

companies going into the voluntary program on a wholehearted basis.

In the first half of the year a considerable part of it was due to the fact that many companies borrowed heavily in European markets for the purpose of raising funds abroad, through debentures, convertible bonds, and sometimes through short term and intermediate Euro dollar credits. I think that is not the whole explanation of the improvement in the direct investment accounts. But I would say in the short run it is mainly the program and in the long run it will be mainly the fact that American corporations will have completed their rapid expansion in Europe and elsewhere and won't need as much financing from this country. I would say that the figures put out by the Commerce Department a few days ago on plant and equipment expenditures of U.S.-foreign affiliates from 1966 to 1969 indicate this.

Senator PROXMIRE. I just have one other question and that is for you, Mr. Bernstein and for Mr. Mundell.

Mr. Mundell, you seem to disagree very vigorously, at least I construe it as a disagreement, with Mr. Bernstein on your reaction to the effect of the two-tier gold price. As I understand, reading from one of your monographs here, you say this has immobilized the reserves, the gold and other reserves, made them illiquid and you feel that, seem to feel, there is quite an urgent need for a new form of international currency, you call it intor.

Mr. MUNDELL. Yes.

Senator PROXMIRE. And Mr. Bernstein, you seem much more relaxed. I get the impression you think we are doing very well, the SDR is a fine advance, that if we can proceed to get approval by all governments of the SDR's we will be well on our way and then we can move to the second priority, as you put it, the composite reserve, composite gold standard, but that this can take a little time without the kind of financial, international financial, crisis that some of us have feared, without the restraint of international trade or catastrophic effect on international trade. Is this a basic disagreement, Mr. Mundell, between you and Mr. Bernstein?

Mr. BERNSTEIN. I am not sure it is. I have not had the benefit, Senator, of Bob's paper, but I, too, believe that there is a danger that countries will use their gold only in crises.

I do not know how strong that attitude will be, but I think it will grow as the feeling prevails that gold is going to be the scarce reserve asset, and fiduciary reserves will be the only source of growth in the future.

I am more relaxed than Bob for this reason: I have been through the evolution of the international monetary system, on the level of cock-fighting where you do a lot of scratching with extra long claws. It is my opinion that these things evolve best if you make the big central banks see that there is a logical next step, and that this step does not change the system too much.

That is why I have always felt that the progress through, first, larger quotas and more resources for the fund through the GAB, then the swap arrangements, and now the SDR's was a natural evolution, an adaptation of the system we have experience with. I believe we can move along to the reserve settlement account if we convince our colleagues in Europe that this is one more step in the right direction,