

needs, for extending reserve credit, it can require a member to sell its currency for gold, and that would be at \$35 an ounce.

While I think there would be certain advantages at some time in the future in our accepting the option of managing the behavior of the exchange markets in New York to keep exchange rates within whatever limit the Fund sets, I think we must not exaggerate what this would mean in excluding the United States from being a buyer of gold. It is quite true the United States can, if it wishes, accept the principle of that article IV about keeping stability of the exchange rates in its own market and not permitting transactions outside these limits.

The principal method of doing that would be for the United States to sell foreign exchange when the dollar reaches the lower limit and to buy foreign exchange when it reaches the upper limit of the range set by the Fund. Unless the United States is prepared to hold this foreign exchange indefinitely it must present it for conversion.

Now, I don't think this problem would arise with us now because our payments deficit is providing foreign central banks with an enormous quantity of dollars. But we could have the problem if we had a surplus and acquired various currencies, and that might include some we don't really want, through the management of our exchange market to prevent transactions outside the limits set by the Fund.

Under article VIII the other country must convert these balances held by our monetary authorities. They can convert them in dollars or in gold at their option, and I don't see how we could refuse to take the gold under article VIII if we gave them the currency, whether it is francs or lire—which we might want to hold—or Brazilian cruzeiros which we might not want to hold.

I come down to this proposition: In the order of importance of the gold question, the two-tier system does not seem to me to be of overwhelming urgency.

I don't believe that the world is going to be swamped, the monetary authorities are going to be swamped, with offers of gold at \$35 an ounce. Unlike Professor Machlup, I don't believe that the output of gold compared to the private consumption has been so large in recent years.

In 1966 and 1967, but not in 1968, there was a slight decline in South African output, but that was because new mines weren't opened and the old ones did produce less. Since 1965, private absorption of gold, *ex* what was acquired by speculators—that means normal industrial uses, including jewelry, and traditional hoarding—absorbed all of the output of gold. It is true that in 1967 and 1968 the acquisition of gold from the monetary authorities created a stock of \$3 billion acquired by the speculators, but in my opinion the speculators are holding much less now.

We have data on the industrial consumption of gold. These data are reported by 11 countries, collected by their central banks. According to the Swiss banks, and two of them spoke to me about this, these figures on the industrial absorption of gold are underestimated. I asked them how the central banks made this error, and they said: "They didn't ask us." I then asked how they knew what the industrial consumption of gold really was. And they answered: "It is not because we are agents acting for the speculative buyers and sellers of gold, but