The IMF Gold Sale and Trust

Fund Arrangements

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Preface

Last January at the International Monetary Fund meetings in Jamaica agreements were reached on two related and comparatively novel arrangements, one involving sales of "redundant" IMF gold and the other, the establishment of a "trust fund" for the benefit of developing countries. These were new mechanisms for augmenting the flow of concessional transfers to developing countries that most students of overseas development had only begun to hear of a scant year earlier. This was an extraordinarily short gestation period for a comparatively complex set of international arrangements, and, of course, as the present study shows, the new inventions in fact had longer antecedents. But the speed of decision left many students curious about what exactly had been contrived at Jamaica and what the implications for the various developed and developing parties to the schemes might be, a curiosity that was heightened by the rather general and cryptic idiom in which the Jamaica agreements had deliberately been couched.

In February, therefore, I was very pleased, when, as his project for a 6 weeks' seminar on foreign aid and other transfer devices that I was offering, John Borthwick, a second-year Wilson School graduate student specializing in development, undertook to tackle the trust fund and gold sales subjects. It is not normal to issue student seminar papers as R.P.D.S. Discussion Papers. However, Borthwick not only has done a sufficiently enterprising piece of detective work (via conversations with IMF personnel and otherwise) of ferreting out the content of the Jamaica arrangements, he has subjected them to a sufficiently thoughtful interpretation to make his product a timely and useful one for a variety of professionals in the field.

John P. Lewis
Professor of Economics and International Affairs
The recent decision by the members of the IMF to establish a trust fund for the benefit of the poorest countries financed by the sale of IMF gold was the second attempt in recent history to tie measures taken to reform the liquidity base of the world monetary system to the goal of increasing the flow of real resources from the developed to the developing world. The first such attempt was the so-called "SDR-Link", a mechanism whereby developing countries were to receive preferential shares of SDR allocations for the purpose of assisting them in their development efforts. However, despite a long and persistent campaign to establish the Link, all SDR allocations to date have been made strictly on the basis of IMF quotas. Opposition to the "SDR-Link" has always run deep, particularly among influential members like the United States and Germany, but even the Committee of Twenty's 1974 Outline of Reform, a document on the direction monetary reform should take, intimated the bleak prospects for the link. It followed a positive assertion that "in light of the agreed objective to promote economic development the reformed monetary system will contain arrangements to promote an increasing net flow of resources to developing countries," with this less than ringing reference to the "link": "If these arrangements were to include a link between development assistance and SDR allocations, this could
take one of the following forms ....")

The rapid progress of the trust fund arrangements (from conception to reality within one year) was partly the result of the developing countries' failure to get the "SDR-Link." However, as this paper will attempt to show, the trust fund's evolution was also the product of a unique combination of factors, including bloc politics, the current international monetary situation, the direction of monetary reform, and the balance-of-payments problems of the poorest nations.

This study opens with a description of the mechanics of the trust fund -- gold sale arrangements, focusing particular attention on the magnitude of the benefits, and the technique and terms of their distribution. The remainder of the study is an attempt to determine the cost of the trust fund to the developing countries.

Since the trust fund was a result of a lengthy negotiating process in which many divergent interests were represented, one would expect that concessions had to be made. The first two sections of this part do not address themselves to this subject directly, but are instead mainly intended to provide support and background. The first of these attempts to determine what is at stake for gold as a monetary asset is an examination of the role gold currently plays and how that role evolved. This section will also assist in evaluating developing countries' concerns over the complete set of gold arrangements. The second of these background sections is a brief history of recent monetary reform attempts, and a description of the approach currently being pursued. With this information at hand, the study proceeds first to retrace the gold negotiating process, paying
special attention to the developing countries' negotiating positions, and then to analyze the economic bases of their objections to the final agreements. In the conclusion, I will attempt to determine whether these costs outweigh the benefits the developing countries will receive via the trust fund.

THE GOLD SALE -- TRUST FUND ARRANGEMENTS

For the complete set of gold agreements please see the Appendix; however, regarding the gold held by the IMF, the following arrangements were made:

1) The restitution of one-sixth of the Fund's gold (25 million ozs.) to all members at the current official price in proportion to quotas, and

2) the sale of one-sixth of the Fund's gold (25 million ozs.) for the benefit of developing countries. The profits on that part of the gold whose ownership is directly attributable to developing countries will be returned directly to them while the remainder will be put toward a trust fund, the proceeds of which will be used to assist the poorest countries in reducing balance-of-payments deficits.

