

FIVE APPROACHES

In principle, five approaches can be used to solve the problem of confidence and, in particular, the problem of conversions of official dollar holdings into gold. All have been recommended in some quarters. They are

- (1) To make the dollar scarcer;
- (2) To increase the price of gold;
- (3) To "lock in" the official dollar holdings under so-called harmonization agreements;
- (4) To "take out" the dollars from official reserves by having them exchanged for deposits in an international conversion account (settlements account); and
- (5) To cut the link between the dollar and gold.

I may be quite brief in disposing of the first, the most orthodox approach. It is practically impossible to make the dollar sufficiently scarce. Scarcity is always relative and, with present expectations of a future scarcity of gold, only a very drastic deflation in the United States would do the job. Such a policy is out of the question.

The second approach is the one most widely discussed. The "gold lobby" seems to be getting increasing popular support. I reject the recommendation of an increase in the price of gold, chiefly for two reasons. One is noneconomic: it would be morally indefensible to hurt those who have helped us by carrying large dollars holdings and to reward those who have hurt us by converting them into gold. The other reason is an economic one: a sharp increase in the price of gold would lead to large, highly inflationary profits. Even if the profits of official holders of gold could somehow be sterilized, those of private holders of gold would be monetized and the consequent increase in the reserves of commercial banks and in the cash balances of countless speculators would drive up prices and incomes everywhere.

The third approach calls for an international agreement on "harmonization of monetary reserves." The monetary authorities would have to commit themselves to hold certain minimum ratios or minimum amounts of their total reserves in the form of dollar assets. They would probably be more agreeable to such a plan if the limits were stated in absolute terms and if it were agreed to that there must not be any further accumulations of dollars in official reserves. The plan would provide a solution of the problem only if it were combined with firm arrangements about joint sales of gold. (The present gold pool, as we have seen, does not distribute losses of gold reserves in a way that would be tenable in the long run. Speculators, therefore, cannot expect the present arrangement to last.)

The fourth approach calls for an isolation and concentration of all official dollar holdings in one central pool. Earlier plans to this effect, such as those proposed by Keynes, Triffin, Bernstein, and Maudling, have not found official support. One of the objections has been that these plans allowed for continued accumulations of reserve currencies (dollars and pounds) either by the central reserve agency or by national authorities. There can be no solution to the problem of confidence if continued accumulation of gold-convertible dollar assets by monetary authorities is permitted.

The fifth approach is recommended chiefly by those who have given up hope for a cooperative or collective solution. To cut the link between dollar and gold, that is, to stop the practice of the United States of buying gold when it is offered and selling gold when it is demanded, would be an action vehemently opposed by most foreign governments.

The implications of this approach must be examined carefully, because it may turn out to be the only one that is really practicable. But, before I undertake such an examination, I wish to describe a plan which I regard as feasible and much more desirable. It is a plan that pursues the fourth approach in a more comprehensive fashion than has previously been proposed.

A GOLD-AND-EXCHANGE CONVERSION ACCOUNT

My proposal combines features of the plans proposed by Keynes, Triffin, and Bernstein, but it differs from these plans in various respects. Instead of discussing similarities and differences, I shall confine myself to a description of the essentials.

The United States deposits all its gold reserves in a new Conversion Account (or Settlements Account) of the International Monetary Fund and will treat