

world's medium of exchange, unit of account and store of value for international transactions. The French overhang has been removed. In the case of other countries, the remedy is better understanding of the usefulness of dollars rather than attempts to reduce their size. It is inefficient to have to convert reserves into media of exchange when the time comes to use them. The most efficient system is one in which the medium of exchange and the store of value are the same. This is the banking function within a country. I assert it is the same internationally.

As to whether the sterling overhang may usefully be removed, I have no clear view. It depends upon the stability of its deposits. There are two reasons why holders of sterling might draw them down: 1) because they themselves were running deficits which they needed to meet and chose to meet in sterling, paid to countries which did not normally hold sterling; 2) because they decide to hold their reserves in another form, for safety or for greater usefulness. On the latter point, for example, if Britain joins the Common Market some countries like Australia will find themselves trading more widely in the Pacific and may have less need to hold sterling and more need for other currencies.

In sum, therefore, I do not believe dollar overhang exists and needs to be removed. I do not have sufficient information to make a judgment on the position regarding sterling.

The second part of the question regards the desirability for rules on the proportions of international reserves held in gold and dollars to limit the conversion of dollars into gold. The official Treasury position seems to be that this would be unwise since any maximum agreed on ratio would quickly become a minimum ratio for other countries which hold now mainly dollars. No agreement among the major financial powers could be prevented from spreading to smaller countries. If this be the case, agreement should be for the greatest part informal and tacit. Perhaps such agreements now exist outside France. The United States, however, should stand ready to pay out gold to the full extent it is demanded of it, and to the last ounce of gold. It is this readiness to meet the requirements of the gold-exchange standard which, in the long run, is the best assurance that the country will not be called upon to do so.

As for the country which has been trying to put pressure on the United States by deliberately and overtly converting dollars into gold, France, no agreement would be possible with her, and none is now needed. The French balance of payments is now in disequilibrium and the French have even been borrowing dollars, through *Electricité de France's* issue of \$30 millions of Euro-dollar bonds, to replenish their dollar stocks.

3. *Proposals for Continuing to Sell Gold, but not to Buy.*—May I refer to my discussion of this question in the Joint Economic Committee's Compendium on Contingency Planning for International Monetary Reform? I may summarize that discussion here by saying that while I would not aggressively seek to change central-bank and hoarder views of the long-run prospects for gold by lowering the price or altering our long-standing commitment to buy at \$35 an ounce, I expect that gold will be demonetized in the long run, and the prospect does not appall me.

Representative REUSS. Senator Symington?

Senator SYMINGTON. Thank you, Mr. Chairman.

Dr. Kindleberger, I think I know your answer, but would like it for the record. Would you say we have an excess of liquidity, or shortage of liquidity?

Mr. KINDLEBERGER. In the United States or in the world?

Senator SYMINGTON. In the world.

Mr. KINDLEBERGER. You may know the answer, sir, but I am not sure that I do.

Senator SYMINGTON. I think I know what your answer will be.

Mr. KINDLEBERGER. There are two criteria by which one chooses in the literature. One is whether the burden of adjustment is on the deficit or on the surplus countries. If it is on the surplus countries you have too much, on the other it is too little.