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The Politics of the 1965 Gold Reserve Law

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PRÉCIS

The major focus of this study is the 1965 gold reserve law. This law was both an economic and political solution to a number of problems which are discussed under the general subject of the United States balance of payments. I have used the 1965 law to illustrate many processes within the American political system.

Chapter I serves as an introduction to gold as it is used in the world monetary system. The trend toward decreasing reserves and how the U.S. government becomes aware of this is discussed. The unsuccessful Multer proposal of 1961 to abolish the reserve requirement is examined.

Chapter II presents the balance of payments problem from 1961 until 1965. The economic reasons for a declining ratio of gold reserves to combined liabilities of the Federal Reserve Banks is a substantial part of the chapter. In addition, various political aspects of the problem and the emergence of the actual 1965 gold reserve proposal from the Treasury Department is presented.

Chapter III explains the Bureau of the Budget's clearance process. Various power divisions within the executive branch of American government are discussed as they contributed to a consensus for the passage of the Treasury's bill. The Treasury, the Presidency, the Federal Reserve System, the Council of Economic Advisers, and the Department of Commerce are among those institutions whose influence on the bill is analyzed.

Chapter IV reveals the story behind Congressional consideration of the gold reserve bill. A number of everyday political occurrences, such as a transmittal letter from the Bureau of the Budget to Congress, were instrumental in advancing the bill. In addition, the legislative proposal faced both House and Senate committees and was debated on the floor of the two chambers. Both the executive branch of the government and interest groups lobbied for the bill.

Chapter V points out that the balance of payments deficit is expected to continue. Administration efforts to reduce the deficit have been effective. In addition, many new advisory groups and new segments of our industry and of our citizenry have grown aware of the problem. But despite everyone's efforts, if the VietNam War continues and other factors remain the same, the Administration may once again ask Congress to repeal the reserve requirement. I have no fear that this would be done, but I do fear that confidence in the dollar and confidence in American leadership might quiver in the process.

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PREFACE

This study grows out of my interest in economics and politics. By studying the politics of the 1965 gold reserve law I hope to enhance my understanding of how the American political process deals with specific requirements of our economic system. Rather than discuss the influence of only one power system upon the bill I have attempted to concern myself with all the influences leading to passage of a new law. On the other hand, where two government departments worked for the same goal and through the same inter-departmental structure, I have studied only one department in depth.

My approach to the 1965 gold reserve law is to study it as a product of democratic concensus. Although many influences are mentioned, most of the paper deals with selected loci of power which I believe to be of most substantial influence.

Discussions of basic organizational structure and decision-making processes within government departments, offices, bureaus and interest groups are easily found in textbooks and pamphlets. This paper assumes some knowledge in these areas on the part of the reader. If the reader feels himself lacking, he may research the area for knowledge in some of my indicated sources.

Since my vocational ambitions lie within the subjects discussed in this paper, I have taken particular interest in powerful men and in the techniques and structures through which they express their power. Thus, I feel justified in writing at length about specific men and the circumstances of their power, for I hope to be one of them some day.

The writing of this paper provided an opportunity to study everything relating to gold that I could find. While I did not fully accomplish this objective, I did read a great deal of material and talked with many people concerning the role of gold in the world monetary system. All sources are not included in the bibliography, but major sources from which I composed the paper are.

Most of the preparation for this study was completed under the auspices of the Washington Semester program of The American University. Thanks are due to both Illinois Wesleyan University, which sent me to our nation's capital, and to The American University which helped me enjoy a semester there. Special thanks are more than due to Professors Donald P. Brown and Yan Pik Chau of Illinois Wesleyan University for inspiring me to study the subject, to N. R. Eisenstadt for maintaining my inspiration in Washington for a semester, and to my father and mother for originally planting inspiration ~~originally~~ within me.

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Chapter I

INTRODUCTION

The history of gold as it relates to monetary systems is one of diversity. During some epochs and in some places gold has had no relation to money. Gold was jewelry or gold was sacred or non-existent. During other times and in other places gold bullion has been money. Transactions were barter or they were expedited through gold as a medium of exchange.

Although the role of gold in various civilizations has varied, it seems that a master trend over the many years of history is observable. While the quantity of gold which exists is somewhat constant, population fluctuates greatly. Because each person uses money, the amount of gold which relates directly, as in the case of gold bullion used as money, or indirectly, as in the case of paper money backed by gold reserves, to the medium of exchange must fluctuate. As a nation grows its total money supply grows. As the entire world grows at the same time in population and industrial activity, as is the case in recent history, modern governments attempt to reduce their required gold reserves which back their currencies.

This chapter will discuss the fact that there simply is not enough gold for the United States to continue to back its money supply with as high a percentage of gold reserves as in the past. This chapter will also discuss some of the innumerable means by which the problem of shrinking gold reserves is brought to the government's attention. Finally, this chapter will show what did happen when the problem of shrinking gold reserves was brought to the government's attention in May of 1961.

The existing gold reserve requirement has its background in monetary history prior to the establishment of the Federal Reserve System.

In the late 1800's several kinds of paper currency circulated along with gold and silver coin. For the most part, all currency was freely convertible. In order to protect this convertibility different methods were employed to maintain fixed ratios between gold and currency in circulation. The dilemma arose when the changing economy called for more money to circulate. The inelasticity of supply allowed cyclical bouts of inflation and panic.

Mainly to correct this deficiency, the Federal Reserve System was created in 1913. To provide a flexible supply of currency and to manage deposits and credit according to the best interest of the nation and commerce was the mandate. Convertibility into gold was maintained. A provision stipulating reserves for note issue and total liabilities was desirable to encourage the public's confidence in the new institution and to assure acceptability of the Federal Reserve notes alongside gold which still circulated abundantly. Also, politicians were limited in their use of funds since credit could not be overexpanded.

The system changed considerably in its first years, during World War I, and during the twenties. Since the economy's varying needs were considered more important than maintenance of the reserve ratios and restrictions required by law, the whole content for a discussion of the law has changed.[1]

The depression of the thirties changed economics both as a scholarly discipline and as a word connoting a system of quid pro quo realities in the empirical world. The gold theories of old may have been a major cause

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[1] Official statement of the Secretary of the Treasury Douglas Dillon before the Committee on Banking and Currency, United States Senate, Feb. 2, 1965.

of depressions but, at any rate, some new system of money-gold relationships was obviously needed. The gold law of 1934 ended the use of scarce gold as domestic currency, and made the use of gold possible only in international accounts. The latter has not been achieved, but we are definitely headed in that direction.

