

Chairman PATMAN. Professor Niehans, do you know if that contract contains a two-way guarantee?

Mr. NIEHANS. Yes.

Chairman PATMAN. It does?

Mr. NIEHANS. Yes.

Chairman PATMAN. That is, should the Swiss franc be devalued those francs which we hold would be convertible at the old rates?

Mr. NIEHANS. That is right.

Chairman PATMAN. The suggestion you have made appeals to me very much. Later this week we will have Secretary Dillon here before our committee and also Mr. Martin, the Chairman of the Federal Reserve Board of Governors, and Mr. Hayes, president of the New York Federal Reserve Bank.

We will ask them about this suggestion of yours and if they agree to it, it would be my prediction that they would have no difficulty obtaining whatever legislation might be needed to put the suggestion into effect.

The problem of the trading nations, as I see it, is to create enough acceptable money to permit us to carry on the volume of business which our increased productivity makes possible. I am not even sure that it is correct to say that the United States has a deficit in the balance of payments.

Historically, a nation was considered to have a deficit in its balance of payments, only if it was going into debt to other countries on the basis of its trade balance, and that is not our problem. Our assets abroad are a great deal more than our liabilities to foreigners, and our assets are still growing more rapidly than our liabilities, but we are like a commercial bank that has to maintain sufficient liquidity, Mr. Lolli, don't you agree?

Mr. LOLLI. Yes, sir.

Chairman PATMAN. The problem is that, whereas our assets are long term, our liabilities are short term, like demand deposits. If we devalued the dollar we would not gain anything. We would be canceling a debt owed to us which is payable in dollars. Since the dollar is so widely used as reserve currency, if we did devalue the dollar then the other countries would devalue the currency.

So there would be nothing to gain for anybody except possibly the Russians who hold a lot of gold. Mr. Lolli, let me ask you a question or two about another subject. The Central Bank in Italy, is that publicly owned and is it recognized to be publicly owned?

Mr. LOLLI. Yes.

Chairman PATMAN. In other words, the private commercial bankers do not operate it?

Mr. LOLLI. No.

Chairman PATMAN. And do not fix policy?

Mr. LOLLI. No.

Chairman PATMAN. How about Switzerland?

Mr. NIEHANS. It is a mixed corporation in which the Government has a dominant influence but it is not influenced by private bankers.

Chairman PATMAN. It is not influenced by private bankers?

Mr. LOLLI. You asked me about the Bank of Italy. The Bank of Italy is the Central Bank and I said yes. You are not referring to the commercial banks?