

collected dollars would sooner or later be presented to the authorities of the United States for conversion into gold.

Now, what effects can be expected if private dollar holders switch from dollars into francs, DM, lire, or other strong currencies? The central banks issuing these currencies and acquiring the dollars may again find their dollar holdings increased beyond the limit and may seek their conversion into gold. Thus it seems that in both cases of private foreigners reducing their dollar balances, whether they want to replace them with another currency or with gold, the end-effect would be a loss of gold by the United States.

In March 1968, the seven countries of the Gold Pool agreed on a new policy. They will no longer supply gold to the London market, even if the market price of gold should rise as a result. Moreover, the six countries may allow their dollar holdings to increase; that is, they will not present surplus dollars for prompt conversion into gold. There is probably no commitment to this effect and certainly there is nothing that would commit other countries to refrain from asking the United States to surrender gold for dollars. A brief review of the past behavior of foreign monetary authorities regarding their holdings of gold and foreign exchange may be helpful in an appraisal of official attitudes.

Taking all noncommunist countries together, their official holdings of dollars increased steadily until the end of 1965, when they reached a peak of \$15.9 billion. The decline that followed was quite modest: to \$14.4 billion in September 1967. Focusing, however, on the industrial countries of Europe, we notice that they began earlier to reduce the foreign-exchange portion of their monetary reserves: at the end of 1964 they held \$9.2 billion, a year later only \$7.5 billion. In the same year they increased their gold holdings from \$16.9 billion to \$18.9 billion. France and Germany were leading in this switch of their monetary reserves. Germany had started a year ahead of all others, reducing her foreign-exchange holdings from \$3.3 billion at the end of 1963 to \$2.7 billion in 1964 and to \$1.7 billion in March 1965, while increasing gold stocks from \$3.8 billion to \$4.4 billion in the same period. France