In the original Federal Reserve Act of 1913 reserves against deposits were set at 35% and those against notes at 40%. Toward the end of World War II much attention was given by government and leaders of the nation to these reserves. It was felt that the expansion of money and credit required by various financing might exhaust the "free gold" held in excess of legal requirements. This would reduce the effectiveness of the war effort and bargaining position from the standpoint of U. S. power. Congress consequently reduced the required reserve percentages to 25% in gold against both notes and deposits of Federal Reserve Banks. As history turned out, the war soon ended and the actual ratio remained over 40% until 1959.[2]

The postwar years deserve more attention, for the reader should realize that 1945-1949 is the period whose characteristics belie the development of the balance of payments problem which is so important today and which the 1965 gold reserve law tried to ameliorate.

When discussing the balance of payments for a nation, two questions are pertinent: what does the nation give to and what does it receive from the world economy? In the long run every nation must have a balance of payments in order to effectively integrate itself into the world economy. This makes sense on paper. But, in fact, after World War II a world economy did not exist. Europe was largely in shambles and the so-called developing

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[2] Ibid.

nations were not developing yet. The United States had to take on the responsibility of leading the world to create an international economy that would support considerable international trade. Through the Marshall plan and other forms of aid, the United States helped build an international system of trade.

The pertinent question is what did the United States receive for the dollars it gave. The answer is gold, not economic goods and services. The ratio of gold reserves to combined liabilities rose significantly in the late forties, reflecting an increase in the stock of gold bullion. But what happened in the fifties and what will happen in the sixties when Europe is rebuilt and almost all nations are developing? The obvious answer is that when dollars go abroad they must come back. Since U. S. comparative productivity and interest rates are not greatly favorable to maintaining a balance of payments equilibrium, the dollars do come back and the gold goes out. Huge military and foreign aid programs also contribute to the difficulty of balancing the books. It is interesting to note that our gold supply fell $7,216,000,000 in the years from 1958 through 1963. During this same period, fifty-seven debtor nations were given over $12 billion in foreign aid which the same fifty-seven nations used, according to one view, to purchase $6,977,800,000 of U. S. gold.[3] The United States is currently exporting inflation and in the period under discussion, 1945-1949, it was merely building up competition and then accepting the consequences.

During the period from 1945 until 1959, acceptance of two new attitudes is discernible. First, the reserve supply of member banks in

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[3]Letter from Congressman Bill Brock (R., Tenn.) to constituents, Feb., 1965.

the Federal Reserve System was determined not by the volume of gold reserves but by federal reserve policies flexibly adapted to the current needs of the economy. This is to say that the function of reserves as a red light to unsound monetary policies which adversely affect the economy took a beating. While some still think that reserves are a necessary restraining influence, the mainstream of informed thought and thus those in power throughout industry, academic circles, and government realize that the Federal Reserve System and the Treasury can take care of themselves without being coerced by impinging requirements from Congress, American public opinion, or other loci of influence.[4]

The other attitude which gained a strong foothold in the postwar years was that gold should serve primarily as a medium for the settlement of international debts. With the founding and development of such institutions as the International Monetary Fund, the World Bank, the International Finance Corporation, the United Nations, NATO, and many other economic and political organizations and procedures such as explicit and implicit exchange supports for times of need comes an understanding between governments that gold should serve as an international commodity rather than some less valuable use.

The second part of this chapter is a short discussion of some of the means by which the problem of gold reserves is brought to the attention of government.[5] By pointing out the two changes in attitudes

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[4]Interview with Mr. Harris, former Assistant Legislative Director for International Affairs, now General Counsel, American Farm Bureau Federation, October 21, 1966.

[5]See the appendix for a list of institutions which have contact with the government, when they wish, to express their views on a subject such as gold.

since 1945, the heart of the matter has already been touched. What influences have pushed these attitudes?

As already noted, foreign influence upon the balance of payments and thus upon individual men's feelings towards maintaining a gold reserve is significant. Contact since the War with foreign powers has been immensely greater than it was before the War. Of course, this is true speaking in terms of financial interests, not merely in terms of political contacts and interests. On the industrial level, trade negotiations, international banking meetings, and the growth of international corporations provide numerous forums through which common goals are developed. On the governmental level, the Under-Secretary of the Treasury and a delegation of Treasury and Federal Reserve personnel meet with the French government and other powerful European governments every three weeks or so. These meetings are indicative of the many channels of communication now available.

Within the United States a very large number of groups advise each other as to the balance of payments. These groups exist both in and out of government and are both formal and informal. The Quadriad--the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Chairman of the Council of Economic Advisors, and the Director of the Bureau of the Budget--, the Business Leadership Advisory Council on the Balance of Payments, a group of powerful corporation heads, and the American Bankers Association are good examples of the prestigious groups which dominate the discussion. Each of these power centers is responsive to a number of divergent interests. Also, it may be noted that a great deal of personnel change takes place within these groups. A former Secretary of the Treasury would more than likely be a partner in a Wall Street investment firm and a member of a few advisory groups to industry and government.

This discussion concentrated on the balance of payments, but it should be noted that communication flows on related subjects throughout the entire world and particularly here in the United States. The press helped keep the public informed and aided widespread acceptance of the two attitudes discussed above.

In other chapters the 1965 gold reserve law will be understood as the final outcome of a struggle for democratic consensus. The theory of the American political process states that major bills are the product of countless divergent power structures, pressures, opinions, and actions. In fact, this is the case for the success of the 1965 gold reserve law and the failure of the 1961 Multer bill.

It seems appropriate to present briefly the period from 1959 until May of 1961. What circumstances developed which caused Representative Multer to introduce his bill on May 9, 1961, which attempted to remove reserve requirements?

As early as 1957 the ratio of reserves to total liabilities began to decline gradually, principally as a result of a marked decrease in the gold stock along with a gradual increase in Federal Reserve note liabilities. Although bank credit and bank deposits increased, expansion in member bank reserve balances at the Reserve Banks was held down by occasional decreases in member bank reserve requirements. This was, of course, possible through monetary management and the prerogatives of the Federal Reserve Board.

Starting in 1960, Federal Reserve bank note and deposit liabilities expanded more rapidly. The withdrawal of silver certificates and their replacement by Federal Reserve notes is one reason for the increase. As a result of the above and other developments, the reserve requirements of the Federal Reserve Banks increased to 16.6 billion dollars by May of 1961. The gold stock was down to $14.3 billion, leaving free gold of only about $2.3 billion.

Beginning in the third quarter of 1960 more and more gold had been purchased from the U. S. Treasury. The London gold market, a normal place to buy gold, was underpriced by the Treasury's $35 per ounce standing offer. The London market price moved from a monthly average of $35.09 in June to $35.22 in September. The price flared up until it hit a peak of $40 per ounce on October 20, after which it settled down. Central Bank buying in London ceased altogether as the price rose, though the Bank usually buys and sells to maintain a stable price at the pegged level.

