

Problems Face U.S. Dollar As Gold Reserves Dwindle

By FRANK CORMIER
WASHINGTON (AP) — The U.S. dollar is still "as good as gold" despite its many troubles. It used to be thought better than gold. Now there is some question.

at a glance the implications of the troubles that have assailed the U.S. dollar during the last decade:
1. Ten years ago the U.S. government owned \$2,300,000,000 of gold, or 64 per cent of all the gold in the non-Communist

world. Today, U.S. bullion holdings amount to less than \$16,000,000,000, or 38 per cent of the total supply.
2. In 1952, foreigners had \$9,000,000,000 of U.S. bank deposits and other liquid investments that could be readily converted

into cash. At present, these liquid dollar holdings of foreigners total \$13,200,000,000.
Because the U.S. government makes a standing pledge to sell gold to foreign governments and central banks at \$35 an ounce, dollars held by foreigners are of crucial importance. They represent the potential ability of foreigners to buy U.S. gold.
In 1952, even if foreigners had exchanged all their dollars for gold, the United States would have been left with \$14,500,000,000 of bullion.
COLD EMPTY IT
Today foreigners have more

than enough dollars to buy up the entire U.S. gold supply.
Although such a development seems inconceivable at this point, no one can argue against the proposition that the danger of a "run" on U.S. gold increases as the bullion supply declines and the dollar holdings of foreigners increase.
If these trends continued long enough, there unquestionably would be a run on gold at some point.
To forestall such an eventuality, the United States is determined to defend the dollar and the gold supply by eliminating

the U.S. balance of payments deficit.
For the last decade, Americans have been spending, lending, investing and giving away abroad more money than foreigners have been spending, lending and investing here. Because the outflow of funds has exceeded the inflow, the United States has been running a payments deficit.
DEFICIT HITS DOLLAR
This deficit is the direct cause of the dollar's troubles. It weakens it on two accounts:
1. As foreigners collect more dollars than they care to spend,

lead or invest in the United States, they take their extra dollars to banks and exchange them for other currencies they find more useful. The dollar becomes less valuable in relation to the other currencies that are in greater demand.
2. When foreigners exchange dollars for other currencies, most of these dollars go into the central bank in their particular country. The central bank, in turn, has the authority to exchange these dollars for U.S. gold—something individuals and corporations cannot do.
If the U.S. dollar is weak, for-

16 The Guardian, Charlottetown, Tues. Dec. 11, 1962.
eign central banks are more likely to buy U.S. gold. If it is strong, they are more apt to invest their dollars in the United States and earn interest.
AGGRAVATES PROBLEM
A large payments deficit tends automatically to weaken the dollar in the international money market. Just as automatically, a large deficit leads to foreign purchases of U.S. gold.
The U.S. payments deficit seems to be declining to \$2,500,000,000 in 1961 from \$3,900,000,000 in 1960. It is expected to be about \$2,000,000,000 in 1962.
The government's effort to wipe out the payments deficit is continuing.
Since 1960, the United States has insisted that countries receiving foreign aid spend the bulk of the money in the United States.
The Pentagon is spending less money abroad and urging NATO allies to buy more military hardware in the United States.



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