(The following material was supplied by Professor Despres for inclusion in the record:)

STATEMENT SUBMITTED BY PROFESSOR DESPRES

A proposal for strenghtening the international monetary system which was originally circulated in the spring of 1965 is outlined below. Its adoption—and, perhaps, merely its serious consideration—would bring to an end the state of nagging semi-crisis in the international economy which has persisted since 1959, and it would reverse the present growth of mercantilist restrictionism.

The central postulate underlying this proposal is that the dollar is not only "as good as gold" but is, fundamentally, much better than gold. In the present day world, gold derives its desirability as a monetary asset from the fact of its unlimited convertibility into dollars at a fixed price. The dollar is not merely a national currency; it is, indeed, the predominant international currency. It is widely used for commercial settlements not only in trade with the United States but in trade between foreign countries. It is the principal unit of account in international lending and borrowing, both long-term and short-term, even when both borrower and lender are foreign entities. Free world central banks and monetary authorities, other than those of the sterling area and the French community, settle their deficits and surpluses, in the first instance, by taking in or paying out dollar balances.

Except by special arrangements, gold is no longer used directly in settlements between foreign countries. Although foreign countries may elect to exchange dollars for gold or gold for dollars, the dollar is the medium of payment and gold simply a potential source of, or use for, dollars. The United States is the only country which stands ready to buy gold on demand or sell gold to foreign central banks and monetary authorities. Although other countries have defined the legal parity of their monetary units in terms of gold, all IMF members except the United States have taken advantage of the option provided under the Articles of Agreement of the International Monetary Fund to set the upper and lower support limits in terms of dollars. Since so large a part of the free world's international obligations—commercial and financial—is denominated in dollars, it is, in the last analysis, dollars and not gold which are desired for international settlements. The evolution of credit money over the past four or five centuries has proceeded to a point where gold has become a dollar substitute, rather than the dollar a gold substitute.

Whatever may have been the case in the past, the desire for gold as a monetary asset is today contrived and artificial. It rests upon the confident assumption that the United States government will always stand ready to supply dollars in exchange for gold without limit and at a price not less favorable to gold holders than 35 dollars an ounce. Certainly the anxiety which the U.S. government has shown in the face of gold losses has done nothing to weaken the confidence with which this assumption is held. Nevertheless, the United States, although completely committed to defending the dollar, has no comparable commitment to the defense of gold.

A second postulate is that the United States, as the world's financial center, faces a banking problem and not a balance-of-payments problem. This banking problem arises from an inflated demand for gold, itself a result of the present United States gold policy. The present state of contained crisis of the international monetary system can be corrected only by bringing about a genuine change in prevailing asset preferences—reducing the desire for gold and increasing the desire for dollars. Such a shift in asset preferences can be brought about by United States action alone and not by international negotiation to create some supplementary reserve asset. Within the context of prevailing asset preferences, any international agreement would be too limited in scope and too rigid in its operation to permit the needed re-establishment and development of an unrestricted, integrated, international capital market based upon the United States. By distributing liquidity on a symmetrical formula which does not take account of the special banking problems of the financial center, it would give reserves to countries that do not need them without appreciably easing the positions of those who do.