The French announcement in early January that they would increase the ratio of gold to dollars in their exchange holdings caused a flurry in international financial circles. Even though this flurry did not escalate into a crisis, it did point up the inconsistency between U. S. domestic and foreign stability.

For a short time it looked as if we might face the fundamental issue, which is whether an international monetary system, based upon gold and fixed exchange rates, is suitable for the present dynamic era. A first step toward developing a more fitting world monetary system would be to break the link between the U. S. domestic money supply and the Treasury's gold holdings. This step, incidentally, would increase international liquidity by some $13 billion, and would make the present monetary system somewhat more viable.

However, rather than face the deep and serious problem of constructing a modern international financial system, the politically easier path of patching up the existing monetary system was chosen. Thus the administration is buying time by removing part of the gold cover for the dollar, adding some new financial gimmicks to an already complex set of international financial deals and using the power of talk by reasserting a fundamentally unsound position—that the $35 an ounce price of gold is "immutable."

The chosen politically opportune path of removing a part of the gold cover will add some $4.8 billion to the world's and the U. S. stock of liquidity. This will provide some transitory relief from the pressures imposed by our domestic gold requirement and will allow somewhat easier monetary circumstances to rule during 1965 than had been expected prior to the French action. However, the U. S. monetary system will still be vulnerable to pressure from abroad, and we can expect the Federal Reserve to proceed with caution as far as domestic needs are concerned so as to keep the European central bankers satisfied.