2) In addition, the United States should announce a new policy with respect to the purchase of gold. While continuing to stand ready to sell gold without limit at the statutory price of $35 an ounce, the U.S. should impose strict limitation upon the amount of gold which it stands ready to buy at this price and should substitute firm credit lines for the monetary gold rendered redundant by quota limitations on U.S. purchases. This proposal involves no change in the price at which we would stand ready to buy gold. However, it would end the unlimited convertibility of gold into dollars, and it would substitute credit for the monetary gold made redundant by the quota limitations.

Special limitations regarding gold purchases would be made for underdeveloped countries, dollar reserve countries and Great Britain. In the case of all other countries, the United States should declare its readiness to enter into a series of bilateral and reciprocal gold purchase plus credit agreements along the following lines:

i) The U.S. would stand ready to make net purchases of gold at $35 an ounce in an amount not exceeding ⅓ of the monetary gold held by the other party to the agreement at the time of announcement of the new U.S. gold buying policy. The other party would agree to sell gold to us only when necessary for balance-of-payments reasons. (The remaining ⅔ of the other country's gold reserves, together with such gold, if any, as might be subsequently acquired, would be ineligible for purchase by the U.S.)

ii) Reciprocally, the other country would stand ready to buy up to this amount of gold from the U.S. when necessary for balance-of-payments reasons.

iii) Firm reciprocal credit lines (swaps) permitting drawing without specified maturity and covered by an exchange value guarantee would be established in amounts equal to twice the reciprocal commitments with respect to gold purchase. It would be mutually agreed that drawings under these credits would go hand in hand with gold sales in the ratio of two units of credit utilization to one of gold sales. Under such an agreement, a country wishing to obtain, say, 150 million dollars for international payments purposes would sell 50 million of gold to the U.S. and draw 100 million under its credit line. Thus, access to dollars through gold and credit combined would remain unimpaired, credit replacing the gold rendered unusable by U.S. purchase limitations.

In the case of countries holding the major portion of their reserves in the form of dollars (e.g., Japan, Canada) and of all underdeveloped countries, it seems appropriate to make eligible for purchase by the United States at $35 an ounce all gold reserves held by the monetary authorities of these countries on the date of announcement of the new gold policy. Swap credits would then be unnecessary. Any gold subsequently acquired by these countries would be ineligible for purchase by the United States.

Great Britain's position as a financial and reserve currency center justifies special arrangements. The U.S. should propose a reciprocal gold plus credit agreement similar in form to the reciprocal agreements outlined above, but making British gold eligible for purchase by the United States in an amount equal to the full British central gold reserve on the date of announcement of the new gold purchase policy. Britain would, in turn, stand ready to purchase an equal amount of gold from the U.S. and gold transactions would be meshed with drawings under swap credits in the ratio of 1 to 2.

Measures would also have to be taken with respect to the IMF in order 1) to assure that gold ineligible for direct sale to the United States did not reach us indirectly through the IMF as intermediary, 2) to assure the convertibility into dollars of existing IMF gold holdings, and 3) to prevent the IMF from becoming a dumping ground for gold ineligible for sale to us. These are matters of technical detail which raise no insuperable difficulties.

The steps outlined above surely would result in a marked shift in asset preferences from gold to dollars and would remove the elements of weakness which impair the effective operation of the existing system by preventing the United States from performing its appropriate banking function. A dollar reserve system would be established free of the critical weaknesses of the existing system.

The proposal outlined above should not be considered a rigid blueprint. It is undoubtedly susceptible of modifications and improvements. More important, its adoption or even its serious consideration in U.S. official quarters would require a radical change in prevailing official doctrine regarding the dollar's relationship to gold and the applicability to a world financial center of traditional notions of balance-of-payments equilibrium. So long as present doctrines are adhered to and so long as solutions are sought by attempting to negotiate multilateral agreements for supplementary reserve assets which do not give recognition to the in-