

Now, we can do an awful lot of fussing with central banks and with the International Monetary Fund about what to do about gold. In my opinion this is a secondary question, and I would deal with all gold questions primarily to make sure that gold policies do not interfere with the evolution of the international monetary system into a composite gold standard operated through a reserve settlement account.

I don't care whether a half billion of gold is sold to the International Monetary Fund in the next year or two by South Africa. It doesn't make much difference one way or the other. But I care a lot whether the European central banks are willing to see a system in which their gold, their dollars, their sterling, and their special drawing rights, when they are issued, are put into a single account in return for composite reserve units which would then be the sole transferable reserve.

Now, I come to the question that Fritz and Bob Mundell mentioned, the widening of the band around parities in which exchange rates would be allowed to move.

First, the International Monetary Fund staff is, of course, studying this question. It is studying this question with the complete approval of the monetary authorities including those who say they will never have wider bands.

So that while you might want to ask the Board of Governors to ask the International Monetary Fund to make a study and even appoint a high-level working committee equivalent to the Ossola Committee, I think that, in fact, the day-to-day work is being done right now.

It is possible that a wider band would help minimize fluctuations in the balance of payments. I don't altogether like the way Fritz Machlup speaks of the need for a wider band in order to avoid deflation in correcting our balance of payments as it is now. I myself feel that if we just stopped inflating, the balance of payments would improve a good deal.

I don't believe that the adjustment process has really worked badly in the postwar period. I personally believe that Germany, Italy, and the United States, from 1959 to 1964, achieved an unbelievable improvement in our trade balance. This without deflation.

But it does seem to me that if you are going to inflate relative to the others your trade balance will go down.

Now, inflation which is chronic for everybody is going to be uneven. So the question is how do you in fact under such a system perhaps moderate the imbalances of payments that might come, and there I can see how a somewhat wider band might be useful for dealing with short-period fluctuations, while retaining the basic principle of fixed parities that can be changed from time to time.

My feeling is if I were setting up such a system, I would follow Fritz instead of Bob, but I am going to give Bob a consolation prize. I would set up the rule that any country's currency may move within 5 percent of the agreed parity. But any country that wishes could limit the exchange rate fluctuation within a narrower range, say, 1 percent of parity, where it thinks the wider range would lead to speculation that could move the exchange rate to the 5-percent limit, even if the payments position did not require it. I would be perfectly willing to let these countries keep the range for their exchange at