In essence these arrangements mean that of the reduction in IMF gold, the developing countries will receive all of that gold they owned, while the developed countries will receive only half of their gold, with their other half going towards the trust fund.

Although it is reducing its gold stock, the Fund will be maintaining its current reserve position by restituting (in effect selling) gold back to members at the official price (about $42 or equivalent in hard currencies) on the one hand, and retaining the official price on all gold that
is sold for the benefit of developing countries on the other. The profits realized for the trust fund are thus the difference between the official price and the price realized in the sales. For a schematic plan of the sales and a calculation of the benefits or potential benefits to all parties concerned, see page 35.

It is important to notice how the arrangements distinguish between various categories of developing countries. By developing countries are meant all 98 or so members of the IMF that are not European, North American, Australia, New Zealand, or South Africa. These are the countries that will receive directly the profits the IMF realizes in the sale of their gold that the IMF holds. Of these countries, only those with 1973 per capita incomes of SDR of 300 (about U.S. $350) or less will be considered eligible to draw from the trust fund. This currently amounts to sixty countries, and includes all the MSA's and "least developed." The role of OPEC countries has not yet been clarified. Although the IMF still considers them developing countries, there is a strong case to be made for their being considered developed countries for the purposes of the gold arrangements.

The gold sales are scheduled to begin in April 1976 and be held every few months over the next four years. These sales are expected to net some 400-500 million dollars for the trust fund in 1976. IMF quotas will determine how these proceeds will be made available to individual Fund members. Of the profits realized in the gold sales, the percentage share of any one country will equal the percentage its quota constitutes of the sum of quotas of all countries eligible to draw on the trust fund. As quotas are largely determined by GNP there is no guarantee that this
distribution will reflect actual need. Only if all eligible countries had equal per capita incomes and similar patterns of international trade would this be the case. As this is in fact not the case, inequitable distribution must result. Quick calculations show, for instance, that Bangladesh's expected 1975 balance-of-payments deficit was five times that of Pakistan, a country of similar population, yet under quota distribution it would receive only 53% of the trust fund proceeds available to Pakistan. In defense of distribution on the basis of quotas, one must say that it does go far to alleviate the small-country bias inherent in so many aid distribution schemes. India, for instance, would be eligible for about 20% of the trust fund proceeds.

The terms of these loans are expected to be modelled after those of World Bank IDA loans -- 40-year grace period and 0.75% annual service charge. However, there is a strong feeling at the IMF that the loans will eventually be converted into grants. In either case, they represent a highly concessional form of assistance.

Although the Jamaica meetings produced agreement in principle, most of the technical details are still under negotiation. One major issue regards the restitution process. As several of the more recent members of the IMF did not pay the gold portion of their quotas in specie, but rather in hard currency, these countries would lose significant benefits if restitution were to be made in specie and profits on developing countries' gold literally returned to the owners. This group of countries includes the important case of Bangladesh. Proposals are currently being studied that would rectify this inequity, yet retain the restitution in specie that many countries desire.
Difficulties regarding developing countries do not stop here, however. Since the IMF can legally restitute gold only through the "scarce currency clause" — selling gold to countries in exchange for their national currencies — restitution would entail the IMF's obtaining undesirable soft currencies like rupees and takas. To avoid this, a "gentlemen's agreement" was reached whereby developing countries' gold will be returned to major economic powers who will then proceed to sell the gold on the behalf of the IMF to the developing countries in exchange for hard currencies. In addition, members are still discussing whether restitution should proceed in step with sales over the next four years, or whether restitution will take place at once.

The "scarce currency clause" will also affect the gold sales. Since the IMF can only sell its gold to member countries, before it is able to sell its gold in the market, it must first sell the gold back to member countries, and then repurchase it from them.

Even the basic agreements are still under negotiation. Concern on the part of developing countries that the developed countries are receiving a disproportionate share of the overall benefits has led to a proposal calling for the developed countries to, in effect, pay the market price for the gold that is restituted to them. The profits on this gold would then be made available to all developing countries, again distributed according to relative quotas. Although the author does not know the terms of these loans, he feels less concessional terms could be justified, particularly to the more developed of the developing countries. The author also feels that these benefits, equal in value to the trust fund, would accrue to a disproportionate extent to the more developed of the
developing countries, by virtue of their larger quotas (about 18% to 14% of total quotas). To see how this arrangement would affect the distribution of benefits, again see p. 35. Here, the benefits that would accrue to developing countries under this arrangement have been included with the profits realized from the sale of developing countries' gold under the term labeled "LDC Restitution from Sales."

