

range would be 4.20 marks to the dollar and 4.80 marks to the dollar. That is the 5—

Mr. MUNDELL. 3.80.

Mr. BERNSTEIN. Thank you, 3.80 and 4.20.

Now, if you want to go even farther than that, you could within such a system allow other currencies a little more deviation from their parities by saying this applies to the dollar, but that any other country may, at its option, select another currency which shall be the one from which it will move by no more than 5 percent. That means the Germans might opt for the dollar to be the basis for measuring variations of the mark from parity. That would not change the 5-percent limit of the fluctuation of exchange rates from parity between the mark and the dollar or any other currency and the dollar. But it would allow greater fluctuations between the mark and other currencies. If sterling fell by 5 percent in terms of the dollar and the mark rose by 5 percent in terms of the dollar, the mark-sterling rate in the exchange market would have moved 10 percent from the parity relationship established between these currencies.

Mr. MOORHEAD. This is where I am having difficulty. I realize that Germany can select the dollar as its benchmark, but when we select, let us say, Germany, as the one currency to which we would key our fluctuation or do we—

Mr. BERNSTEIN. The practice is that, in fact, we do not key the dollar to any particular currency. I am talking now about the practice of central banks when they intervene in exchange markets.

But the Germans, the French, and the British, the way they keep their exchange rates within the margins required by the Fund is by saying "whenever the exchange rate is more than 1 percent from the parity with the dollar in our market, we will intervene and either buy dollars to hold our dollar rate down or sell dollars to hold our dollar rate up."

They all do that, without exception, when they intervene in exchange markets. The United States, in fact, is only a marginal intervenor in the markets. It does sometimes, both in the forward market and the spot market, but, in general, it is the central banks of the other countries that pick up dollars. That is their easiest way of intervening in the market to keep the rates within the range established by the Fund.

Now, what they would do in the future with a wider band for market fluctuations is to let the dollar rate vary from any other currency by not more than 5 percent of parity in either direction. But the International Monetary Fund could let any country opt and say, "We do our intervention with the dollar. Therefore, for us, the test of whether we have reached the limit of this range is whether it will be 5 percent above or below the dollar."

If Germany has a very strong currency, the mark might rise by 5 percent from 4 to 3.80 to the dollar. If sterling has a very weak currency, it could fall by 5 percent, from \$2.40 to \$2.28 to the pound, and then the rate you would get, the swing between the mark and sterling, would be about 10 percent because each country would have selected the dollar as the test of its 5-percent variation. That is all I meant.