no more serious than the cost of some of the other measures proposed. The loss of tax revenue remitted for export expansion may be preferable to the same amount of extra budgetary deficit that is implied by the prescription of higher interest rates.

I want to make it clear that I am not mentioning these possibilities as something that is attractive, but as possibilities among unattractive alternatives. In short, each prescription should be judged by the magnitude, so far as possible, rather than by an oversimplified doctrine.

Once we get out of this dilemma, our experience points to the need for overhauling the key currency system of the postwar era. That it is too fragile a system has been demonstrated.

Quite apart from the current gold problem of the United States, some people believe (or hope) that, eventually, the free world will be forced to double the price of gold. Their argument is that the monetary stock of gold has not kept pace with the growth of world trade. From this fact, the mistaken conclusion is drawn that the future expansion of world trade will be hampered, unless the supply of gold increases roughly in proportion to trade.

While it is true that an increase in the price of gold would expand reserves both by raising the value of existing stocks and by stimulating future production, there is no firm basis for the assumption that gold reserves need to increase in proportion to trade. For one thing, no one supposes that the proportion was "just right" to start with. Secondly, we all see how the banking system has developed domestic clearing systems which economize the use of cash by requiring only the payment of clearing balances. For similar reasons, there is no firm basis for assuming that the need for international gold reserves increases in proportion to the expansion of trade.

In addition to gold, the world now holds monetary reserves in two key currencies—the dollar and the pound sterling. The Common Market may develop a third key currency and, from the point of view of economizing on gold, three key currencies are better than two. I shall mention only briefly still other ways in which the demand for gold may be reduced.

Nations may decide to economize on the use of gold for settling international payments by pooling their gold and reserve currencies with the International Monetary Fund in exchange for gold certificates. A development in this direction may begin in Europe. The Common Market, which may decide to eliminate the use of gold and dollars for settling debts between members, just as we do not use gold to settle accounts between States or regions of the United States. In this event, the Common Market would need gold or dollars only when the combined balance of payments of all member countries was in deficit with the outside world.

By pooling their reserves to economize on the need for holding large reserves, Common Market countries as a bloc could prudently hold less gold than they may need individually. (Moreover, if Britain joins the Common Market, the sterling area may, also, be tied into this arrangement.) By reducing the demand for gold in such an important trading region as Western Europe, the supply available to other nations would be increased.