The Federal Reserve's shift to a restrictive credit policy, supplemented by the Administration's successful efforts to rebalance the budget, helped check the gold outflow during 1959 despite the persistent large payments deficit. The accelerated gold loss during the second half of the year--notwithstanding a remarkable improvement in the merchandise trade balance--appears to have been aggravated by apprehensions that a new administration taking office this month might use inflationary finance to spur economic activity and growth.[6]

The reader should also realize that United States relations with the International Monetary Fund affected the level of gold stocks. In June of 1959, $344 million was transferred to the Fund in payment of the

[6]U. S. Congress, Senate, Committee on Banking and Currency, <u>Hearings on S. 797</u>, 89th Congress, 1st Sess., 1965, pp. 4-6.

gold portion of the pledged subscription. Additional sums moved from the U.S. to foreign governments which also had to pay their pledged subscriptions in gold or had to repay in gold, as required by the Fund statutes, part of their currency drawings. France was one of a number of nations in this position.

Upon taking office, the Kennedy Administration realized that the gold stock was down to nearly 17 billion dollars. It also realized that the monthly rate of loss was becoming dangerously high. The Administration knew that one way of coping with the problem was to put it off until a later date by seeking the abolition of the reserve requirements. Thus, the 1965 gold reserve law, which finally emerged, had been tossed around by informed government and industry leaders since as early as 1951.

Two men of high position that advocated the repeal of the cover were M. Rueff of France and Dr. Burns of the United States. M. Jaques Rueff, one of the architects of French financial restoration after World War II, voiced strong opposition to the reserve requirements of the United States. Rueff felt that the central banks of the world should cash in their dollars for gold as a preliminary step to the restoration of the gold standard which would be brought about by a series of international agreements at conferences on gold and money. To make possible the large-scale cashing in of dollars, Rueff recommended the repeal of the cover requirement in the United States.

Dr. Arthur Burns, the former top economic adviser in the Eisenhower Administration and in 1961 the president of the National Bureau of Economic Research, stated publicly that the reserve requirement should be repealed because more free gold will be needed to protect the U.S. role as the leading international banker and also to protect the dollar against speculators.[7]

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[7] The New York Times, August 8, 1963, p. 14.

The above paragraphs present quite a thorough background to the Multer proposal. On May 9, 1961 Representative Multer introduced a bill with two sections. One of them is not relevant to this study, but the other proposed to eliminate the nation's gold reserve requirements. Hearings were scheduled, then were indefinitely postponed. What happened?

In 1965 the democratic consensus which is needed to pass major legislation in the Congress was present to bolster action on the gold reserve law. In 1961 democratic consensus was not present. The Administration backed the bill, thinking that domestic power structures would back it also. The only fear was that foreign governments would feel that the United States was solving its balance of payments problem in a backhand way. This might start a further run on the nation's gold supply.

What actually happened was far different from what the Administration had proposed. Reaction from abroad was favorable, as exemplified in M. Rueff's thinking. But here at home the story was drastically different. Thousands of people--farmers, small businessmen, housewives, other citizens--expressed their adverse sentiments toward the idea of changing the relationship between gold and the dollar in any way. Thus, many Congressmen called the Treasury and Federal Reserve to let them know of their opposition. This spontaneous, grass roots type of opposition to a major bill does impress the Fed and Treasury in addition to awakening other power structures within the government like the Executive Offices of the President.

The Administration was quite surprised by the reaction against the bill on the domestic front. Besides the many citizens who made their views known, a large number of powerful individuals called directly to the Treasury or Fed from around the nation. Bernard Baruch exemplifies the opposition. He called the Fed to state emphatically that this was not the time to ask for repeal of the reserve requirement. Confidence in the dollar might be weakened at a time when we could ill afford it.

After consultation among the top positions of the Fed, Treasury, Bureau of the Budget, and other Executive Offices of the President, the Administration asked Multer to stop his effort.[8] He did and thus the proposal was indefinitely postponed. Just how long this approach to solving the balance of payments problem remained dormant is the subject of the next chapter.

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[8]Interview with Guy E. Noyes, Senior Vice-President and Economist, Morgan Guaranty Trust Co., November 23, 1966.

Chapter II

THE NEED ARISES AND IS RECOGNIZED

During 1961 the Administration proclaimed that the deficit arising out of the balance of payments was to be viewed as a problem in itself. Culminating in the defeated Multer proposal, the Administration made clear its opposition to the further weakening of its balance of payments position. The consequent attention paid to the problem by foreign sources and American government and industry resulted in a brief period of surplus.

However, the storm struck again and grew in breadth. So much gold was lost in the next four years that one might give up trying to explain the loss rationally. For four years the government constantly attempted to solve the problem. But the gold continued to flow abroad in greater amounts. If Russia had been able to plant its agents in key positions in the United States government with instructions to carry out Lenin's plan for destruction of a "capitalistic" economy a more thorough job of "gutting" the economy by extracting its basic gold reserves could not have been accomplished.

What happened during the years and what attempts were made to solve the problem? In the second quarter of 1961 the U.S. lost gold. In the third quarter the deficit increased to a rate of more than $3 billion per year. By the end of 1961 the ratio of gold certificate reserves to deposit and note liabilities combined was 34.8. It was 37.4 at the end of 1960.[9]

Many groups reacted to this highly dangerous situation. The Commission on Money and Credit, composed of influential government and industry leaders,

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[9]Official statement of the Secretary of the Treasury Douglas Dillon before the Committee on Banking and Currency, U.S. Senate, Feb. 2, 1965.

recommended repeal of the entire reserve requirement. In the meetings of the Business Council the idea was tossed around. This Council is a group of top industrialists including such powerful men as David Rockefeller, President of the Chase Manhattan Bank. Many other advisory groups such as the National Advisory Council, which was set up in 1944 under the Bretton Woods Conference, began to discuss the idea within government sponsored forums. Even interest groups as far removed from the purely monetary problem like the American Farm Bureau Federation included in their annual list of resolutions a strong statement warning the government of the consequences of allowing the deficit to grow.[10]

In 1962 the ratio of reserves to total liabilities dropped from 34.8 to 31.8. By this time foreign central bankers and governments were beginning to pay close attention to our problem. President Kennedy and top level administrators in the Fed and Treasury stated emphatically that the dollar would be defended and that the United States would not change the world price of gold. In its effort to halt the gold losses the Administration emphasized the debt repayment owed from World War II by foreign governments. The Treasury issued a series of communiqués to governments of nations in strong financial positions hinting that it would appreciate advance payments on their debts. The United States also informed the entire world that "the only way to stop gold losses is to eliminate the deficits in the U.S. balance of payments and the corresponding surpluses in the payments positions of countries such as France.[11] Thus,

[10]American Farm Bureau Federation, Farm Policies for 1961, Resolutions on National Issues Adopted at the 47th Annual Meeting, Chicago, Dec. 1961, p. 32.

