

SDRs. This is so because there would be no further increase in the monetary gold stock and the amount of foreign exchange reserves would be fixed when the Reserve Settlement Account is established.

A deficit country requiring a currency for intervention in the exchange market would acquire it by converting RUs into that currency. And a surplus country acquiring a currency through intervention in the exchange market would have that currency converted into RUs. In practice, only RUs would be used in international settlements. The drawing down of its RU account by a deficit country would thus involve the *pro rata* use of its reserve assets (gold, dollars or sterling, and SDRs) in the proportions in which they were deposited by that country in the Reserve Settlement Account. Similarly, the building up of its RU account by a surplus country would involve the acquisition of a claim on gold, dollars or sterling, and SDRs in the proportions that they compose of the deposits of the deficit countries, so that all surplus countries would acquire the same proportion of these different reserve assets. Furthermore, settlements in RUs would involve automatic adjustments on a cumulative basis.

The operation of such a system can be seen by calculating the final settlement when a country withdraws from the Reserve Settlement Account. Suppose that a deficit country withdraws. Its cumulative deficit is shown by the difference between its balance in Reserve Units and the sum of its deposits—the original gold deposit, the original foreign exchange deposit, and the sum of its successive allotments of SDRs deposited in the Reserve Settlement Account (Table III).

The cumulative deficit of this country is \$100 million—20 per cent of its deposits. On withdrawal from the Reserve Settlement Account, the country would be en-

titled to the return of 80 per cent of its original deposit of gold (\$120 million), foreign exchange (\$200 million), and successive allocations of SDRs (\$80 million). Thus, its cumulative deficit of \$100 million would be settled *pro rata* in the different reserve assets it deposited in the Reserve Settlement Account; that is, by \$30 million of gold, \$50 million of foreign exchange, and \$20 million of SDRs. The liquidation of the SDRs would be governed by the amendment setting up the Special Drawing Account and is not of particular concern for this problem.

The settlement with a surplus country would involve a somewhat different calculation. Suppose that a country that withdraws has a cumulative surplus of \$200 million. It is then entitled to the return of its original deposit of gold, foreign exchange, and successive allocations of SDRs. In addition, it would receive \$200 million in gold, foreign exchange, and SDRs in the proportions that these reserve assets would have had to be used by the cumulative deficit countries, calculated as shown in Table IV. At the time of the withdrawal of the surplus country, the deficit countries are assumed to have cumulative deficits totaling \$1 billion for which they would be obligated to settle with \$480 million of gold, \$335 million of foreign exchange, and \$185 million of SDRs. The withdrawing country with a surplus of \$200 million would receive in settlement one fifth of the reserve assets that the deficit countries would have had to use in settlement.

Advantages of a Reserve Settlement Account

A Reserve Settlement Account would facilitate the functioning of the international monetary system with its multiple reserve assets. It would concentrate the gold reserves of all participating countries, thus assuring the isolation of the monetary gold stock from private

III. CUMULATIVE DEFICIT OF A PARTICIPATING COUNTRY IN RESERVE SETTLEMENT ACCOUNT

(Million Dollars or RUs)

BALANCE		DEPOSITS	
From deposits	500	Gold	150
Transfers to the country	120	Foreign exchange	250
Transfers from the country.....	—220	SDRs (1st allocation).....	25
		(2nd allocation).....	25
Final balance	400	(3rd allocation).....	25
		(4th allocation).....	25
Cumulative deficit	100	Total deposits	500