This essentially completes a description of the trust fund and its benefits. Before proceeding with an evaluation of the negotiating process and the cost of this trust fund, brief histories of gold's monetary role and the process of reform should prove useful.

A RECENT MONETARY HISTORY OF GOLD

Although most aspects of the gold problem can be traced back to the Bretton Woods system and its operation, several events even farther back in history are important. The signing of the Gold Reserve Act by President Roosevelt on January 30, 1934, had an important effect on the subsequent evolution of the international monetary system. Taken as a measure to combat the depression, it raised the price at which the United States was willing to buy and sell gold from $20.67 to $35.00 per ounce. In the face of this pressure, the European Gold Bloc (formed in 1933 to keep the existing gold-currency parities intact) slowly disintegrated as members lost gold to the United States. They were forced to devalue relative to gold as well, and to impose capital controls. The price
increase also stimulated the mining of new gold and encouraged the sale of privately held gold. One consequence of the Gold Reserve Act was that by late 1936 the U.S. gold stock was nearly triple the amount held in early 1934.  

The second important event in the reshaping of the international monetary system was the Second World War. In the first place, the United States served as supplier to the allied forces and through these sales continued to increase its gold holdings to the point where by the end of the war it owned 75 per cent of the world's monetary gold. Partly for this reason, but more significantly by escaping the physical destruction of Europe and Japan, the United States emerged from the war as by far the strongest economy in the world. Over half the world's manufacturing activity took place in the U.S. and the U.S. supplied about one-third of the world's exports. 

By virtue of its pre-eminent economic and political position, the United States, together with Great Britain, was able to play a dominant role in the restructuring of the ruined international monetary system. Several important lessons had emerged from the Great Depression, and these were to be incorporated into the new system. The first was a recognition of the right of each government to pursue policies designed to achieve high employment. There was also a strong preference in the light of depression experience for fixed exchange rates as a source of stability in international trade. It was also realized that gold, despite its inconveniences, still commanded the confidence of public and private officials and hence still had a useful role to play as a primary reserve asset. Finally, it was realized that it was necessary to create an international
forum (the IMF) to co-ordinate governments' policies and guarantee the orderly operation of the international monetary system. From the outset it was assumed that to ensure stability, voting and representation would not be along purely democratic lines, but rather would be apportioned according to economic power and involvement in international financial transactions.

In the context of this study, two aspects of the Bretton Woods system turned out to be of great significance. The first was the agreement that members would hold their exchange rates to within 1.0 per cent of the IMF-assigned parity value. Exchange rate changes would be permitted only if the IMF determined that a "fundamental dis-equilibrium" -- a condition never clearly defined -- existed. The second was the agreement by the United States to underwrite the system by continuing to buy and sell gold at $35.00 per ounce. This made U.S. dollars literally as good as gold, or vice versa.

By being the strongest and most widely accepted currency, the U.S. dollar took on the role of the so-called key currency. All other currencies were expressed in terms of dollars; nations intervened in the exchange markets with dollars in order to defend exchange rates; and the dollar became the principal reserve asset. Like gold, it was a relatively stable source of purchasing power (U.S. inflation was lower than Europe's) but, unlike gold, it could be held in an interest-bearing form. Since the U.S. guaranteed convertibility into gold, most countries were more than content to hold their reserves in U.S. dollars. Moreover, the demand for additional international liquidity could only be met (apart from slow additions to gold stocks) through United States balance-of-payments deficits.
The United States did have such deficits throughout the 1950's, providing the recovering European economies with the liquidity they needed. By 1958 or so, European economies had recovered sufficiently, and had acquired sufficient reserves that exchange-controls could be lifted.

