reserves. If this warning is correct, the next alternative may have to be considered, though it is a less desirable one, because, as a unilateral action, it offends the spirit of international cooperation.

The conversion of official dollar holdings into gold leaves the reserves of the switchers unchanged — they will have gold in place of the dollars — but reduces the gross reserves of the United States — the loss of gold being compensated merely by a reduction of dollar liabilities. This destruction of gross reserves is harmful if it induces deflation and/or restrictions on the flow of goods and capital; it would not be so harmful if the losers of gold — the United States — did not take restrictive measures.

Equanimity or indifference vis-à-vis the loss of gold can be created if gold reserves are no longer needed for anything — neither to meet internal legal requirements or external moral obligations nor to safeguard the maintenance of fixed exchange rates. These changes in the role of gold in the United States can be produced by cutting the link between the dollar and gold, that is, by terminating the rule that the United States will purchase gold whenever offered and will sell gold to monetary authorities that hold dollars.

In view of promises made and expectations fostered by frequent declarations of the United States government, it would be decent if the United States offered to give up all its gold to monetary authorities that wanted to reduce their holdings of dollars. In order to assure a fair distribution, it could first invite each of them to state the amount of dollars for which they wanted gold. Would the gold stock of the United States — of less than $11 billion — be large enough to meet the official demand? The foreign monetary authorities hold almost $16 billion, but surely they would not want to invest all their dollars in gold. All of them need dollars as working balances and as intervention balances; many of them are anxious to have interest-earning assets in their monetary reserves; and several of them need dollars as compensating balances against American bank loans. The desire to keep dollars would be increased if it were understood that the United States would in the future not purchase any new gold and not repurchase any of the gold now sold. The point of these considerations is not that we should care how much