

latter part of the nineteenth century as the only international reserve instrument enjoying *de facto* worldwide acceptability. In pure logic, this was always of course a sheer absurdity. Digging the earth in South Africa and in Fort Knox, to extract gold from the first and bury it in the latter, can hardly be regarded as the most rational way to organize international payments. Moreover, the supply of monetary gold available to central banks depends on a number of hazards, none of which bears any relationship whatsoever to the amounts needed to sustain an orderly growth—neither inflationary nor deflationary—of national currencies, trade and production throughout the world.

Recurrent shortages of gold supplies with relation to needs were a favorite theme of the nineteenth century conferences aiming at reviving the use of silver as supplementary reserves, and of the marathon debates of the 1920's, and early 1930's: at Brussels, in 1920, Genoa, in 1922, and the Gold Delegation of the League of Nations, from 1928 to 1932. All these conferences failed to elicit any comprehensive and formally agreed solution of the problem, but they gave some sort of informal, though cautious, blessing to the growing use of so-called key currencies—primarily the pound and the dollar—as a useful supplement to gold for the purpose of reserve accumulation. The previous gold standard thus made way for the gold-exchange standard, a system under which central banks held their international reserves partly in gold and partly in gold-convertible national currencies, with the right to switch them at any time from the first to the latter, or from the latter to the first.

The growth of world reserves, under this system, was even more haphazard than under the pure gold standard. To the vagaries of gold production in the West, gold-sales by the Russians, private gold absorption by industry, the arts, hoarding and speculation it added those of the fluctuating supply or withdrawal of pounds and dollars resulting either from the British and American balance-of-payments surpluses or deficits, or from the uncoordinated decisions of scores of central banks to switch their reserves at any time, from gold into sterling or dollars, or vice-versa. As a point of fact, world reserves could grow at a satisfactory—or even at times widely excessive—pace only as long as the United Kingdom and/or the United States experienced large and persistent deficits in their overall balance-of-payments and foreign central banks chose nevertheless to continue to regard their sterling or dollar balances as “as good as gold.”

These two conditions were unfortunately contradictory, as I pointed out about ten years ago in my book on *Gold and the Dollar Crisis*. The persistent deficits and piling-up of short term indebtedness of the center countries—the United States and the United Kingdom—needed to feed world reserves at an adequate pace were bound to undermine, in the end, the confidence of other countries in the ability of the center countries to honor their commitment to redeem in gold, at any time, the sterling or dollar balances that might be presented to them for conversion under the rules of the game.

The predominantly sterling-exchange standard of the 1920's had already indeed been brought to an ignominious end, for that very reason in September 1931, and the predominantly dollar-exchange standard of today is now threatened with a similar fate. While the net reserves of other countries have more than tripled since 1949, passing from \$17 billion to \$54 billion, those of the two center countries have dropped from \$17 billion to *minus* \$13 billion. The United States gold reserves have declined over this period by more than \$14 billion, while its net indebtedness to the IMF and foreign central banks increased by nearly \$15 billion. As of last March, our net liabilities to foreign monetary authorities and the International Monetary Fund totalled about \$15.3 billion, exceeding our remaining gold stock of \$10.7 billion by \$4.6 billion. The situation of Britain was, of course, even worse, its liabilities to foreign monetary authorities and the IMF totalling more than \$7 billion and exceeding five to six times its dwindling gold assets.

We speak today of reforming the gold-exchange standard, but in truth the gold-exchange standard is dead already, and beyond any hope of resurrection. Its death certificate was signed about eight years ago when our then Undersecretary of the Treasury, Mr. Roosa, had to entreat or bludgeon foreign central banks to refrain from exercising freely their legal rights to gold conversion, lest our inability to honor them forced an open suspension of these rights by the United States. From that day on, the gold-exchange standard of former days was transformed into a limping and essentially political, standard, dependent for its survival on the success, or failure of our negotiations with our creditors.

The practical inconvertibility of sterling has been made even more obvious by the recurrent sterling crises and the rescue operation that had to be negotiated