[11]Public letter from U.S. Treasury Department to those interested in gold losses and debt repayment of foreign nations, 1962.

the government countered DeGaulle's resentment that the U.S. had been able to run a deficit. In the struggle for world financial influence, the importance of psychology is paramount. The Treasury Department made a special effort to convince other nations to respond to the United States problem favorably. Chapter four will discuss at some length the dominance of psychology in thinking about gold reserves and therein the balance of payments.

What happened in 1963? The situation worsened and the ratio of reserves to total liabilities fell from 31.8 to 29.7. The United States lost $415 million in gold. However, many indications were present to show that the problem would finally be faced head-on and some type of solution would emerge.

On July 18th President Kennedy singled out the deficit for attention in a major speech. From this time on, the balance of payments became the concern of almost everyone. Daily newspapers, weekly magazines, journals, and a great number of investor's publications highlighted the deficit and discussed current developments relating to it.

Exports versus imports, foreign investment, tourism, and United States military expenditures and foreign aid all became subjects of controversy. It is clear from an examination of the Congressional Record for 1963 that new dimensions were added to the discussion of old interests. The point is that a new political aspect was given to problems of exporting, importing, and investing that had not been present before.

On February 10, 1965, during the period that Congress was approving the 1965 gold reserve law, President Johnson proposed in his annual Balance of Payments message a new aura of cooperation between government and industry. This proposal has been followed up as will be discussed in

Chapter five. The foundation of cooperation was laid in 1962 and 1963. One indication of this was the Under Secretary of the Treasury for Monetary Affairs advocating a merging of government and industry efforts in front of the American Bankers Association. He said, ".....for the banking fraternity has played, and will certainly continue to play, a leading part in alerting America to its Balance of Payments problems and the new efforts needed to limit costs and raise productivity in order to promote both greater growth and more exports. Bankers know that the dimensions of the problem ahead are still large."[12]

Toward the later sessions of Congress in 1963, the gold reserve requirement was discussed at length. Senator Javits suggested hearings to Senator Douglas, the Chairman of the Joint Economic Committee. These hearings provided a forum for discussion and stirred considerable interest.[13]

By late 1963, the gold situation was deplorable. The amount of gold stock in excess of the required monetary reserves was exceeded by net foreign short-term claims of more than 17 billion dollars. The future solvency of the United States clearly depended on the forbearance of its foreign short-term creditors.

1964 brought with it no relief for the balance of payments problem. The ratio of gold certificates to total liabilities dropped from 29.7 to 27.5. Law required 25% reserves and the situation was fast becoming a crisis.

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[12] Robert V. Roosa, "Banking and the Balance of Payments", Economic Growth-Balance of Payments, discussions by three men at the 88th annual convention of the American Bankers Association (Atlantic City, New Jersey, Sept. 25-28, 1962), p. 2.

[13] U.S. Congress, Joint Economic Committee, Hearings Concerning Gold and the World Monetary System, 88th Congress, 1st Sess., 1963.

Although the existing Federal Reserve Law contained emergency provisions allowing the government to revoke the reserve requirement temporarily, the Treasury recognized that this would not be in the best interest of the nation. The dollar would have to be defended by other means.

The nature of the 2.2 percentage decline in reserves merits further consideration. The loss of gold was $125 million, 36 million dollars to foreigners and 89 million dollars to industrial and artistic users within the United States. The crucial observation is that the domestic money supply expanded greatly to meet the growing needs of rising business activity. Along with replacement of silver certificates by Federal Reserve notes, it became clear that the 25% reserve requirement would soon become a burden to effective monetary management of the economy.[14]

When a problem becomes acute as the gold loss by 1965, discussion becomes extensive in high government circles. Within the Cabinet a balance of payments committee was formed to suggest various means to improve the worsening situation. The Troika and associated students of the problem also discussed it. The Troika consists of the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Chairman of the Federal Reserve System. These men and often times their delegations meet once a week or so to discuss important matters relating to the economy. The President also lunches with this group before major decisions are made as was the case in this instance. Throughout the Secretarial Offices of the Treasury and important Executive Offices of the President, the gold reserve law was made into a subject of prime importance.

Before presenting the specific emergency of the proposal to eliminate reserves for deposits which came from the Treasury Department, a

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[14]Official statement of the Secretary of the Treasury, <u>op. cit.</u>

brief discussion of the organization of power within the Treasury is appropriate.

The Secretary of the Treasury, a Presidential appointee, is a member of the Cabinet and responsible for the entire Treasury Department. He is the leader in policy making within the department. Since the balance of payments is primarily a Treasury function and responsibility, the Treasury Secretary and his top assistants were the men within the government to initiate action.

When actual choices must be made, the Secretary himself rarely decides the issue without consultation. The bulk of major decisions on financial matters arise from a democratic consensus among the eight Under-Secretaries and Assistant Secretaries. This, in brief, is the power structure within the Treasury. Staff men are used and valuable and many divisions exist, the heads of which have considerable power in their fields of responsibility and specialty. But the power to choose among diverse alternatives lies at the top and within the various secretaryships.[15]

How were the powers of choice exercised in the case of the 1965 gold reserve proposal which became law? As previously implied, each of the secretaries involved in the decision has innumerable contacts outside the Treasury. For example, the head Secretary is the Chairman of the Advisory Council on International Monetary and Financial Problems, as previously mentioned. The Under-Secretary for Monetary Affairs, the office directly accountable for the 1965 gold reserve law, often meets with industrial groups to inform them of new developments.

More specifically, what happened to bring about the Treasury proposal formally announced on January 28, 1965? More than half of the 1964

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[15]The United States Treasury, Treasury Department, 1966.

gold loss occurred in the last quarter. While discussion had been going on for some time throughout the various secretarial offices, the problem was now urgent. The men involved were C. Douglas Dillon, Secretary of the Treasury, Henry H. Fowler, Dillon's replacement who formally took office January 1 (although Dillon stayed around for more than a month afterward), Robert V. Roosa, Under-Secretary for Monetary Affairs, Paul Volcker, Deputy Under-Secretary for Monetary Affairs, Leland Howard, Director of the Office of Domestic Gold and Silver Operations, and possibly someone else representing other Treasury offices. These men regularly meet every few weeks to discuss pending legislation and to initiate proposals. It was within this group that the idea was accepted to eliminate gold backing for deposits but to retain it for notes. Secretary Dillon wanted to repeal both requirements from an economic standpoint, as did everyone else, but political considerations won out. The main objective of the Treasury's proposal would be to present something palatable to Congress, foreign influences, and the American public. At the same time, the Treasury Secretaries realized the crisis nature of the proposal and wanted to make sure that something would be done to achieve a better position for the dollar.

