Yesterday we heard a very interesting recommendation for immediately relieving our balance-of-payments problem. We had three witnesses who came on the spur of the moment, from widely different parts of Europe, and without any prior knowledge of what the other witnesses would say, all three of them recommended that the United States should immediately issue certificates, at least to foreign central banks, which would guarantee the gold content of the dollar.

In other words, if the United States should raise the price of gold, notwithstanding the fact that we have no intention of doing so, these certificates would guarantee that we would pay to their holders enough dollars to make up the difference between the old price of gold and the new price of gold after the price is changed. Their argument was about as follows:

One, the dollar is fundamentally sound. Two of the witnesses even predicted that probably in a year the whole balance-of-payments matter would shift in our favor because prices in Europe are rising faster than our prices.

Two, nevertheless, many people in Europe think that we may raise the price of gold. Consequently, these people who have dollars, say in New York, exchange them for European currencies in which case those dollars flow into foreign central banks in excessive amounts, and are used to buy our gold.

Furthermore, many European firms and individuals are very desirous of borrowing dollars from the United States, not because the interest rate is lower, but because they think the dollar may be devalued in which case they would be able to repay their loan in cheap dollars. This creates pressure on the dollar.

One witness from Switzerland told us that dollars are flowing into Switzerland despite that fact that interest rates are lower than in the United States. In other words, there is a tendency for short-term funds to flow out of the United States and create a potential drain on our gold, no matter how high the Federal Reserve may raise interest rates.

I thought it rather remarkable that all three of these European witnesses felt the same way about the dollar and made the same recommendation.

Furthermore, one witness brought in a paper from Mr. Robert Neild, who leads the National Institute of Economic and Social Research in London, and Mr. Neild also recommends that we issue a gold guarantee certificate. I wonder if the members of the panel would care to comment on this proposal.

Mr. CULBERTSON. Thank you, Mr. Chairman. I wouldn't like to comment definitively in the sense that I would like to think about it some more, but I do see some negative aspects of it, I believe. To begin with, if our problem is purely a temporary one, as is implied in the suggestion that our balance-of-payments deficit may largely disappear within a year or so, then we don't need this. We can simply run on our liquidity, particularly as I think it is appropriate that we abolish the gold reserve requirements behind Federal Reserve obligations and stand ready to distribute some of that gold to the rest of the world.

The adverse thing I see about this, I think, is that it is a move toward additional general rigidity of exchange rates. The possibility