

## Spong Addresses PDP Dinner Meeting On National Problems

Senator William B. Spong Jr., D-Va., told law students at a law school dinner that removal of the gold cover behind federal reserve notes and deposits will demonstrate that the United States is prepared to defend the dollar.

The main way to protect the dollar, however, is "decisive action to bring our balance of payments into equilibrium," he said.

"The first step in meeting this problem is a limitation on the inflationary pressures in our economy," Spong said at a dinner meeting of Phi Delta Phi Fraternity.

Spong, a member of the Senate committee on banking and currency, called for a "reduction in government expenditures and a limit on deficit spending by the federal government."

The "most immediate and effective action that the President and the Congress can take to defend the dollar is to put our financial house in order by cutting back on government spending and limiting the deficits in our budget," Spong said.

"If we do not take vigorous action now we face a real threat of the devaluation of the dollar and the resulting consequences."

The senate banking and currency committee Monday voted to eliminate the 25 per cent gold reserve behind federal reserve notes.

"What the removal of the gold cover will do," Spong said, "is to make clear to the world that the United States is prepared to defend the dollar. With the United States making it clear that it intends to maintain the convertibility of the dollar it is hoped that market speculation against the dollar will be discouraged and that the

demand for gold will be reduced."

"At the present time we have gold stocks of approximately \$12 billion and a current gold cover requirement of \$10.7 billion," Spong noted. "Thus we have \$1.3 billion in free gold. The normal annual increase in gold required as reserves for domestic use is \$700 million. In two years—without making allowances for an outflow of gold to foreign countries—the available free gold will be depleted."

"Faced with the current status of our gold stocks, the prospect of further deficits in our international balance of payments and continuing pressure on the dollar abroad, I believe that the congress has no alternative but to remove the gold cover."

Spong said the removal of the gold reserve should have no adverse effects domestically, for the value of purchasing power of the dollar is not determined by the gold reserve behind federal reserve notes.

"It should be made clear that the removal of the gold cover will not solve the U.S. balance of payments problem, but will only buy us time to take necessary remedial action," he said.

The gold cover was adopted in 1913 along with the establishment of the Federal Reserve System. At that time the law required a 40 per cent gold reserve behind federal reserve notes and a 35 per cent reserve for deposits.

In 1945 the required gold reserves behind both notes and deposits was reduced to 25 per cent because of a concern that the expansion of money and credit required by wartime financing might



U. S. Senator William B. Spong, "Squire" Newton, Jerry Robertson and Charles Covington, Newport News city treasurer, at the March dinner featuring Spong's address

exhaust the gold held in excess of legal requirements.

In 1965 the reserve requirement for deposits was removed because the outflow of gold to foreign countries and an increase in federal reserve notes had reduced the ratio of gold to currency and deposits to just under 28 per cent. Since 1965 the amount of free gold has declined further.

Senator Spong also criticized President Johnson for erroneously telling the American people "We could have guns and butter" and called for continued cuts in federal spending to head off a situation of "economic peril."

The Junior senator from Virginia explained that more than two years ago the president made his "guns and butter" statement and "we haven't been able to accomplish this yet and we're not going to be able to."

"It's absolutely necessary for us to curtail spending and at the same time it is necessary for us to strengthen the dollar and to stand behind it," Spong said.

He singled out three "priority" items where he feels the federal government can make substantial budget cuts: the space program, the agriculture program, the agri-

culture program and the area of public works projects.

Spong cited problems that face the big cities, air and water pollution, problems of racial discord, deficit spending and fighting a war. "We just can't walk away from these problems, we can't avoid them," he said. "We have to work to eliminate them, and if necessary, all at once."

In answer to a question Spong noted that certain curtailments are going to have to be made on U. S. travel abroad. "The other nations involved are not going to like it. But they must face reality."