What the Administration did with gold and the dollar would be keenly noticed in international financial circles. France had put a great deal of pressure on us in January. DeGualle's government announced January 8th that it would convert $150 million dollars to gold. In all of 1964, the United States had lost only $86 million to foreign sources and only about $18 million to France. The announcement caused a flurry of speculative activity in international money markets. Rumors circulated that the United States might even devalue the dollar. The United States government had its back to the wall and was forced to act.

The group of Secretaries decided to act. Roosa felt that both requirements should be reduced to about 10%. Volcker thought that repeal of only the deposits requirement would be sufficient. From a traditional standpoint the requirement for deposits was less important than that for notes. The American public would not oppose a change involving what their local bankers did with deposits and thus what the Fed did concerning its deposits. However, Americans would notice a change in the relation between gold and the currency of everyday use. Dr. Howard agreed that elimination of only one requirement would be acceptable to the public and to Congress, but still be sufficient to defend the dollar.

After a few initial contacts from the Treasury to the Bureau of the Budget, the course of action was decided upon. Dillon made a few calls on various men within the President's Executive Office, including the Budget Director and the Chairman of the Council of Economic Advisers. After receiving their approval and the final okay from his Secretaries, Dillon ordered the bill to be drafted by his General Counsel.

On December 23, 1964, the Treasury's General Counsel G. d'Andelot wrote a two page letter to the Office of Legislative Reference within the Bureau of the Budget. The letter outlined the proposed change in law, giving background and reasons why the Treasury felt a change was necessary. The letter asked for initial reaction from all quarters. Since the next chapter will discuss the clearing process in some detail, it seems sufficient to say that approval was received.

During January President Johnson's annual economic message was being prepared. A number of the President's staff men and a number of men from various Executive Offices work together to prepare the message. Although the Treasury originally gave Dr. Howard the opportunity to announce the pending legislation in a speech to his clientele, the Bureau of the Budget which coordinates efforts of various departments, executive offices, and Presidential staff, decided that the President would announce the move on January 28. Francis M. Bator, Deputy Special Assistant to the President for National Security Affairs, was instrumental in guarding the prerogatives of the Presidential Office. Since the Treasury realized it might need the President's explicit support to pass the bill, it was content to let the President announce the measure.[16]

Thus it was that on January 28, 1965, President Johnson said, "I am requesting the Congress, therefore, to eliminate the arbitrary requirement that the Federal Reserve Banks maintain a gold certificate reserve against their deposit liabilities."

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[16]Interview with Leland Howard, Director of the Office of Domestic Gold and Silver Operations, U.S. Treasury Department, October 19, 1966.

Chapter III

THE BUREAU OF THE BUDGET'S CLEARANCE PROCESS

When a problem arises and when that problem is recognized, action takes place. The Treasury Department is responsible for suggesting policies to maintain a reasonable equilibrium in the balance of payments. True to the above guidelines, the Treasury was the department in which the 1965 gold reserve law originated.

Because areas of responsibility and consequent powers overlap from one department to another, and because a problem like the balance of payments has repercussions which directly involve the activities of a number of departments, the Bureau of the Budget attempts to coordinate legislative aims of the executive branch of American government.

This chapter will discuss the actions of the Bureau of the Budget with regard to the 1965 gold reserve law. While this bill did not run into much opposition, it does serve to indicate a number of processes within the Bureau. Other formal power centers within government will be discussed briefly inasmuch as their participation in the law making process was upon request from the Bureau of the Budget.

Upon receiving the December 23rd letter from the General Counsel of the Treasury, Robert Wallace, the head of the Division of Legislative Reference, had one task. That was to discover whether this proposal was within the scope of the President's legislative program. Primarily through use of the phone, Wallace and his staff ascertained that the President and his Executive Offices would like to see the bill introduced. Mr. Bator of the White House Staff, Director Gordon of the Bureau of the Budget, and Ralph Young, Adviser to the Board of Governors of the Federal Reserve System were among those called.

After the approval of the President through the Bureau of the Budget and the decision to let the President announce the proposal publicly on January 28th, the Treasury drafted four letters. As a rule, the standard procedure for executive initiated bills is for one department to prepare a draft of the bill and two letters of transmittal giving the justification for the proposal. These letters are given to the President of the Senate and Speaker of the House. The bill and accompanying letter receive two checks before transmittal, one in the department in which they originate and the other in the Bureau of the Budget.[17]

Roy T. Englert, the Deputy General Counsel of the Treasury Department, drafted the legislation and letters of transmittal. In addition to the two letters to the presiding officers of the two chambers of Congress, letters were written directly to Representative Patman, Chairman of the House Banking and Currency Committee, and Senator Robertson, Chairman of the Senate Banking and Currency Committee. This extra letter writing probably should be viewed as pressure from the Treasury and Bureau of the Budget to make sure the bill would be referred to the desired committee. Patman had publicly recognized the need for some action to ease our balance of payments problem for some time. Privately, he maintains good contact with the Treasury and Federal Reserve Board, more with the former than with the latter. Both Robertson and Patman had been contacted through the Congressional liaison office of the Treasury to let them know of the proposal.

Before the four letters left the Treasury, they were gone over by a group consisting of the General Counsel, the Secretary of the Treasury, the Under-Secretary of the Treasury for Monetary Affairs, the Director of the

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[17]Interview with Jefferson Burris, Legislative Attorney, Legislative Reference, The Bureau of the Budget, December 1, 1966.

Office of Domestic Gold and Silver Operations, and other interested parties. In other words, the same men previously mentioned, who were responsible for initiating the proposal, kept track of its progress. Again, in the Bureau of the Budget, the General Counsel along with representatives of the Divisions of Budget Review and Legislative Clearance, go over the letters.[18]

Before the Division of Legislative Clearance finally approves the legislation it must perform a series of checks with all interested departments and agencies. Jefferson Burris, a legislative attorney within the division, and others wrote letters or called all those people that they thought might want to comment on the bill. Each power center that was contacted will be briefly discussed.

The reader should keep in mind that the communication under consideration here was in many cases a formal follow-up to an earlier informal check. Such was the case with the Council of Economic Advisers. Gardiner Ackeley, the Chairman, approved the measure. He, of course, had previously known of it through his participation in the Troika and other groups.

The Department of State approved the proposal, but stated that it would like to see both reserve requirements repealed. This would free more gold for purposes of international transactions.

