Chairman REUSS. May I interrupt you at this point?

Mr. MACHLUP. Yes, sir.

Chairman REUSS. Do you have any advice to give to those who have, in reliance on these representations, purchased the shares of gold-mining companies?

Mr. MACHLUP. I am sorry, you will have to ask the financial analysts in New York, for I do not have any advice. If someone has bought stock at a high price, well he had better sell while the price is still high but—if many try to do so—the price will come down fast. Some people will have to take losses, sir.

Chairman REUSS. But as to those who are now contemplating purchase at these high prices would you have any advice?

Mr. MACHLUP. Yes, to stay out of it. The prices are just crazy. Anybody who has bought the stock of mining companies recently has made a mistake, and others who have not purchased had better not be suckers.

Mr. BERNSTEIN. Fritz is a model of a man who has inside information and makes it public generally instead of whispering it to some people.

[Laughter.]

Mr. MACHLUP. Well, let me say more about the gold-mining deceptions. There has never been a good reason in recent years for this speculative investment in gold or in gold-mining shares. To be sure, consumption of gold for jewelry, dentistry and industrial uses has been rising fast, but it used to absorb only a very small portion of world output. Thus in 1967, after years of rapid increase, the consumption of gold was still only about one-half of the output of the free world. The excess gold supply has always had a secure outlet into monetary gold reserves, but the gold-mining interests were not satisfied with the official support price. Thus, by means of stories continuously fed to the press and to investment analysts, they developed a huge demand for gold for private stockpiling. Private purchases for stockpiling increased from year to year, taking eventually not only the excess of gold output over gold consumption but several billion dollars worth of gold from monetary reserves.

In 1967, private purchases of gold for stockpiling were almost three times private purchases for actual use. It is estimated that private holdings of gold are about $20 billion worth, at $35 an ounce, although much of it was actually bought at higher prices.

These private stocks are enough to supply actual gold consumption for jewelry, dentistry, and industry at the current rate for more than 20 years. But much of this gold has been purchased, not with the intention of holding it for resale to consumers, but rather for resale to monetary authorities when they finally do what the gold interests want and predict; namely, double or triple the buying price of gold.

Yet, if this hope does not come true, the private stockpiles become available for actual consumption of gold and, I repeat, there is enough on stock, at the present rate of consumption, for the next 20 years. And what then with the new output of gold? And what if technical progress takes place and brings down the cost of producing gold instead of raising it? There are possibilities of such technological developments.