It has been proposed that the United States, the United Kingdom, Canada, and other countries of the Atlantic Community organize an international reserve bank which would pool gold reserves much as is done within the United States by the Federal Reserve System. Alternatively, it has been proposed that the International Monetary Fund be expanded to perform these functions.

Theoretically, there is little need for substantial gold reserves, either domestically or internationally. In a peaceful world, in which economic forces were allowed to work with a minimum of interference, only a small quantity of gold would be needed. The large volume of interbank debits and credits that are cleared in a major city clearinghouse daily gives some idea of what the strain on gold and other currency would be if, instead of balancing credits against debits, all payments had to be made in money.

The fact that sales of gold to foreigners declined precipitously in 1959, while foreign dollar balances increased, and that sales of gold in 1960 were less than the net addition to foreign dollar balances indicates that there is not yet reason for alarm as far as U.S. monetary gold reserves are concerned. The United Kingdom and other countries that are now in a favorable balance of payments position will not try to amass as much of the world's gold as they can merely for the sake of accumulating it. Now that their monetary reserves have been largely restored the probability is that they will curtail their gold withdrawals from the United States. Indeed, it is in their own self-interest to preserve the integrity of the dollar because a large proportion of their own reserves are in dollars rather than in gold. The United Kingdom, by way of illustration, was so concerned over the unfavorable turn in the U.S. balance of international payments in 1959 that it repaid $250 million of its obligations to the Export-Import Bank in advance.

The fact that the United States has a deficit in its international payments, while Western Europe and Japan have surpluses, illustrates the seesaw nature of the international balance of payments. Since balance is relative it would be as impossible for all countries to have a "favorable" balance simultaneously as it would be for both ends of all the seesaws on a playground to be "up" at the same time. Worries over balance-of-payments deficits would be greatly diminished if the gold reserves of the free world could be successfully pooled.

Speculation in gold

Heavy speculation in gold on the free gold market in London during the latter half of 1960 ran the price of gold to a temporary high of $41 per ounce. Looked at the other way, the rise in the dollar price of gold represented a fall in the gold value of the dollar from 13.71 grains of fine gold ($35 per ounce) to 11.70 grains.

There are, of course, no statistics to which we can turn to learn who has been selling dollars short. Producers of new gold, such as Russia and South Africa, could be doing it. There is reason to suspect that some of the speculation has been by American nationals. The recent order by President Eisenhower forbidding the holding of gold abroad by Americans is difficult to enforce.

Statistics showing capital movements provide a clue as to what probably has been happening. In 1960 the outflow of short-term capital reached $817 million (annual estimate based on official figures for the first 9 months of the year) the highest level for the decade.