

APPENDIX

AUGUST 22, 1962.

HON. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
House of Representatives, Washington, D.C.

DEAR MR. PATMAN: I have been highly gratified and indeed flattered by the many comments, both favorable and critical, which have followed the proposal for the issuance of gold certificates against foreign-held dollars which I had the privilege of outlining before the Joint Congressional Economic Committee on August 13. This interest in turn has induced me to give some further thought to the problem.

It appears to me that many of the objections which have been raised against the plan could be met by *restricting the issuance of the certificates to foreign central banks*. In this way the volume of the certificates outstanding at any moment would not be affected, directly or indirectly, by private speculation. The certificates would offer no shelter to floating funds or to "hot money." They would function simply as an additional instrument of cooperation between central banks, alongside with the other measures which have been evolved with such a striking measure of success during the past few years.

In this sense the issuance of gold certificates against dollars, and perhaps also other currencies, could represent a practical step in the direction of some of the broader arrangements which have been suggested by many distinguished authorities, such as Dr. Rueff, Dr. Triffin, Mr. Bernstein, and Mr. Zolotas, in order to expand the mechanism of the International Monetary Fund. I would like to stress, however, that in my opinion the greatest merit of the gold certificate plan lies in the fact that such a device would strengthen beyond any possible doubt the power of the American monetary authorities to shape freely their policies, and that by the same token it would reemphasize the unique position of the dollar as the major key currency in the world.

It seems to me—and I daresay this view is widely shared among many people in Europe—that the difficulties which at present continue to beset the dollar, despite the encouraging improvement which has occurred in the basic components of the U.S. balance of payments, are to be viewed not only within the narrow context of gold reserves and gold flows but against the background of the enormous strength of the American economy. An economy that can boast an annual national product in excess of \$550 billion can take care of temporary balance-of-payment problems by its own efforts and strength. Surely, the support which the dollar is receiving through the concerted and enlightened action of the central banks of the free world is an outstanding example of what the West can accomplish when it stands united. At the same time, it is in the interest of all of us that the United States may continue to lead the free world from a position of strength in all respects. In my opinion, the issuance of gold certificates against dollar balances held by foreign banks, far from being an admission of weakness, would restore the ability of the U.S. Government to regain complete freedom in the conduct of its monetary affairs and to reassert the U.S. control over the price of gold which has existed for almost 30 years and which has served the world well. It would further reduce the role played over the gold market by private operators, and buttress rather than impair the functioning of the international gold exchange standard.

Altogether, monetary cooperation between the United States, Britain, and continental Western Europe has led to an increasing pooling of their gold and other convertible assets. Unless I am mistaken, the system would operate with greater safety if it would involve also the availability of a type of asset the value of which is stable under any and all conceivable conditions. Among other things it would at this stage relieve the management of Europe's central banks from the agonizing task of reappraising continuously its duties and responsibilities in terms of both national interest and international cooperation. So long