However, United States balance-of-payments deficits persisted and its trading partners continued to accumulate dollars. The United States refused to acknowledge that the dollar was overvalued, insisting instead that the deficits were all of a transient nature, and its trading partners had neither the power nor the genuine desire to force the United States to settle in gold. In retrospect, this probably did constitute a case of "fundamental disequilibrium" that would have called for American devaluation and/or trading partners' revaluation. However, neither was feasible for political reasons. The United States believed that, as the key currency, it was obligated to eschew devaluation, and that if it tried to devalue against gold, its trading partners would have followed suit, i.e., maintained the same dollar exchange rates. On their part, the Europeans and Japanese resisted revaluation because of the deflationary effects such an action would have had on their recovering economies. As long as the ratio of outstanding dollar liabilities to the U.S. gold stock was less than or close to one, and the U.S. honored its obligation to sell gold, they were content to accumulate interest-bearing dollar-denominated assets.

However, expansionary domestic policies and the Vietnam build-up the U.S. government pursued in the mid-1960's increased U.S. imports and inflation. By the late 1960's the rate of accumulation of dollars overseas had greatly accelerated. Official monetary authorities began to loose
confidence in the convertibility of the dollar into gold. As the following table shows, total reserves grew slowly until about 1970 when they mushroomed, while the underlying stock of gold barely grew at all.

WORLD MONETARY RESERVES 1950-1975 in US $ millions

<table>
<thead>
<tr>
<th>Year</th>
<th>(1) Total Reserves</th>
<th>(2) Gold Reserves</th>
<th>(2)/(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>48695</td>
<td>35490</td>
<td>72.9%</td>
</tr>
<tr>
<td>1955</td>
<td>54296</td>
<td>37620</td>
<td>69.3%</td>
</tr>
<tr>
<td>1960</td>
<td>60285</td>
<td>38030</td>
<td>63.1%</td>
</tr>
<tr>
<td>1965</td>
<td>70520</td>
<td>41855</td>
<td>59.4%</td>
</tr>
<tr>
<td>1970</td>
<td>93210</td>
<td>36983</td>
<td>39.7%</td>
</tr>
<tr>
<td>1971</td>
<td>131501</td>
<td>38976</td>
<td>29.6%</td>
</tr>
<tr>
<td>1972</td>
<td>159028</td>
<td>38643</td>
<td>24.3%</td>
</tr>
<tr>
<td>1973</td>
<td>185664</td>
<td>42946</td>
<td>23.1%</td>
</tr>
<tr>
<td>1974</td>
<td>220652</td>
<td>43524</td>
<td>19.7%</td>
</tr>
<tr>
<td>1975</td>
<td>227737</td>
<td>41568</td>
<td>18.3%</td>
</tr>
</tbody>
</table>


This loss of official confidence was compounded by private fears that the U.S. dollar was overvalued relative to major European currencies and the Japanese Yen, and that devaluation was imminent. The speculative rush on the dollar was self-fulfilling and on August 15, 1971, after several smaller European countries had tried to convert dollars into gold President Nixon suspended convertibility and called for currency realignments. As a result, the dollar was devalued 8 per cent relative to gold, while major overseas currencies were revalued against the dollar by about 12 per cent. The bands around parity were also widened to 2-1/4 per cent on either side of parity. However, these measures proved inadequate and, in early 1973, speculation once again exerted tremendous downward pressure
on the U.S. dollar. Again, major currency realignments took place with the
U.S. dollar being devalued to $42.22 per ounce of gold, and other currencies
revaluing. By now, speculation was self-fulfilling and the major European
countries and the Japanese decided to float their currencies against the
U.S. dollar, a condition that holds to date (March, 1976).

For the purpose of this study, no discussion of the downfall of the
Bretton Woods system would be complete without special reference to two gold
crises that occurred in the 1960's. The first occurred on October 20, 1960
when the open market price for gold jumped to over $40 per ounce, having
never exceeded $35.15 previously. This was widely viewed as a reflection
of declining dollar strength, but the U.S. Treasury reaffirmed its willing-
ness to sell gold on the open market to maintain the $35 price and ensure
monetary stability. To this end, a gold pool was established to buy and sell
gold on the market to maintain the $35 price. This arrangement performed
satisfactorily until 1967 when the gold pool had to sell $1,580 million
worth of monetary gold to maintain the $35 price. The year before sales
had amounted to only $45 million. This was not only drawing on international
liquidity, but in countries where private gold ownership was permitted, it
was having monetary effects similar to domestic open-market bond sales.
On March 14, 1968 the London Gold Pool suspended operations and a "two tier"
gold market was established. Central banks agreed not to buy or sell gold
at market prices, but would continue to exchange gold among themselves at
$35 an ounce while letting the private market determine its own price.
However, official gold stocks would not increase under these arrangements
as producers chose to sell on the private market. And in practice, the
central banks proved reluctant to exchange gold among themselves at prices below the market price. Combined with increasing U.S. reluctance to deplete its gold stock by selling gold, this meant that for all intents and purposes gold had already ceased to play an active role in international monetary transactions by 1968.

