been rather small and only a small part of the gain in gold and IMF reserves is attributable to a change in the relative share of the foreign exchange component. The foreign exchange component increased from 19 percent at the end of 1960 to 24 percent at the end of 1964; reflecting the change in French policy regarding international monetary matters, this ratio has subsequently been reduced to 12 percent.

4. The increase in German holdings of gold and IMF reserves over the five and a half year period chiefly reflects a steady shift in the composition of German official reserves, and is due only secondarily to a net surplus in the balance of payments. The foreign exchange component has been steadily reduced from slightly over one-half at the end of 1960 to slightly over one-fourth at the end of July 1966.

In your letter to me of September 14, you have stressed that German gold acquisitions have not been effected through purchases from the United States Treasury. I find it difficult to detect the significance of this point. Since the United States stands ready to sell gold to foreign central banks and monetary authorities on demand, it follows that when the demand for gold of foreign monetary authorities exceeds the supplies forthcoming from net production, the IMF or Russian or Chinese sales, the difference is made up by withdrawals from the U.S. monetary gold stock. It makes little difference whether a particular country decides to buy its gold from the United States or from some other source. The significant decisions of foreign central banks and monetary authorities are their decisions with respect to the composition of their reserves.

In stating that "the West Germans have converted more dollars into gold than the French", of course I did not mean to imply that Germany's total acquisition of gold had been greater than that of France. The German balance of payments position since 1961 would barely have permitted this even if all foreign exchange holdings had been converted into gold. I did mean to indicate that the increase in gold holdings brought about by drawing down holdings of foreign exchange (chiefly dollars, one presumes) had been greater in the case of Germany than in the case of France.

Your letter made me aware that the statement from my testimony which the New York Times selected for quotation was subject to possible misinterpretation, which I hope this elaboration will eliminate. Let me add that the intention underlying these two sentences was not to critize German policy with respect to reserves. My intention was to prevent undue importance from being given to the recent change in French policies. I believe there is a tendency in many quarters to exaggerate the importance of the change in French policy on international monetary matters in jeopardizing stability of the international monetary system. Even before the change in policy France had continually held a relatively high fraction of its reserves in the form of gold. Moreover, the French payments surplus is unlikely to continue indefinitely at its present level. International cooperation, even without French participation, is strong and flexible enough to meet any additional pressures resulting from French actions. Consequently, I regard the present system, because of international cooperation, as relatively invulnerable—at least so long as a moderate deficit persists in the United States balance of payments. It is not the vulnerability of the present system but its adverse effect in reducing aid to the underdeveloped world, complicating and perhaps impairing collective defense arrangements and in hindering the international mobility of goods and capital which is the overriding problem today. The system is breeding a revived mercantilism and its apparent durability is not a source of much satisfaction to me. I regret that international cooperation, while strong enough to secure the system against crisis and breakdown, is not strong enough to reform it in a fashion conducive to free world growth, development and economic integration.

With cordial regards,

Yours sincerely,

EMILE DESPRES.