that we are not destroying but strengthening the system with a composite gold standard.

I have reason to believe that the reserve settlement account is regarded as a practical next step in this evolution, from my own reading of the central bank reports of Europe, I have talked to a half dozen officials of the Group of Ten. There are some skeptics, but what I find more astonishing is the kind of people who are interested and have said to me, "We would like to know more about how this would work in practice."

That is one reason why I put a lot of emphasis on how their own reserve accounts would look when the reserve settlement account is set up; how the transfers would take place, how the final settlements would be made.

I am convinced it is only a question of 2 or 3 years before there will be some kind of reserve settlement account, and I think we shall find ways of dealing with whatever problems come up in the meantime.

Improvement in the U.S. balance of payments would make everybody readier to look at the next step, and I am hoping that that will come in the course of this year and next year.

Senator PROXMIRE. Mr. Mundell, I had reference to your statement, "A Plan For a World Currency," where you say:

> We must, therefore, conclude that the new Fund Agreement does not meet the problems of the international monetary system. At the same time, the two-tier gold arrangements have immobilized gold reserves and made most gold-holding countries illiquid. There is still a huge gap in our international financial arrangements.

Mr. MUNDELL. Yes, I would like to comment on that. I am not as optimistic as Mr. Bernstein is.

Last year at the fund meetings everyone was excited about the new toy, and 2 months afterward, the pound sterling was devalued; and 6 months after, the exchange system broke up; and the problem last year, as I argued at that time, and as many of my colleagues argued also, was that the SDR agreement was not meeting a major problem in the system.

Now, I feel the same today. The SDR system is not going to solve the major problems that are going to come about even in the next year. Unless we do something rather rapidly, such as putting everything together in some kind of pool, creating a generalized asset, the system is going to change itself while new committees deliberate. My proposal is not in a sense in conflict with Mr. Bernstein's Reserve Settlement Fund. It is more inclusive than his. It goes beyond that. It goes, let us say, one or two steps beyond the plan Mr. Bernstein has advocated.

But I do believe that the two-tier system is impermanent. I do believe that gold has been put at the bottom of the pile of the central banks' reserves; and that, because of this, countries will be very reluctant to sell their gold now at $35 an ounce.

Senator PROXMIRE. How do you meet the Bernstein argument that we had a two-tier system from 1940 to 1953 under more difficult conditions and with a price that was considerably higher than the $42?

Mr. MUNDELL. Well, I suspect Mr. Bernstein is referring to his $53 price as the Bombay price.