Mr. BERNSTEIN. We had no great trouble at the International Monetary Fund in excluding central banks from selling in that market, the exception of course being the South Africans, acting as an agent for their Chamber of Mines.

But the two-tier system did not disrupt the international monetary system or cause any difficulty. I don't believe the price of gold is going to go much higher than it is now at any time in the next few years. I don't believe it is going to fall to $35 an ounce but I may be 100 percent mistaken.

The reason I don't believe the price is going to go above $40 an ounce is the big overhang in the market. This overhang amounted to maybe $3 billion, and there may be something more than this $3 billion. The Swiss commercial banks, as you know, are legally entitled to hold gold in their reserves, and they were very large holders of gold before the great speculation began in 1967. They are entitled under their own laws, to replace this gold with Swiss francs in their reserves. So they have a large amount of gold that could be sold.

The South African Reserve Bank hasn't been selling all of its output in the market, in the private market, since the beginning of the year. They accumulated more gold in the first quarter even than in the second. That proves to me that the overhang has not been very much diminished, but that it has shifted from the hands of the speculators to the Chamber of Mines. The South Africans cannot continue to build up their holdings of gold this way. They will have to sell them to meet their own international payments. It is their most important export product. They have had a good balance of payments from capital flows. They have been selling gold shares to the rest of the world at prices that quite properly have been categorized by Fritz Machlup as unbelievably excessive.

This capital flow will stop; the South Africans will have to use their gold. But in the meantime what has happened is this: The private market, including the industrial users, have been getting the gold they need, they have been getting it because there have been speculators satisfied with the short period profit, and they have been selling it off, so that the private speculative holdings have been reduced this year, but the newly mined gold has been going into what I would call an official overhang held by the Chamber of Mines.

I have done my own analysis of the prospects for gold supply in the future, and I do not believe that the official estimates of the Chamber of Mines of South Africa are realistic. They conclude that if they don't open new mines, the output will drop by about one-third in the next 7 years. That may be true about production from existing mines; but I believe they are going to open new mines. They opened two new mines this year and gold production in South Africa will rise in 1968. It is true that gold production outside of South Africa is very much less than it was before the war. But I expect South African production to increase, as it has, with occasional interruption, since 1947. The increase in world production of gold outside the Soviet Union, however, will probably not be at a great rate, maybe on the order of 1 or 2 percent a year.

I have said I do not expect to see much change in the price of gold in private markets. Prices are not likely to fall, because new supply will increase less than demand if incomes keep rising by 5 percent or more