repeatedly over the last few years and failed, in the end, to prevent the devaluation of last November.

Foreign central banks still accumulate sterling, and particularly dollar, balances, but they do so less and less spontaneously. Indeed the year 1965 witnessed a massive contraction (more than $2.6 billion) of the foreign exchange reserves previously accumulated at a pace of about $1.4 billion a year by the developed countries other than the U.S. and the U.K. This movement was slowed down in 1966, and accumulation resumed on a major scale ($1.9 billion) in 1967. in a desperate effort to stave off a devaluation of the pound and suspension of gold payments by the U.S. itself.

A few of my academic colleagues, and even some private bankers, are now suggesting to formalize and institutionalize a dollar area system in which all members other than the U.S. would commit themselves to hold most, or all, of their reserves in the form of dollar claims, renounce formally their right to gold conversion, and cooperate with us in erecting whatever trade and/or exchange restrictions might prove necessary to prevent excessive gold losses to the countries which refused to joint the system. Alternatively, the U.S. and the dollar area members might decide to suspend gold payments altogether, to non-members as well as among members.

This suggestion is, at first view, an extremely tempting one for a reserve currency. Like old generals, reserve currencies do not die. They don't even fade away. They shrink from worldwide acceptability to regional acceptability. This is what happened to sterling after 1931, when the international acceptability of sterling shrank to the dimensions of the sterling area, and had to be bolstered later by preferential treatment of commercial and financial transactions within the area, and discrimination against imports from, and capital exports to, the countries which refused to join the system.

The enormous financial, economic, and political bargaining power of the United States would enable us to enlist far more countries into a similar dollar area than Britain could ever entice into her sterling area. We could cease to worry about our balance-of-payments deficits, since we would merely pay for them with dollars, i.e. with our own IOU's.

But the ultimate consequences of the probable initial success of such a policy are worth pondering before we engage into it, or slip inadvertently into it as we are now doing. At home, it might encourage a dangerous degree of political irresponsibility. Congress, and even the Administration, would find it increasingly difficult to raise taxes or interest rates, or reduce expenditures, if assured in advance of unlimited credits by foreign central banks, financing whatever deficits we incur. Abroad, public opinion would soon awaken—or be awakened—to the political implications of such a system, i.e. the advance underwriting by foreign central banks and their nationals of whatever deficits we may incur in pursuing policies unilaterally decided by us, on which they may not have been consulted, and with which they may at times deeply disagree.

Our own officials are fortunately horrified at the eventual outcome of such a blatant attempt to impose our own monetary sovereignty upon the rest of the world. They label it privately the "Roman solution," and know that it would be bound to arouse sharp political, as well as economic, divisions between the United States and Europe, as well as many other countries. More and more countries would desert, sooner or later, the dollar area, and erect compensatory barriers against the "foreign-exchange dumping" associated with the downward drift of a floating dollar—no longer supported by central bank purchases—in the exchange market. Economic warfare *a la* 1930's between a new gold bloc and a shrinking dollar bloc would replace the economic cooperation that has assured our joint prosperity ever since the end of World War II.

Disastrous as it would be for all of us in the end, this course of events still remains the most likely one if our efforts to reach international agreement on what is, after all, an international problem continue to be frustrated by outworn and mutually defeating nationalistic aims, here and abroad, in the negotiations that have now been in process for nearly five years already.

Some optimism might be derived from the momentous step unanimously agreed to, last September, in Rio de Janeiro, among the 107 nations of the International Monetary Fund. This agreement paves the way for the adoption of a new reserve asset, to be jointly created through the concerted decision of member countries, in whatever amounts are deemed necessary by them to ensure an appropriate rate of growth of world reserves over future years. There is every reason to hope that this agreement will be ratified by a sufficient number of