cisely the same proportions as it holds these reserves—gold, dollars or sterling, and the new reserve asset (SDRs).

(b) Each surplus country should acquire the different reserve assets for settling its surplus in the average ratios of gold, dollars or sterling, and the new reserve asset (SDRs) used by all deficit countries, so that all surplus countries would acquire the different reserve assets in the same ratios.

Despite their simplicity, these principles would not be easy to apply equitably. A country that has a deficit in Year I and offsets it by an equivalent surplus in Year II should have no change in the composition of its reserves. This would not be true with the application of the principles stated above. Thus, a deficit country having a high proportion of gold and a small proportion of dollars and SDRs would settle its deficit with a large proportion of gold. The following year, when the same country has an equivalent surplus, it would receive the different reserve assets in the ratios in which they are used by all deficit countries. This could involve a much smaller proportion of gold than it paid out in the previous year. Similarly, countries that have a surplus in the earlier years, when the amount of SDRs outstanding is small, would normally receive a larger part of their settlement in gold. Countries that have a surplus in the later years, when the amount of SDRs outstanding is large, would normally receive a smaller part of their settlement in gold. These fortuitous changes in the composition of a country's reserves could be avoided by having settlements adjusted to a cumulative surplus and deficit basis.

Settlements in the SDR Plan

The outline of the plan for Special Drawing Rights, as given in the Rio resolution, recognizes that countries do not in fact regard all reserve assets as equally attractive and it therefore requires participating countries to use and to hold SDRs and other reserve assets on an equitable basis. The provision that participating countries will not be required to hold SDRs in excess of three times their cumulative allocations (i.e., net acquisition of twice their allocations) recognizes that there will be a preference for gold and possibly other reserve assets instead of SDRs, at least in the earlier years of the operation of the plan. A number of specific provisions of the plan are designed to make sure that participating countries use other reserve assets along with SDRs in an appropriate manner.

The outline of the plan for Special Drawing Rights states that except under the guidance of the IMF, "a participant will be expected to use its SDRs only for balance-of-payments needs or in the light of developments in its total reserves and not for the sole purpose of changing the composition of its reserves." Without such a provision, countries would be able to use their SDRs, directly or indirectly, to acquire dollars and then use the dollars for conversion into gold. They could do this, for example, by paying out SDRs when they have a deficit and by acquiring dollars (and gold) when they have a surplus. The right to use SDRs, as well as gold, to maintain the convertibility of the dollar is an important safeguard against such practices.

To prevent one-sided use of SDRs in the settlement of deficits, participating countries will be required to reconstitute their position in SDRs in accordance with rules and regulations that will be prescribed by the IMF. At the end of the first five years of the operation of the plan, the average net use of SDRs by a participant is not to exceed 70 per cent of its average net cumulative allocations during this period. If a participating country has used a larger average proportion of SDRs, it can be required to reconstitute its holdings of SDRs by transfers of other reserves for SDRs under the guidance of the IMF. Participating countries will have to "pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of SDRs and other reserves," presumably by using them together in appropriate ratios in balance-of-payments settlements.

The principal means that the IMF will have to assure the use of all reserve assets in appropriate ratios for balance-of-payments settlements is through the selection of the countries to which SDRs will be offered in exchange for a currency that is convertible in fact. Normally, currencies will be acquired for SDRs from countries that have a strong payments and reserve position. It would be possible, however, for the IMF to guide SDRs to a country with a strong reserve position, even if it has a moderate payments deficit, provided it had surpluses in the past. In selecting countries to which SDRs should be transferred, the "primary criterion will be to seek to approach over time equality among the participants [with a cumulative balance-of-payments surplus or a strong reserve position] . . . in the ratios of their holdings of SDRs, or such holdings in excess of net cumulative allocations thereof, to total reserves."

These two tests are not the same. By one test, equality