

U.S. Treasury for each dollar presented by a foreign holder (i.e. \$35 per ounce) foreigners will convert much of their dollar holdings into gold. If the United States were to raise the price of gold (devalue the dollar) above its present level of \$35 an ounce confidence in the dollar would be undermined and a "run" on gold would be imminent. Instead of solving the problem of international imbalance devaluation of the dollar would aggravate it and could precipitate widespread financial crisis.

(2) *Assurance that the present price of \$35 per ounce of gold will be maintained.*—Such assurance by the United States would be one way of enhancing confidence in the dollar among foreigners who hold a substantial proportion of their reserves in dollars. Assurance could be by Presidential announcement or by a declaration of Congress. Although it would afford no permanent guarantee against devaluation it could allay fears that a change is imminent.

(3) *The United States to continue to sell gold for foreign-held dollars at the fixed price of \$35 per ounce, but to terminate the guarantee to buy gold from foreigners at that, or any other, fixed price.*—The assurance that the United States stands ready to buy gold at the fixed price of \$35 per ounce encourages speculation in gold. A person having, or obtaining, gold abroad who believes that the United States will devalue the dollar has only to sell dollars short and to sell his gold to the U.S. Treasury after devaluation occurs, thereby reaping large dollar profits. The cost and risk of the transaction are small since the speculator can lose no more than the cost of the transaction itself. If the United States does not devalue the dollar, he can always present his gold to the U.S. Treasury and receive dollars for it at the fixed price of \$35 per ounce. There is reason to believe that a substantial amount of the gold that has left the United States in recent months has been to replace gold that the Bank of England has been paying to speculators who have been converting currency into gold for this purpose.

If the United States, while continuing to redeem foreign-held dollars in gold at \$35 per ounce, were to terminate the guarantee to purchase gold for dollars at that price, speculators would have to take a chance of loss since they would no longer be assured of the minimum price of \$35 per ounce. Such action by the United States would discourage speculation in gold and should stimulate the return of substantial quantities of gold to the United States.

Stated succinctly, the United States would give assurance that, although it intends to support the dollar in terms of gold, it has no intention of supporting the world gold market in terms of dollars. The United States, of course, would purchase gold at the world market price whenever it deems it necessary to do so to replenish its gold reserves. One variant of the proposal would be for the United States to announce that it intends to reduce the price of gold (i.e., appreciate the dollar) in several stages, to be announced in advance.

(4) *Reduction, or elimination, of the 25-percent legal minimum gold reserve requirement.*—The present 25-percent legal minimum gold reserve requirement against Federal Reserve notes and deposits is an anachronism since notes and deposits are no longer convertible into gold. Because of the requirement approximately \$12 billion of the \$18.7 billion monetary gold stock of the United States is set aside for this purpose and cannot be used to settle international balances. If