**MONETARY REFORM 1968–1976**

The first step towards monetary reform was actually taken in 1968 at the Annual Meeting of the IMF, held at Rio de Janeiro. Here it was decided to create a new international monetary asset, the Special Drawing Right (SDR). However, so few were created, and its potential role was so limited (it was defined effectively as 1 SDR = $US 1.00) that it could not prevent the 1971 financial crisis. However, reform now calls for strengthening the SDR and making it the principal reserve asset.

Following the Smithsonian agreement of 1971, it became obvious that the international monetary system as it existed prior to 1971 could and should not be recreated, and that the time for major reform had come. The Governors of the IMF therefore created the Committee of Reform of the International Monetary Reform and Related Issues, or as it came to be known, the Committee of Twenty, charged with determining the nature of the needed reform. This committee set itself the task of preparing the general framework of the reformed system that would satisfy the needs of the next decades by July 31, 1974. However, by late 1973 it had become apparent
that the massive reform this committee had envisioned could not be implemented under prevailing economic conditions. First, the widespread inflation at widely differing rates in the industrial world, together with massive international capital movements, had made a system of fixed exchange rates unmanageable. The second disruption was the sudden tripling of oil prices that equally suddenly made the enormous dollar reserves the Europeans and Japanese had accumulated no longer seem such a pressing issue of reform. In its final report, the Outline of Reform, the committee not only presented the envisioned reformed system, but also a section on intermediate steps. In this section it was proposed that steps should be taken to begin an "evolutionary process of reform and to help meet the current problems facing both developed and developing countries," and that other action in this field should also be consistent with the principles of reform.  

At the 1974 Annual Meeting, the members of the IMF failed to agree on large-scale massive reform, but instead agreed to pursue the evolutionary reform the outgoing Committee of Twenty had suggested. To this end they created the Interim Committee of the Board of Governors. This committee meets at the ministerial level and thus has some decision-making powers that help make for speedy implementation of decisions. By January 1976 this committee had met five times and achieved considerable success in implementing reform; in fact, U.S. Secretary of the Treasury William E. Simon compared the results the Interim Committee achieved at its Jamaica meeting to the 1945 agreement at Bretton Woods that established the Fund.

The Interim Committee's first task was to reach agreement on a package of reform issues that included new arrangements towards reducing
the role of gold, revising quotas, and the question of the exchange rates regime. Arrangements were such that no individual part of the package could be implemented until the package as a whole had been agreed upon.

THE EVOLUTION OF THE GOLD AGREEMENTS

As indicated earlier, the trust fund is merely one part of a larger set of arrangements on gold that in turn were only one of several areas of negotiation. This section will retrace the negotiation process, focusing in particular on the trust fund -- gold sale arrangements, compromises that had to be struck, and the role of the developing countries in the negotiations. Finally, this section will examine the degree of consensus that existed among the developing countries and over what issues, if any, they were split.

The proposal to establish a trust fund at the IMF for the benefit of the poorest countries appears to have first been made by the United States in November 1974. At this time a fund of about $2 billion was envisioned, financed by voluntary contributions by those member countries in a position to do so. Although the developing countries desired balance of payments assistance, they expressed concern over the adequacy of the proposed means of financing the fund, and its possible implications for the "SDR-Link." Coming as it did from the United States, they suspected that the United States might have been trying to substitute the trust fund for the "SDR-Link," which it had steadfastly opposed. The developing countries'
position on this matter was outlined in the January 14, 1975 communiqué of
the Group of 24:\textsuperscript{8}

"The Ministers saw urgent need for interest-relief for the
low income countries purchasing under the oil facility. In
their view, the resources for such relief should be pro-
vided within the IMF by members with the capacity to do so.
Ministers considered the trust fund proposal before the
Interim Committee was not a realistic mechanism for this
purpose, nor was it acceptable as an alternative to the
Link, but they were agreeable to studying it, along with
other trust fund proposals."

