

Since one of the predicaments in the present situation is the danger that dollars are converted into gold and thereby disappear as monetary reserves, this solution — that both the dollars and the gold are deposited in the same pool and that the deposit liabilities (or certificates) of the pool become the major reserve asset of the national authorities — is so rational, so cogent, that to me it seems compelling. The two problems — of safeguarding against official switches between dollars and gold and of providing for future developments in the supply and demand for gold — could hardly be solved in a neater way than by pooling all, or almost all, official holdings of both types of reserve assets. Gold and national reserve currencies would simultaneously disappear from the reserves of national monetary authorities, replaced by deposits with a conversion account (reserve-settlement account) of the International Monetary Fund.

One may wonder whether countries could be persuaded to accept such a comprehensive solution. The United States could free itself of persistent conversion headaches by transferring its entire gold stock (about \$10.5 billion in March 1968) to the IMF and then using the resulting deposits as its major reserve. Germany, Italy, and other countries holding both dollars and gold could avoid awkward external and internal political pressures regarding the most appropriate division of their reserves between non-interest-earning gold and non-value-guaranteed dollars by exchanging both for interest-bearing and exchange-value-guaranteed deposit claims against the Fund. France, now holding chiefly gold, might find the solution acceptable if the Fund agreed to keep some of its gold in vaults on French soil, if no credits, investments, loans, or overdrafts were to be extended in connection with the scheme — the SDR-facility alone taking care of the provision of additional reserves — and if all participants agreed not to acquire any national currencies as part of their official reserves beyond working balances of strictly limited size.¹⁰

¹⁰To make it quite clear: only those dollars and pounds that are held in national monetary reserves when the conversion account is established are eligible for exchange into the new reserve asset. There can be no later additions, either from present private holdings or from later payments deficits of the United States or United Kingdom.