Senator PROXMIRE. Thank you.

Chairman PATMAN. Senator Pell.

Senator PELL. Mr. Hayes, I extend my personal greetings to you.

Mr. HAYES. Thank you.

Senator PELL. I was struck by one thought you had and that was your opposition to the theory of the French index bond where they tie in the payment with various real values. I have always been worried by the thought that our total gold supply is in the hands of the Soviet Union which is not exactly a friendly nation and the Union of South Africa which is not exactly stable.

Do you think the reverse is true, that for the long haul gold should always be the peg on which we can hang our currency?

Mr. HAYES. I think the gold standard with all its imperfections has worked pretty well so far. I see every reason to think, with the kind of modifications that have been made in it in the last few years, the development of what I would call a reasonably streamlined gold exchange standard in conjunction with it, or dollar exchange standard, that it gives promise of doing the job for us very effectively over the coming years.

I would think with regard to the availability of new gold, I would think it highly unlikely that whatever regime was controlling South Africa they would forgo the pleasure of selling their gold at a fixed price of approximately $35. I doubt if they would hang onto that and prevent its reaching the markets of the world.

We also know, or we suspect, that the intentions of some of our other friends that you mentioned may not be always of the best towards us, but on the whole they have sold a certain amount of gold in the markets pretty regularly. I think Russia has provided approximately a quarter of a billion dollars on the average, year in and year out.

Senator PELL. The thought that Russia might be holding a vast amount of bullion with which she could upset the world market does not worry you?

Mr. HAYES. It does not worry me, no.

Senator PELL. One other question: Accepting the premise that our money supply is not increasing in proportion to our GNP, do you see any possibility or danger of deflation?

Mr. HAYES. In looking ahead we always have to weigh the dangers of inflation and deflation. We have already touched on those of inflation. I think there is always a possibility of getting into a softer business situation. But I see no likelihood of its developing in the near future.

I think, on the contrary, the outlook is fairly good. Deflation I know is an unpleasant word with all its connotations and I share the concern over deflation as it is generally understood. But I would also like to say this: A moderate and slight decline in prices might be a rather desirable development in the way of giving some of the benefits of productivity to the long forgotten consumer.

Senator PELL. Do you also believe or do you think an effort should be made to keep the increase in GNP in line with the increase in money supply?

Mr. HAYES. I think over an extended period of time it is quite probable that you will want to have the money supply bearing some