

The devaluation of sterling means the writing down of approximately \$1 billion in the value of £2.3 billion of reserves that are held in the form of this important currency.

Chairman REUSS. If I may interrupt you there because you are stating a truism, that I think may have escaped many of us. The free world reserves over the weekend went down, you are saying, by a sum on the order of \$1 billion?

Mr. BERNSTEIN. Well, omitting any transactions which are not yet reported and which may have a nominal effect on gross reserves, I would say that, in terms of dollars, the gross reserves of the world dropped by roughly a billion over the weekend. That is because there was something like £2.3 billion of reserves in the form of sterling and these are worth 40 cents less per pound. Of course, there is a good deal of sterling held by nonmonetary authorities, although these holdings are partly offset by claims in sterling.

Chairman REUSS. So the need for activation—

Senator SYMINGTON. Mr. Chairman, let me be sure I understand. Are you saying that the British have \$7 billion in gold reserves?

Mr. BERNSTEIN. No, sir.

What I am saying is that countries throughout the world hold official balances, balances of their monetary authorities, in the United Kingdom, other liquid assets, which amount to, or amounted to, something like \$6.4 billion in dollar equivalent at the old rate of exchange.

We now have to reduce that by one-seventh in dollar equivalent. That is a drop of a little over \$900 million.

Senator SYMINGTON. Are you saying there is \$6.4 billion of sterling held in Great Britain and other places redeemable in gold upon call?

Mr. BERNSTEIN. Not in gold; although the sterling is convertible into dollars.

Senator SYMINGTON. I want to be sure I understand.

Mr. BERNSTEIN. The sterling is held in the same way as dollars, either deposited in banks, or invested in liquid assets that can be converted quickly. The claim of the holder is a sterling claim. The sterling I am talking about is that held by foreign monetary authorities—by Australia, and so on. With the change in the gold parity of sterling, the dollar equivalent of these sterling balances is \$900 million less than it was last week.

Senator SYMINGTON. I see.

Chairman REUSS. Sir Roy, did you want to comment at that point?

Sir ROY HARROD. No.

The thing has been made plain.

Chairman REUSS. Right.

Mr. BERNSTEIN. As the purpose of the plan for a new reserve asset is to meet the world's need for reserves, that should be the sole test on activation. When the managing director of the International Monetary Fund finds that we need more reserves because the growth of reserves is too small, that is the time to activate the plan. I have merely observed that the present indications are that that would mean activation about as soon as the plan is ratified and the International Monetary Fund can make the technical arrangements for proceeding.

In my opinion, it is a mistake to make activation depend upon the balance of payments of the United States, except as this balance of payments may have some ancillary effect on the reserves of the world.