The Department of Commerce approved the measure. The structure of this department is akin to that of the Treasury and the power to make decisions is similarly vested. For this reason, the role the Commerce Department played in the passing of this bill is not discussed in this paper. The importance of maintaining confidence in the dollar so that our exports might be increased is obvious. Through the General Counsel and with the approval of John T. Connor, the Secretary of Commerce, approval was formally given. Secretary Connor has more than thirty advisory groups which advise him, including a nine man industrial committee on the balance of payments. If any one of these groups had objected to the bill, its voice would have been recorded. There was no such objection.[19]

The Federal Reserve System and Chairman William M. Martin were strong backers of the bill from the beginning. In fact, it appears that the decision to try to repeal one part of the requirement while retaining the other part may well have been a private agreement between Dillon and Martin, initiated by the latter.

Constant strong backing from the Presidency helps pass legislation. Lawrence O'Brien and Joseph Califano, Jr., two presidential assistants who oversee the Chief Executive's legislative program, Califano being assigned to all economic matters, maintain close contact with Congress. Through a wide variety of means, but especially through phone calls, the Presidency aided the gold reserve bill.[20]

Along with the leadership of the Presidency and the Treasury Department, the Bureau of the Budget records show an overwhelming democratic consensus approving the bill within the executive branch of the government.

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[19]Interview with John T. Connor, Secretary of the Department of Commerce, November 30, 1966.

[20]Interview with Larry Levinson, assistant to Joseph Califano, Jr., Director of the President's legislative program, November 11, 1966.

Chapter IV

CONGRESSIONAL CONSIDERATION OF THE 1965 GOLD RESERVE LAW

When the executive branch strongly recommends legislation, Congress usually reacts with such vigor that quite a lengthy study could be written describing the interests at work. This chapter will attempt to condense Congressional reaction to the 1965 gold reserve proposal to a minimum. In discussing testimony for the Committee on Banking and Currency, the role of interest groups and other institutions will be examined.

On January 28, 1965, the same day that the President had recommended the legislation, Speaker McCormack received a letter from Secretary Dillon of the Treasury advocating a change in the existing law. A copy of recommended changes in the law was accompanied by a transmittal letter which gave background relating to gold, the economy, and accepted economic theory. Also on January 28th, Representative Patman, Chairman of the Committee on Banking and Currency, formally introduced the bill in front of the House.

The bill was referred to Patman's committee without objection. Hearings were scheduled for February 1st, at the request of Representative Patman. In committee situations, oftentimes chairmen are barons, especially if they have great expertise and seniority in their field of specialty. Such is the case with Wright Patman. Thus, it is noteworthy to observe what his views were on the subject for this is a clue to what was done in committee.

It will be noticed that Patman's approach to the subject is similar to that which the Administration had and to that of most other individuals discussed in this study. In introducing the hearing, Patman stated two basic reasons why the gold cover should be reduced. First, the money supply must increase as the economy grows in order to avoid economic strangulation.

Second, the government must provide itself with flexibility which is needed to maintain the international value of the dollar and the consequent stability of the entire world monetary mechanism.

Patman went on to concur with the view presented by others that there is no good economic reason for maintaining any reserves. "The entire requirement is the vestigial remains of a dead system." The needs of an economic system change as conditions change. However, there are valid psychological reasons for retaining some reserves and if further action is necessary, Congress will respond at the appropriate time.

Like all intelligent chairmen, Patman attempted to use the forum to advance one of his pet interests. While viewing the current gold problem as an outgrowth of the balance of payments problem, Patman suggested that the committee inquire into what he felt to be a substantial cause of the problem. The U.S. banks make huge loans to foreign financial entities. Although the interest equalization tax helps, perhaps further restrictions should be placed on these loans.

Secretary Dillon of the Treasury was the first witness. Since the Treasury has been one of the major focuses of this paper, it is appropriate to backtrack to show how his testimony reflects a democratic consensus within the Treasury Department.

How is Congressional testimony prepared within a department? In this case, Paul Volcker, the Deputy Under-Secretary of the Treasury for Monetary Affairs, drafted the speech for Secretary Dillon. Volcker wrote from his general knowledge of the subject plus that which he gained by reading the existing Federal Reserve law and such materials. He noticed that an historical precedent existed for division of the reserve requirement into two parts, one for notes and one for deposits. Thus, Dillon's testimony emphasized the division of the requirement by requesting repeal of only the cover for deposits.

The testimony was reviewed by all the heads of interested offices within the Treasury. Roosa, Howard, Dillon, and Englert approved the testimony. All executive branch testimony must be reviewed by the Bureau of the Budget before it is presented to Congress. Oftentimes, especially if the Bureau already has cleared the legislation, this review is completed superficially. Thus, the Treasury submitted Dillon's testimony one day before it was given to Congress. The Bureau of the Budget approved it within hours.[21]

To digress a bit further, it is interesting to note that the Treasury and the Bureau of the Budget sent out a number of copies of Dillon's testimony to government offices and to industry. The First National City Bank in New York regularly receives a copy of major speeches given by top-level Secretaries. All this indicates that communication does exist on important problems throughout the financial power structure of the United States.

Secretary Dillon, in his testimony before the Committee on Banking and Currency, stated that the requirement should be repealed for exactly the reasons that Patman had stated. Concerning the balance of payments, Dillon said that the change in law would give the United States government and industry time to solve the problem. He referred to the upcoming February 10th balance of payments message to Congress by the President.

In general, the committee members seemed to feel that the repeal of the cover for deposits would be acceptable to them. However, a majority of them implied that they would accept repeal of both requirements if the

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[21]Interview with Paul Volcker, Vice-President, Chase Manhattan Bank, November 23, 1966.

administration so requested. The advisability of this move was discussed at length, centering on the question of psychology. Dillon reiterated a number of times that psychological considerations had been present since 1913 in the original Federal Reserve Act. "There has always been a psychological feeling in the part of many that a gold reserve against notes was very important." The United States should not do anything to endanger the confidence of certain small bankers, some businessmen, and a whole host of others who expressed disfavor with the 1961 Multer proposal as previously considered in this paper.

William McChesney Martin, Jr., Chairman of the Board of Governors of the Fed was the next witness. His statements coincided closely with Dillon's remarks. Martin stressed the changing role of gold in our monetary system and said that he felt the suggested approach of reducing the reserves only on deposits would be acceptable to the American public and also be a pragmatic solution to the balance of payments deficit. Upon being questioned, Martin discussed the psychological problem of maintaining confidence in much the same way that Dillon had. A couple of committee members advocated a 15% linkage of gold to deposits and notes. The Chairman of the Board of Governors granted them that a case might be made either way, but his professional judgment leaned toward retaining 25% cover on notes. Martin said that he had given much thought to the question over a period of years. The conclusion of his thinking seemed to be that the United States should follow the traditional approach. Since a distinction was made between deposits and notes from the beginning, it should be kept that way.

