

gold the United States would retain, but rather whether the present stock would suffice to meet the demands.

After the United States made the great decision to terminate convertibility between dollar and gold, all further decisions about the relations among currencies would be left to other countries. It would be for them, and not for the United States, to decide the value of the dollar in their foreign exchange markets. One can imagine four types of decisions.

1. Some countries may decide to keep the present exchange rates between their currencies and the dollar unchanged; in this case, they would have to purchase all dollars offered in the market and to increase their dollar holdings if the dollar should continue to be in excess supply.

2. Some countries may decide not to increase their holdings of dollars and, instead, to reduce the price they pay for dollars offered to them; in other words, they may decide to raise the dollar value of their own currencies.

3. Some countries, unwilling to increase their dollar holdings and uncertain about the right price to pay for the dollar, may decide to let their exchange rate float, against the dollar and other currencies that remain linked with the dollar; in other words, they may let exchange rates be determined by supply and demand in a free market.

4. Some countries may be anxious not to allow the dollar to be devalued or depreciated, because this could hurt some of their industries; they might therefore continue to purchase dollars at the present exchange rate whenever an excess supply arises from transactions in goods and services, but they might refuse dollars that originate from imports of capital. This would amount to multiple exchange rates, a system workable only in connection with foreign-exchange controls.

The United States should gladly accept any of the first three possibilities. The first one would amount to the willingness of other countries to help finance its payments deficit. The second and third would greatly aid in the process of adjustment; indeed, it might be the only practicable approach to adjustment. Only the fourth pos-