When the U.S. dollar was strong, countries did not feel that the gold market was the leader. They felt that the United States in the end would be the determining force on what would happen to the price of gold. They did not have many dollars in this period I am talking about. In fact, the price of gold was at its highest in the free markets when the official dollar holdings of the rest of the world, were at their post-war low, less than $2 billion at the end of 1947.

Today, the central banks wonder about a $42 an ounce price of gold in the private market and speculators feel more hope about a rise in the price of gold primarily because there is much less assurance that the United States will restore its payments position. I think that the difficulty about gold is not the two-tier market. The heart of the problem seems to be two other questions. First, the lack of assurance on the position of the dollar and, second, the conviction that from now on the amount of gold in monetary reserves is frozen, and that nothing but fiduciary reserves will be added. This is what makes them have a preference for gold, one effect of which is what Bob Mundell said.

I am not nervous about the system's collapsing. I have many reasons for thinking it won't collapse. I have also reasons for thinking that the best progress will be made by convincing the central banks in the Group of Ten that the composite gold standard is a natural evolution of the present international monetary system. They have known for several years that, in my view, and in the view of others, it is necessary to link all the reserve assets together in a composite reserve unit.

When I first wrote about a new reserve unit, I proposed it be used jointly with gold in international settlements. Today I think the problem is much more complex. We have added another reserve asset, SDR's. The position of sterling is weaker, the flight from sterling, not from private holdings but from reserve holdings, has been going on. The new credit arrangement is to give official holders of sterling assurance of its availability as reserves.

The dollar is in an exposed position, especially in a world in which a political or an economic crisis can occur at any time.

I think now definitely we must have a composite reserve unit that will include foreign exchange and SDR's as well as gold.

Chairman Reuss. Mr. Moorhead?

Representative Moorhead. Thank you, Mr. Chairman.

Mr. Bernstein, on this "widening the band," I understand the 5 percent up or down, and the 1 percent as applied to other countries, but will you explain how it would work as far as the United States is concerned?

Mr. Bernstein. Well, there are many ways in which it could work for the United States.

As you know, Mr. Mundell has suggested different currencies be handled differently. I would say that the present rule that no country shall change the parity of its currency in terms of gold without the approval of the International Monetary Fund would stand as it is today.

The rule on maintaining margins above and below this parity would be altered so that the exchange rate for the dollar would vary in terms of other currencies by no more than 5 percent from its established parity. That means the dollar could be 5 percent cheaper or 5 percent dearer in terms of any foreign currency. For the dollar the limit of the