

useful. In fact, if the parity of the dollar is not changed the step does not, and will never, result in any harmful consequence or cost for the United States. And, at the same time, by eliminating every psychological pressure on the dollar, it will make it easier to maintain the determination to avoid devaluation.

(b) The intention of the Government of the United States to reequilibrate its balance of payments in no way depends on the possibility offered to the central banks to change into gold a larger part of their dollar reserves. The step does not prevent in any way the U.S. Government from continuing its policy, whichever it is. Due to the increasing expansion of international commerce a parallel expansion of the international reserves is necessary; and since there is not sufficient gold, it is inevitable that one turns more and more to the foreign currency reserves, and the dollar is undoubtedly the main one. The proposed step has the only scope of making its functions as a reserve currency stronger and to stabilize the huge mass of dollars held for this purpose by the central banks of other countries.

(c) If the certificates were to be granted only in favor of the central banks, private speculators would have no possibility to interfere.

(d) It seems to us that the criticism that the international monetary market would be upset is the only criticism that may have some ground. Undoubtedly the possibility of converting dollars into gold certificates could lead the central banks to prefer the dollar to other reserve currencies, and especially the pound sterling. One should not forget, however, that the dollars changed into gold certificates become noninterest bearing, the same as the gold itself, whereas the currency holdings yield a not negligible interest. Therefore, the problem would arise only in the case of fear for the devaluation of other currencies—exactly as it happens in the present system.

In any case, nothing would prevent also Great Britain, and perhaps the other nations whose currencies function as international reserves, from issuing similar gold certificates, provided the sterilization of the sums collected against such certificates is strictly followed. As a matter of fact, we may say that the generalization of the custom of issuing such gold certificates could represent an alternative plan, even more simple than the many presented, efficiently to stabilize the international monetary situation. In effect, in view of the fact that balances held in a nonguaranteed currency yield interests, whereas their conversion into gold certificates makes them nonyielding, the various central banks would naturally be inclined to hold these balances in a foreign currency, in order to earn interests, till no suspicion of a devaluation arises. An intensification of the conversion of foreign currency holdings into gold certificates would point to the beginning of such suspicion and would sound as an alarm for the countries concerned, which would be led to take the necessary steps of economic policy with the object of correcting the situation. But, in the meantime, the possibility of converting the currency holdings into gold certificates would avoid a crisis of mistrust which is one of the main factors in the international monetary situation.

APPENDIX

BRIEF REVIEW OF PRINCIPAL RECENT PLANS ON GOLD AND INTERNATIONAL LIQUIDITY

1. It should be noted first of all that by "gold standard" a monetary system is intended in which paper currency is positively and at any time convertible into gold; and by "gold exchange standard," on the other hand, one intends the present system based on predetermined gold parities without, however, the possibility of actually converting the paper currency into gold (except for a few imperfect exceptions, the most important of which is undoubtedly the convertibility of the dollar in respect of central banks, a convertibility which is precisely the subject of the present discussion since it is imperiled by the scarcity of gold reserves as compared to the aggregate of convertible balances).

2. *The Rueff proposal.*—This outstanding economist is of the opinion that the present international monetary instability derives principally from the "monetary duplication" of an inflationary nature, which is a consequence of the function of international monetary reserves attributed to certain currencies (dollars, pounds sterling, etc.), which in their turn are issued against gold. In other words, Rueff supports the return to the pure gold standard. The difficulty, however, is that the *solution* would not *solve* the problem, but would instead aggravate it, because it would restrict the already limited existing liquidity.