feeling is that this will work itself out pragmatically. There is no great danger from this, in my opinion. The world lived very well with a two-tier gold market from 1940 to 1953 under worse conditions than the present. I know of no reason for thinking that the international monetary system is going to break down with a two-tier market at $42 an ounce when it functioned quite well with a private price of $50 or $53 an ounce in dollars; I am not talking about prices in other currencies, but in dollars.

Chairman REUSS. Just that I may be clear on this, your testimony is that you would be relaxed on the gold price provided that there is done what you have regarded as an essential; namely, the setting up of some sort of reserve agreement?

Mr. BERNSTEIN. That is right, sir.

Chairman REUSS. You do need that to reduce the swelling, do you not?

Mr. BERNSTEIN. I think the great advantage of a composite gold standard is not so much that countries will violate the principles of the March statement, but that they would have a preference for gold which would make them run down their dollars and their sterling. We recognize this problem with the SDR's, and that is why the SDR plan has so many rules for supervision, for guidance, for designation, for reconstitution. In my opinion, it would be far better to have an automatically operating system such as the reserve settlement account.

It would almost be without any supervision. You hold and transfer reserves in the form of a composite reserve unit. That brings about the automatic use of all reserve assets which is just what the Fund is trying to do with all of these guidance provisions.

Now, I think the problem of the private gold market is going to settle itself. We do need a stronger balance of payments in the United States. We have to get it without deflation. I hope we will have a little more strength in the German economy. I don't believe the German economy is expanding anywhere near as much as it should. I believe their wages are not high enough for productivity and are not rising as much as the increase in productivity; and I think their interest rates are too high and monetary policy is too stringent still for their international position and for their savings.

Now, these things will work themselves out. It will be a great help if we have less inflation and the Germans have more expansion. But I don't think we are in any grave danger of being upset by the private gold market. I would not raise an issue that compels countries to act contrary to their preferences or prejudices as long as we are having no disturbance from the private gold market.

When there is a disturbance it will be time enough for the IMF, that has plenty of power on this, to state what it thinks is necessary. It has done it in the past, and it can do it again.

Now, on the question of a wider band, I do agree that it would be useful to have a study. I think there are many technical questions to be considered. I think the study should not have any limitations as to what kind of wider band we want. Let the experts think it all through.

Chairman REUSS. Thank you.

Now, would you address yourself to the four pillars of wisdom?

Mr. MACHLUP. Gladly.