

would not eliminate the relative disadvantage of holding dollars in the (more likely) case of a general increase in the price of gold.

To dispel entirely and definitely the pressure on the dollar of the fears of a general increase in the price of gold, the United States should, in some practical way, guarantee the gold price of the foreign holdings of dollars.

There are several ways in which this could be done, and I submit, as an example, for your consideration the following way:

(a) The U.S. declares itself prepared to exchange foreign dollars, official and private, into special gold certificates for any amount, practically as it does now;

(b) The release of these special gold certificates, however, would not mean, as at present, a legal transfer of gold from the United States to the foreign buyer and therefore a decrease in the gold stock of the United States, but merely a legal promise by the U.S. Treasury, to buy them back for dollars at any moment, at the price of gold at the time of the purchase back by your Treasury.

Thus, for instance, if the price of gold were doubled, those certificates which could not in any case be changed into gold, would be, however, worth twice as much in dollars; and

(c) These gold certificates would, of course, not carry any interest.

6. What would be the cost of such a guarantee for the United States? None at all, and perhaps it could result in a net gain.

At present, official dollar holdings outside the United States amount to about \$11 billion; probably a little more. These figures are 1 or 2 months old. And another \$5 billion are held by private foreign banks.

In total, the dollar holdings outside the United States amount to about \$16 or \$18 billion. If all these dollars were converted into special gold certificates and then the price of gold were raised by 50 percent, the maximum cost of the guarantee for the United States would be \$8 billion, or less than 1.5 percent of the GNP.

But, of course, apart from the fact that the value of the gold held by the United States would be higher, foreign dollar holdings would never be entirely converted into special gold certificates, and anyway, if the United States really means to keep unchanged the price of gold, the guarantees would cost absolutely nothing.

It would, on the contrary, yield a profit, as dollar balances bear interest, whereas the special gold certificates would not carry any interest.

This proposed solution is not, of course, a panacea, but something for you to consider in dealing with the problem of confidence; and that is primarily the psychological and practical problem of the international position of the dollar.

In many ways gold is a symbol, and if that symbol can be effectively used more correctly to mirror the mighty strength of the United States and to restore confidence in that strength, I think it should be done not only for the good of your people, but for your close and loyal friends as well.

(Mr. Lolli submitted on August 22 a supplementary statement, which appears in the appendix at p. 982.)

Chairman PATMAN. Thank you, sir.

Prof. Jurg Niehans, professor of economics, University of Zurich, Switzerland. We are glad to have you, sir. You may proceed in your own way.