

American citizens would immediately try, many of them, to shift their funds abroad, and in that way get the same sort of guarantee.

So, actually, the way our system works, I do not think it is practical, and I think it would be a very dangerous experiment to get into.

Representative REUSS. In addition to the reasons you have given, isn't there another disadvantage? Suppose we did give a guarantee. Would this not, if nothing else were done, tend to jeopardize other foreign currencies, like sterling, for example?

And if the British felt forced to give a gold guarantee on sterling, this would then jeopardize the lira, the deutsche mark, and whatever was left, in sort of an international game of old maid?

Secretary DILLON. I think that is right; and that is one reason, I think, why the British Treasury also opposes any suggestion of gold guarantees for sterling, and always has, because they realize it will not work.

Representative REUSS. This may, then, be the simplest answer to the gold guarantee suggestion, that it would be unacceptable to almost all of our financial and trading partners.

Secretary DILLON. Oh, most certainly.

Representative REUSS. Let us turn to debt management.

I am not one of those who criticize the recent effort of the Treasury to put out some 4½ long-term bonds. I was not enchanted by the relatively high coupon you put upon it, but I cannot criticize you very well, since you were only able to get rid of less than half of the offering at that coupon. The action was taken in accordance with the maxim that we should lengthen the debt, a maxim to which I have sometimes subscribed.

I would like to discuss with you, however, the reasons behind that. The only reason I can see why we lengthen the debt, and I think it is a pretty good reason, is that to the extent that the debt is longer, rather than shorter, it relieves the Treasury of repeated and recurrent financing.

That is, as far as I can understand, the only reason for lengthening the debt that amounts to anything.

Secretary DILLON. I think that is a major reason. At the time we made this current offering, we thought that it would have a side effect which would be helpful—that no matter what the result of it in terms of volume of subscriptions, it would tend to stabilize the long-term market, which had been weak.

Representative REUSS. You mean interest rates had been low?

Secretary DILLON. Interest rates had risen and the market had been weak for the 3 or 4 weeks prior to our offering.

Representative REUSS. Excuse me. Interest rates had risen? And you were trying to bring them down?

Secretary DILLON. Yes. We thought that showing that there was a rate at which trading could be done in big volume would have this effect.

Maybe a month or two prior to our offering, first class double A securities, new issues, had been sold successfully in the area of 4½ percent, and just before we made this offer, these rates had moved up to about 4.40 or 4.42. Two issues had been sold in that range.