Mr. HAYES. Yes. I think a gold guarantee has very serious drawbacks in perhaps creating an illusion that we can treat our balance of payments with considerable carelessness and not worry too much because we are not endangering our international position by following rather sloppy policies. I think it would tend to divert attention from the necessity of doing what I would consider to be the fundamental measures to strengthen confidence in the dollar.

Furthermore, I think it is unnecessary because of the very obvious determination of the Government to maintain the gold price which is the keystone of our whole international financial structure. I think in the process of being debated it would weaken confidence. I think there would always be questions of whether a guarantee would be kept or could be kept, whether the funds would be forthcoming to keep it.

I think it would involve exposure to abuse. You would have to decide who got the guarantee and who did not. Then other people would try to get in under the umbrella. You would have the problem of discrimination against American holders of dollars saying the foreigners are getting this protection.

I have the same very strong feeling in opposition to this scheme that I would have, for example, to French index bonds, where they try to protect the value of a bond by making it payable in commodities, or gold, or in accordance with some index of electric power production, and all kinds of schemes of that kind, which I was delighted to see France sweep away when they had their financial reform.

I would certainly hope fervently that the United States would never feel called upon to play with that kind of scheme.

Representative REUSS. Thank you for spelling that out.

I have just one more question. You say in your statement that a look at the volume of reserves supplied by the System should be persuasive evidence that the Federal Reserve authorities have been consistently replenishing reserves which the banks have put to work.

I would call your attention, Mr. Hayes, to the current Federal Reserve position in the release of August 10, 1962, which shows that the free reserves of the banking system are really very maldistributed. It shows that as to central reserve city banks, New York and Chicago, and Reserve city banks in the 12 leading cities, there actually are no free reserves. They are in hock to the Fed. They cannot lend anything. They cannot buy a security without selling one.

The free reserves, $460 million of them, are entirely concentrated in the country banks, banks which traditionally are not able to enter the bill market in any very massive way and banks, furthermore, where big borrowers are not usually able to go.

Is it not therefore, to use your phrase, illusory to talk about generous reserves supplied to the banking system, and should not this maldistribution be a cause of soul searching?

Mr. HAYES. I do not think so for this primary reason: The man who is running the money position of a big bank in your home city or mine would probably be ashamed to face his colleagues if he went to bed with big excess reserves.

The fact of the matter is that a well run big bank that is able to place funds in the market readily never has substantial excess reserves. They try very hard to keep everything at work. The only reason you have substantial excess reserves probably is because there