holders and of the danger that these dollar holdings may be drastically reduced.

Not all "asset switching" has the same effects. If there is a massive flight into gold, it need not be a flight from the dollar; and if there is a massive flight from the dollar, it need not be into gold. Private foreign holders of dollars who wish to get rid of their dollars may prefer to hold other currencies which they regard as safer. And foreign hoarders or speculators who wish to buy gold may intend to reduce their holdings, not of dollars, but of other currencies, especially their own. To equate an increase in the demand for gold hoards with a decrease in the demand for dollar balances may therefore be wrong. Of the non-dollar-holder's flight into gold I shall talk later; let us first concentrate on the danger of a flight from the dollar, either into gold or into other currencies.

The decision of a private foreign holder of dollars to exchange them into gold can be regarded as exceptional. Ordinarily, he needs his working balance for day-to-day transactions and, if he can spare some of it, it will not be much and he will sacrifice his liquidity only in consideration of a large and immediate gain — say, if he expects that the price of gold will be raised over the week-end. A decision to exchange dollars into other currencies is much more likely, because the cost of in-and-out trading is much smaller and the liquidity of other currencies not much lower even if only dollars were usable for the regular foreign transactions of the particular firm or bank.

Yet, under the arrangements in effect until March 17, 1968, both kinds of switch affected the gold stocks of the United States in a rather similar way. This resulted from a combination of two practices: (1) the arrangements of the Gold Pool provided for sales of monetary gold to private buyers whenever the demand in the London gold market was not fully met by supplies from private stocks and new production; 59 per cent of the wanted gold was supplied by the United States, the other 41 per cent by Germany, Italy, Belgium, Netherland, United Kingdom, and Switzerland. (2) Several of these countries had set upper limits to their holdings of dollars; as the proceeds of their sales of gold increased their dollar holdings, the