No more witnesses were heard. The committee entered executive session and marked up H.R. 3818 which soon was to become a new law.[22] The vote for

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[22] U.S. Congress, House, Committee on Banking and Currency, Hearings on H.R. 3818, 89th Congress, 1st Sess., 1965.

the bill was 25-3. On February 2nd, one day after the approval, the eleven Republican membere of the commitee issued a formal statement of opposition to the removal of the "entire" gold cover.[23]

The House Rules Committee treated H.R. 3818 favorably by granting it the rules most bills receive when they are expected to pass Congress. The bill was referred to the House as a Committee of the Whole. The Rules Committee recommended that the measure pass and allotted four hours for debate, "equally divided and controlled by the chairman and ranking minority member of the Commitee on Banking and Currency." Opportunity for amendment would be under the five minute rule. Representative Claude Pepper, a former Banking and Currency Committee member of both the House and Senate guided the bill through safely.[24]

On February 9th the House passed H.R. 3818, 300-82, on a roll call vote. There were two hours of debate and no amendments were offered.

The story of the 1965 gold reserve law in the Senate is similar. Both Hubert Humphrey, the presiding officer of the Senate, and A. Willis Robertson, Chairman of the Banking and Currency Committee received letters from Secretary Dillon on January 28, 1965. Robertson introduced the Administration's bill on the same day in the Senate. Without objection it was referred to the Committee on Banking and Currency. Senators Douglas and Javits also introduced similar measures which were referred to the same committee.

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[23]Congressional Quarterly, vol. XXIII, No. 5, p. 176.

[24]Interview with Art Roberts, Assistant to Claude Pepper, Democratic Representative from Florida to the U.S. House of Representatives, December 21, 1966.

Hearings were held by the Senate Banking and Currency Committee February 2nd, 3rd, 4th, 9th and 10th. The committee heard nineteen witnesses who represented a wide cross section of American interest and feeling. In general, the same discussion that the House committee had gone through was repeated. Secretary Dillon and Chairman Martin, the star witnesses, repeated essentially the same testimony.

Although the role of advisory groups has been mentioned before in keeping track of such items as gold and the balance of payments, the role of interest groups has not been discussed. Both the American Bankers Association and the Committee for Economic Development played significant parts in the passage of the gold reserve law.

The Committee for Economic Development is a powerful organization whose views are listened to by government. Rather than an interest group, the Committee appears more as a forum where leaders of America's industry get together to discuss problems facing the nation. As early as 1961 the Commission on Money and Credit, a group sponsored by C.E.D., issued a book in which the repeal of all reserve requirements was advocated. In the Senate hearing, C.E.D. witnesses stated this position. Within C.E.D. membership are corporation executives representing every conceivable industrial interest. Since the power structure within C.E.D. is democratic, the proper conclusion is that C.E.D. and its feeling on the gold reserve accurately reflected the views of the informed financial community throughout the nation.[25]

Charles E. Walker, the executive vice-president of the American Bankers Association, testified for the Senate Committee on Banking and

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[25] Interview with Paul S. Anderson, visiting staff economist, Committee for Economic Development, December 21, 1966.

Currency. Walker felt that the repeal of the reserves on deposits was the best approach, not touching theother requirement. While big banks within the ABA power structure like Chase Manhattan and Bank of America definitely favored repeal of all reserve requirements, many of the little banks and many banks without extensive foreign contacts felt that all requirements should not be thrown out the window at once. Thus, Walker, who represented most of the nation's banks, upheld the Administration's proposal as adequate for the present. He claimed that the existing reserve requirement "threatened economic advances in the domestic economy and might undermine confidence in the dollar abroad."[26] These two reasons were the same reasons many others had cited for changing the law.[27]

Thus it was that on February 10th the bill was marked up by the committee in the exact form it had been presented. However, unlike in the House, the Senate committee was split three ways concerning the bill's provisions, and mark-up was not unanimous.

The majority of the committee backed the Administration's views. Discussion within this group centered around the changing role of gold. Three historical functions of gold were noted, the first two of which were considered outmoded. A reserve requirement to assure the redeemability of money and to serve as a limit to domestic credit and monetary expansion represents two outmoded functions of gold. But gold still must serve as

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[26] U.S. Congress, Senate, Committee on Banking and Currency, Hearings on S. 797, 89th Congress, 1st Sess., 1965.

[27] Interview with Joseph E. Jones, Public Relations, American Brokers Association, Dec. 21, 1966.

[28] Congressional Quarterly, vol. XXIII, No. 8, p. 267.

a reservoir to meet the deficits in international payments. This was the essence of the majority opinion on the committee.

Senators Douglas, Proxmire, and Mondale comprised one minority viewpoint. These Senators were more progressive than the Administration asked them to be. They accepted the lessening role of gold forthrightly and felt that all reserve requirements should be done away with. In addition, this group of three Senators expressed worry that freeing only $4.9 billion of gold would not meet future needs.

The other minority viewpoint was expressed by Senators Bennet, Tower, and Thurmond. This group represents the conservative bias of the committee. Criticizing the Administration at length for failing to solve the balance of payments problem, these Republicans refused to go along with the Democrats who were in office.

On February 10, 1965 the Senate Committee on Banking and Currency reported favorably on S. 797 and recommended that it pass the Senate without amendment.[29]

The Senate did pass the bill as originally submitted by the Treasury Department, but not without considerable debate and the offering of three amendments from the floor. The debate was concerned with questions which had already been scrutinized in committee. Also, the element of decrying was vocal and long-winded in criticizing the policies of the Administrations, who, according to this view, had brought upon themselves the current difficulties.

On February 4, 1965 DeGaulle issued a public statement emphasizing the importance of gold to the world. He called for a return to the gold

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[29]U.S. Congress, Senate, Committee on Banking and Currency, Hearings on S. 797, 89th Congress, 1st Sess., 1965.

standard. The United States Treasury replied at length stating that the "return to the gold standard would be a retreat to a system which had proved incapable of financing the huge increase in world trade that has marked the 20th century."[30]

On February 17th Senator Peter H. Dominick, a Republican from Colorado, introduced an amendment to lower both reserve requirements to 20% for two years and to establish a joint Congressional committee to investigate the United States deficit. Pointing out how this question had been discussed in committee, Senator Robertson helped defeat the amendment by showing that both Under-Secretary Roosa of the Treasury and Chairman Martin of the Fed were opposed to it. If top officials of both the Treasury and the Fed agree on an issue, their combined power and prestige is enough to influence Congress. The Dominick amendment lost 16-48.

On February 18th Senator Frank J. Laushe, a Democrat from Ohio, also lost the vote on his amendment 22-58. Laushe recommended holding on to the present law, but allowing reserves to fluctuate during "exceptional circumstances or a national emergency."

