

reduced her foreign-exchange reserves from \$1.4 billion at the end of 1964 to \$0.8 billion in 1965 and \$0.5 billion in 1966, building up her gold holdings from \$3.7 billion at the end of 1964 to \$4.7 billion a year later and \$5.2 billion at the end of 1966. All these switches cut into the gold reserves of the United States, reducing them from \$15.5 billion at the end of 1964 to \$14.1 billion in 1965 and to \$13.2 billion in 1966.

The reductions in dollar holdings by monetary authorities were halted when the situation became critical. Several countries, indeed, agreed to reverse the direction of change in the composition of their reserves. Leading among those that have increased their holdings of dollars are Germany and Italy. But this does not mean that the official holders of dollars have forever foresworn conversions into gold. One may assume that the authorities in practically all countries wish to avoid a crisis, the outcome of which cannot be predicted but is apt to be deleterious to most. Yet, if in some countries, in a moment of stress, the men in charge of international monetary affairs were to lose their heads, and a threat of a stampede for gold seemed imminent, official demands for conversions could become large enough for the United States to realize that the sale of gold cannot be continued.

In any case the double threat of the "dollar overhang" accumulated over many years and of the current "dollar overflow" from continuing payments deficits of the United States makes it difficult to be sanguine about the ability of this country to satisfy all potential official requests for gold.

The Gold Rush

Having talked about the dangers of gold hoarding by nervous dollar holders, I must now proceed to discuss private gold purchases by holders of other currencies.

Purchases of gold in the London market are paid in dollars. If those for whose accounts the gold is bought have no dollar balances, they first have to acquire dollars with whatever currencies they may have been holding — pounds, Swiss francs, rupees,