

in the ratios of holdings of SDRs to total reserves, all countries in a strong reserve position would harmonize the composition of their reserves, or at least the ratio of SDRs (whether allocated or earned) to their other reserves. By the other test, all countries with a cumulative surplus would apparently acquire SDRs in excess of their cumulative allocations in the same proportion to their total reserves. It would probably be better to require all surplus countries to acquire the same proportion of SDRs and other reserve assets in settlement of their cumulative balance-of-payments surpluses. This would result in the *pro rata* accumulation of all reserve assets by surplus countries in the ratios in which they are used by deficit countries.

Whatever the precise criteria the IMF will ultimately apply on the use and holding of SDRs, it will be difficult to assure appropriate use of all reserve assets, so as to avoid a disruptive preference for gold over dollars and SDRs. The changes that would occur in the composition of the reserves of surplus and deficit countries through international settlements could not, in the first instance, be in accord with the criteria of the IMF, except under the most fortuitous circumstances. The attempt to establish the appropriate composition of reserves through guided transfers would require endless shuffling of SDRs and other reserve assets among surplus and deficit countries. Such guided transfers would underline the strong preference of central banks for some reserve assets; that is, gold.

Reserve Settlement Account

The transfer of reserves by deficit countries and their acquisition by surplus countries must be based on principles that define the appropriate use of all reserve assets in international settlements. It is unnecessary, however, to establish an elaborate system of guidance, adjustment, or reconstitution for this purpose. The objectives could be achieved very simply if the participating countries were to place all of their reserve assets in a single account with the IMF. When this account is drawn down by deficit countries, it would involve the proportionate use of their different reserve assets *pro rata* on a cumulative basis. And when this account is built up by surplus countries, it would involve the acquisition of different reserve assets in the same proportions by all surplus countries on a cumulative basis.

The countries participating in the plan would deposit their gold, dollars and other foreign exchange reserves, and SDRs (at each successive allocation) in a Reserve Settlement Account in the IMF. The deposits would

be denominated in a Reserve Unit (RU) equal to one U.S. dollar with a guaranteed gold value. A country depositing \$500 million of gold, \$200 million of U.S. dollars, and \$100 million of SDRs (in successive allocations) would receive a deposit credit of 800 million RUs. And a country depositing \$200 million of gold, \$500 million of U.S. dollars, and \$100 million of SDRs would also receive a deposit credit of 800 million RUs. Thus, in setting up the Reserve Settlement Account, no distinction would be made between the different reserve assets that members deposit.

The gold deposited by a participating country with the Reserve Settlement Account in return for RUs would not have to be transferred physically from its present place of safekeeping. Instead, it would be earmarked in the name of the Reserve Settlement Account. This would not only save the cost of physical movement of the gold, but it would have the additional convenience of retaining the gold at centers convenient to the depositing country which, in fact, would have a reversionary right to the gold.

The dollars, sterling, and other foreign exchange deposited with the Reserve Settlement Account would have to be transferred to the account, although a country would retain a reversionary right to the foreign exchange it deposited. In general, a member would deposit all of its foreign exchange reserves, except agreed working balances. In order to avoid a growth of foreign exchange reserves outside the Reserve Settlement Account, members would not be permitted to accumulate excessive working balances. Thus, further acquisition of dollars or sterling by a member would have to be presented for conversion in Reserve Units. In effect, the present amount of foreign exchange reserves would become a fixed fiduciary issue that could not be increased in the future. Provision could be made, however, for retirement of some of the dollars and sterling from time to time and their replacement with special issues of SDRs when the United States or the United Kingdom has a large surplus in its balance of payments. The foreign exchange deposited in the Reserve Settlement Account would be guaranteed in terms of gold and invested in special securities paying a moderate rate of interest—say, 3 per cent a year.

Similarly, when the new plan is activated and SDRs are issued, the successive allocations to members will be made by crediting them with an equivalent deposit in the Reserve Settlement Account. The growth of aggregate monetary reserves at a steady but moderate rate hereafter would come from the regular issues of