Senator Karl E. Mundt. a Republican from South Dakota, also introduced an amendment which lost overwhelmingly on a voice vote. Mundt, working purely for the interests of his constituents and therin his own political future, requested the government to provide subsidies for domestic gold producers. This idea did not have much appeal to anyone except the gold producers who may have been sitting in the galleries.[31]

On February 18, 1965 the Senate passed the 1965 gold reserve bill 74-7 on a roll-call vote. The enrolled bill was now property of the Bureau

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[30] Congressional Quarterly, vol. XXIII, No. 8, p. 267.

[31] Ibid.

of the Budget.[32]

Before the President signs a bill into law, the Bureau of the Budget clears it. This procedure takes place regardless of whether the bill has been cleared on its way into Congress, i.e., regardless of which branch of the government initialed the legislation. All the departments previously discussed in Chapter III once again approved the bill. On March 3, 1965 the President signed the bill into law. H.R. 3818 and S. 797, Congressional copies of the original Treasury draft for a change in existing law, became public law 89-3.

[32]U.S. Congressional Record, 89th Congress, 1st Sess., 1965, vol. 15.

Chapter V

CONCLUSION

This study has discussed politics and economics relating to the 1965 gold reserve law. In retrospect, the law seems to have fulfilled the immediate needs of the time. It is fitting to ask if the needs of the future were also provided for.

As stated in the first chapter, the long-run trend is away from using gold in monetary systems. Only three nations in the entire world now back their monetary systems with gold reserves. None of these countries are of major financial importance. As the world's money supply grows and as trade becomes greater, the importance of gold will diminish. No nation will have a reserve requirement. Gold will be used exclusively for productive purposes, industry and the arts, instead of being stored underground and occasionally shipped from one place to another.

More important than the long-run uses of gold is its short-run future. The questions explored in this study all relate to the current deficit in the United States balance of payments. What is the Administration doing today and what has it done since the 1965 gold reserve law to solve the problem?

On February 10, 1965 President Johnson gave the third of his annual economic messages to Congress. Johnson talked at length concerning the background of suggested proposals to improve the United States balance of payments position.

Using the new gold reserve law to advantage, Johnson pointed out that the government was well-informed concerning all facets of the problem. The government was acting in a number of ways to improve the situation.

Four flows are involved in the balance of payments which the government has tinkered with or threatens to do so. The export-import net balance, U.S. military and economic aid, investment capital flows, and tourism present four areas in which the government might act. To discuss what the government has done and what it has not done would require a book in itself. It is sufficient to state that the government, through a number of departments and office operations, does have its eye on the situation and to mention a few of the government's activities.

In 1965, the Administration, mostly through the Department of Commerce, inaugurated a new relationship between business and government. The two institutions would work together voluntarily to achieve a common goal of lessening the outflow of dollars abroad. The program has been quite successful in its specific objective. This newly initiated relationship could bring with it a whole host of changes in traditional roles of government and industry. The present concern of industry for the war on poverty is perhaps an indication of what is to come in the future.

Many new advisory groups both within and outside of government have been established since 1965 to deal with the balance of payments problem. Also, existing committees have taken an increased interest in promoting policies which might lead to an equilibrium of payments.

Exemplary of the groups formed is the Dillon Committee. This committee meets regularly every three weeks and sometimes more often. It provides a forum for discussion concerning almost any economic matters which are the responsibility of the Treasury Department. As explained previously, the balance of payments is primarily a Treasury responsibility.

Members of the Dillon Committee are for the most part either leaders of American industry or former Secretaries of the Treasury. Thus, the men who were instrumental in instigating the movement within the Treasury for the 1965 gold reserve law are still influential. If they are not content with the results of their labor, they have the necessary means available to them to ameliorate the situation.

It appears that the United States will have a balance of payments problem for a number of years to come. Right now, the most important factor causing this is the VietNam War. Also, the historical favorable balance of trade which has been enjoyed since World War II is fading. Due to confidence of foreign central banks and powerful monetary authorities of various governments, the present amount of free gold is sufficient to meet all conceivable needs for a few years. This is so even if the deficit continues.

The United States is currently the world's largest trader. The U.S. is also the world's largest banker. The roles intermix and both of these roles will be threatened in the future. The difficult question is--what will happen if the world is no longer content to use dollars as the prime foundation of the world monetary system? If gold is demanded in large quantities, the United States will supply it. This fundamental factor is certain. From the President on down to almost all informed citizens, the policy of maintaining the commitment to sell gold freely at $35 a troy ounce is firm. If occasion demanded it, the remaining gold reserve requirement would be repealed in order to free gold for shipment abroad.

The 1965 gold reserve law passed Congress with the support of the conservative coalition of Democrats and Republicans. Any further demand for removal of the reserve requirement might precipitate an extended debate. Because of psychological factors previously discussed in this paper, world confidence in the dollar could be drastically shaken.

The more time that passes before the Administration next asks Congress to change the reserve ratio, the better it will be for the stability of the dollar. Also, in an atmosphere of crisis, worry seems to perpetuate itself in monetary markets in an exponential manner. Thus, it would be smart for the Administration to keep ahead of its needs. The next time around, it will not be as easy to tell reluctant Congressman--reduce the requirement so that we have time to solve the problem. Yet the need will probably be more acute. Within this context, the dollar and thereby American leadership could be irreparably damaged. For these reasons, not for any reason of economic theory, this writer hopes that the present reserve requirement will be sufficient for a number of years.

APPENDIX

Many governmental bodies are directly or indirectly charged with responsibility for the United States balance of payments. Many advisory groups, both within and outside of government, also concern themselves with the balance of payments. A partial list of those institutions should be helpful to indicate the numerous forums in which problems relating to gold and the U.S. monetary system are explored.

INDUSTRY

American Bankers Association
American Farm Bureau Federation
American Institute of Banking
Committee for Economic Development
Committee for Sound Economics
International Advisory Committee of the Chase Manhattan Bank
United States Council of the International Chamber of Commerce

GOVERNMENT

Cabinet Committee on the Balance of Payments
Dillon Committee
Group of Ten (IMF)
National Export Expansion Council (Commerce Department)
Organization for Economic Co-operation and Development

GOVERNMENT-INDUSTRY

Business Leadership Advisory Council
Commission on Money and Credit
Committee on Member Bank Reserves of the Federal Reserve System
Industry Advisory Business Committee on the Balance of Payments
National Advisory Council

ACADEMIC-GOVERNMENT

Regular Meeting of Professors at the Federal Reserve Building in Washington, D.C.

ACADEMIC

Economics Club of New York
Economist's National Commission on Monetary Policy

RESEARCH INSTITUTIONS

American Economics Association
Brookings Institution
Institute for Monetary Research
National Bureau of Economic Research

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