to the amount of the shortfall. If its deficit is equal to 5 percent of all its earmarked reserves, it gets back 95 percent of the gold, the dollars, and SDR's it earmarked. If its composite reserve balance is more than all of its earmarked reserves, it is in surplus to the extent of the excess. It gets back all of its earmarked reserves, in form in which it earmarked them, and the surplus is settled in gold, dollars, and SDR's proportionately with the holdings of these reserves by the deficit countries.

Now, I think such a system has many advantages. First, it would assure the use of all of the reserve assets in an equitable way. Second, it would remove the danger of disruption through a preference for gold which may become greater in the future. Third, it would assure the reserve currency countries against a run through massive conversions of balances of their currency into gold in a time of crisis.

Incidentally, I can see that the reserve settlement account could apply the very principles for balanced use of reserves that are in the fund amendment for the SDR's. They would simply be generalized. There is no reason why the reserve settlement account could not be set up without any amendment to the fund agreement. Its operation would be a way of applying the rules for balanced use of reserves that are already in the fund amendment on SDR's.

Chairman Reuss. Thank you, Mr. Bernstein.

Professor Machlup?

STATEMENT OF FRITZ MACHLUP, PROFESSOR OF ECONOMICS, PRINCETON UNIVERSITY

Mr. Machlup. Thank you, sir.

Since I was unable to bring a prepared statement for submission to the record, permit me, please, to refer to a few recent publications of mine. A few weeks ago, in July, the Committee for Economic Development and the Johns Hopkins Press published a short booklet of mine called *Remaking the International Monetary System.* In this booklet I discussed not only the new system of special drawing rights, but in the last chapter, called "Unfinished Business," I discussed the next steps that we should take, and by——

Chairman Reuss. Mr. Machlup, I have had the pleasure of reading your book which is, among other things, a model of English prose, and without objection your last chapter entitled "Unfinished Business" will be made a part of the record of proceedings here because in a sense that last chapter is a contribution like that of Mr. Bernstein and Mr. Mundell in their written statements.

(The following chapter, excerpted from the book referred to by Professor Machlup, is included in the record at this point, with the understanding that permission to reprint any portion of its content must be secured from the publishers.)