paying them.

In this way all surplus countries would get the same collection of reserves when they have a surplus. There would be no distinction between one surplus country and another. There would be a distinction between one deficit country and another because they don't hold the same reserve assets.

Furthermore, it seems to me that such a system has to be on a cumulative basis. Otherwise it is quite possible that a country with a high reserve ratio, say, of gold, which has a deficit in one year, and a surplus in another year settled with a very low ratio of gold, will find the composiiton of its reserves changed, even though it has a balanced payments position over a 2- or a 3-year period. And I think we have to recognize, too, that it is very difficult to have a rule that countries must use all of their reserve assets pro rata unless you have administrative facilities for making that almost automatic.

It would be very peculiar if country A tried to transfer \$50 million of reserves \$12½ million of gold, \$13½ million of sterling, \$11 million of dollars and the rest in SDR's. It would make every transfer of reserves a burdensome problem, if only from the point of view of supervision.

My suggestion for dealing with this is to set up a reserve settlement account. In this reserve settlement account, administered by the International Monetary Fund, each country would earmark all of the different reserve assets it has, but it would retain title to them. If it puts in \$10 million of gold, \$20 million of dollars, \$5 million of SDR's, it would be credited in a composite reserve unit for bookkeeping purposes with \$35 million. It would have that much in the composite reserve unit on balance with the reserve settlement account.

If it has a deficit and has to transfer \$5 million it would transfer \$5 million of the composite reserve unit. That would mean implicitly that it has transferred one-seventh of all the different reserve assets it has earmarked with the reserve settlement account.

There would be no actual transfers of the different reserves it earmarked because the reserve settlement account would be on a cumulative basis. The transfer, if any is needed, of these reserve assets would take place when the country withdraws or some other country withdraws from the reserve settlement account.

Suppose that a country wants to withdraw from the reserve settlement account. When that happens, you can easily see whether it is in a cumulative surplus or a cumulative deficit position. If its composite reserve balance is less than all of its earmarked reserves, it is in deficit