

Mr. BRILL. It might very well, sir. I don't mean to be hogging the floor, but in the case of the speculative outflow at the end of 1960 and early 1961, Mr. Klopstock and I disagree as to whether this was interest-rate motivated or speculative. I think it was speculative. There was some fear of devaluation. It is true, when the Democratic President went into power in 1933, the United States devalued, and the situation was different. I detect that was more speculative in nature than interest-rate motivated.

A gold guarantee should certainly eliminate that type of speculative outflow.

Representative WIDNALL. Mr. Humphrey or Mr. Klopstock, would you comment on it?

Mr. HUMPHREY. I would resort to such a measure only in an extremity where the climate was a great deal worse than it is now and a real flight from the dollar seemed imminent.

I think it is well to recognize that we have this tool in the arsenal that can be used, but I don't detect the need for using it.

After all, remember that a country holding dollars loses nothing directly, except a windfall profit, from devaluation of the dollar. So long as the United States avoids inflation, the dollars which foreign countries hold will buy just as much in the United States after the adjustment of exchange rates, as before. In asking for a guarantee, they are asking to be cut in 100 percent on any windfall profits, without ever having to carry any of the burden of holding a no-interest asset in the form of gold reserves for years and years.

What would keep every nation in the world from shipping its gold here and exchanging it for an interest-bearing dollar asset, if we guaranteed them 100 percent of any windfall profits from any future change in the price of gold? We sometimes forget that the United States has benefited from losing gold to the extent that the gold is exchanged for an income-producing asset.

There is also a possibility that the price of gold might be allowed to fall some day. In my earlier testimony, I outlined a number of developments which would reduce the demand for gold to hold as a monetary reserve. I don't imagine that countries who leave gold here in exchange for income-producing dollar assets would want to take the loss from any future reduction of gold prices.

I can imagine circumstances, however, in which there might be some question as to whether the United States should take 100 percent of the profits or loss from future changes in the price of gold. In particular, there is some question as to just how much a windfall profit should be used. As I remember it, the United States sterilized the gold profits of 1934. Much later, the largest part of the free gold—not needed to cover the certificates issued to the banks—was used by the U.S. Treasury to pay its initial subscription to the IMF.

Representative WIDNALL. How do you feel, Mr. Klopstock?

Mr. KLOPSTOCK. I have not studied this problem in any detail, but I recall that Mr. Sproul, formerly president of the Federal Reserve Bank of New York, wrote a letter to the New York Times expressing the view that a gold guarantee would be highly undesirable. I respect the views of Mr. Sproul who is an authority in this area.

Representative WIDNALL. Mr. Pizer, do you have any comment on that?