

total foreign private holdings. If the movements of funds were recognized as the result of cyclical changes in interest rates and were thought likely to be reversed in a short time, there might even be no conversion of newly accruing dollars into gold by foreign central banks.

CONCLUSION

Our examination of the practices of foreign countries has shown no evidence that official reserves are shifted from dollar assets to gold (or vice versa) in response to short-term variations in interest rates. Some foreign private funds are undoubtedly shifted from dollars to other currencies in response to international interest-rate differentials, and such movements can probably be expected to lead to increased demand for monetary gold by foreign central banks. Recent experience indicates that the volume of foreign private funds shifted abroad could be expected to be less than \$1 billion.

While this sum is not negligible, it is small in relation to recent changes in major components of the U.S. balance of payments. For example, the improvement in the current account of the U.S. balance of payments from the 1959 average to the second half of 1960 was more than \$5 billion at an annual rate. Similarly, in the last half of 1960 the net outflow on unrecorded transactions and U.S. short-term capital was at an annual rate close to \$7 billion.

In the light of these relative magnitudes, we may conclude that, so long as confidence in the U.S. dollar as a reserve currency remains undisturbed, major changes in the international reserve position of the United States are likely to result only from shifts in the balance of payments on current account or in capital movements that are reflected in changes in the U.S. payments surplus or deficit. The U.S. payments position therefore appears to represent an adequate guide to the external or international consequences of domestic financial policies. Moreover, the role of the United States as an international reserve center does not, at least at present, appear to impose significant restrictions on the range of domestic financial policies which this country is able to pursue. Effective arguments may exist for some of the recently proposed reforms to the international financial system, but the sensitivity of foreign-held dollar assets to international interest-rate movements does not appear to be among them.