

The proportion of gold in German reserves increased steadily through 1957. In 1958 and 1959 it fluctuated primarily as a result of variation in official German dollar holdings. In 1959, when total German reserves declined, the reduction was in dollar holdings. The sharp decline in the gold proportion which began in the fourth quarter of 1959 and continued through the period of declining rates in 1960 reflected additions of almost \$2.5 billion to German reserves in the form of dollar assets. If, during this rise in reserves, Germany had continued to keep two-thirds of its reserves in gold, the additional demand for monetary gold would have been about \$1.5 billion.

The gold proportion of Japanese reserves increased from 1957 to 1959 but declined thereafter, as gold holdings remained constant while total reserves continued to rise. Press reports indicate that Japan postponed implementation of a long-range policy of increasing its gold proportion in order to avoid contributing to instability in the international financial system.⁶

In summary, most of these 11 countries increased gold holdings at times of high as well as of low yields on dollar assets. Germany and Japan added large amounts to their dollar reserves in 1960, but there is no indication that yields (which declined during the year) were a factor in these decisions. Changes in gold reserves of a few countries appear to have resulted from large fluctuations in total reserves.

Eight countries experienced overall declines in gold reserves. The gold proportion of Canadian reserves has declined since the end of 1957; up to mid-1959 the decline resulted from a rise in dollar holdings, and after that time it stemmed mainly from a fall in gold reserves. Six countries (Argentina, Cuba, Egypt, Mexico, and Venezuela, plus the Union of South Africa, which does not maintain substantial reserves in dollars) reduced gold reserves, as total reserves declined in consequence of balance-of-payments deficits. Argentina and Mexico have added again to gold reserves as their total reserves were rebuilt. Swedish gold reserves declined by one-fourth in 1957 and early 1958 but remained stable thereafter. This decline, which is not explained in the annual reports of the Riksbank, could represent an increased long-term preference for dollar assets but could not reflect a policy of cyclical variation in composition of reserves.

In conclusion, data on changes in reserves for these 26 countries show no evidence of shifts in the composition of reserves in response to changes in yields on dollar assets.

Furthermore, on theoretical grounds one would not expect central banks and other official institutions that hold international reserves generally to base such major policy decisions as those affecting composition of reserves on considerations of short-run profitability. Short-run fluctuations in the composition of reserve holdings, which resulted from weighing the return on investments against the potential gain through holding gold, would be recognized as constituting speculation on a change in the price of gold and, as such, would be highly disruptive of both internal and international financial transactions.⁷ Shifts in reserve holdings between gold and dollars on the basis of short-run profitability could thus contribute directly to instability in international financial relations and make increasingly difficult the achievement of basic domestic objectives of the central banks.

Gold purchases by some foreign central banks in the fourth quarter of 1960 undoubtedly did not contribute to the stability of the international financial system. However, if we assume that these purchases were precautionary, it is highly doubtful that they would have been smaller if yields on dollar assets had been maintained at, say, 1959 levels.

Shifts of central bank funds among various types of dollar assets do not involve the dangers associated with implied speculation, and such shifts frequently occur with changes in the relative yields on these assets; however, even movements of this type are small relative to the total volume of official dollar holdings.

⁶ See the London Times, Mar. 4, p. 11.

⁷ In determining a long-run policy with respect to the composition of reserves, a central bank will, of course, have to consider both yields on foreign-exchange assets and the possibility of a change in the price of gold, along with a wide range of other factors. A long-run policy on amounts or relative proportions of gold and foreign exchange in reserves carries no presumption as to timing of a possible change in the price of gold (whether or not such a consideration is given appreciable weight in the formulation of the policy), and such a policy, therefore, does not imply an open element of speculation.