(Source: IMF, IMF Survey, January 20, 1975, p. 25)

Regarding gold, the Interim Committee's task was to work towards
the Committee of Twenty's goal of reducing its role in the international
monetary system. The first steps in this direction were taken at the
second meeting of the Interim Committee (January 15-16, 1975) when it was
agreed to eliminate the use of gold in transactions with the IMF, and to
abolish the official price. However, problems arose in deciding what to
do with the 150 million ounces of gold the IMF held in members' quotas.
As members' views on the fate of this gold was largely a function of their
views on the role of gold as a monetary asset in general, a slightly less
aggregated look at their respective positions seems in order.

The Europeans have the most conservative views on gold. While all
agree that its role will ultimately decline, most of them had worked hard
during the 1950's and 1960's to accumulate gold and are in no great hurry
to eliminate it, particularly when one counterpart to gold's being phased
out could be dollar reascendancy. Some, like France, also believe that
properties like the trust and confidence gold embodies and the pressure
its loss imposes on deficit countries are desirable ones to retain.\textsuperscript{8}
Moreover, they believe the world is not yet unified to the point where the threat of conflict is so reduced that gold would be rendered obsolete.

The United States takes a less extreme view. Owning one-fourth of the world's monetary gold, the United States has a potentially strong interest in retaining it as a primary reserve asset. However, it chooses to emphasize that gold is an inefficient, antiquated, and unreliable form of liquidity in the modern world, and should be phased out. Most attribute this view to the U.S.'s desire to promote reform, yet there are others who purport to see in it an attempt to reestablish dollar hegemony.

The developing countries take the most radical views on gold. They call for the rapid decline in the roles of gold and reserve currencies, and the promotion of the SDR (which in turn could lead to the establishment of the coveted "SDR-Link"). To this end, they also call for a substitution account at the IMF where members could (would) exchange gold for SDR's. The IMF would then slowly sell this gold on the private market.

However, the developing countries' chief disinterest in gold stems from the fact that they own less than 10% of the world's monetary gold. And as the following table shows, the Europeans' position can be explained in much the same terms. (Table on following page.) The developing countries also presented their views on gold in their January 14, 1975 communiqué:

Ministers reiterated their views that any solution to gold should not jeopardize the effective implementation of the Link, and the international management of liquidity, that it should serve to promote the objectives of reform, with the SDR becoming the principal reserve asset and the role of gold and reserve currencies reduced; that is should not accentuate the already inequitable distribution of liquidity and that it should be internationally agreed in the Fund. Members would only accept any new arrangements for gold on the basis of these principles.
## DISTRIBUTION OF OFFICIAL GOLD RESERVES

(Oct. 1975, in US $ million)

<table>
<thead>
<tr>
<th>Nations</th>
<th>(1) Total Reserves</th>
<th>(2) Gold Reserves</th>
<th>(2) As Percent of (1)</th>
<th>Percent of World's Monetary Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>16,252</td>
<td>11,194</td>
<td>68.9%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>5,630</td>
<td>855</td>
<td>15.2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>France</td>
<td>12,219</td>
<td>4,113</td>
<td>33.7%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>31,316</td>
<td>4,792</td>
<td>15.3%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Belgium</td>
<td>5,772</td>
<td>1,718</td>
<td>29.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>5,241</td>
<td>3,361</td>
<td>64.1%</td>
<td>8.1%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>7,049</td>
<td>2,231</td>
<td>31.7%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8,186</td>
<td>3,390</td>
<td>41.4%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>12,983</td>
<td>860</td>
<td>6.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Canada</td>
<td>5,414</td>
<td>895</td>
<td>16.5%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Developing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil-Producing</td>
<td>55,316</td>
<td>1,437</td>
<td>2.6%</td>
<td>3.5%</td>
</tr>
<tr>
<td>World-</td>
<td>223,968</td>
<td>41,573</td>
<td>18.6%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>


Between the January and June meetings of the Interim Committee, significant informal negotiations took place. During this period the United States devised a solution to the IMF gold question that it felt was not only in the interest of reform, but also addressed the needs of the poorest countries. The IMF would slowly sell off its gold holdings with the profits going to developing countries via the trust fund. This arrangement was unacceptable to all the Europeans who had originally envisioned that this gold would be returned to the original owners.
Just prior to the Interim Committee's June meetings, the Group of 24 met again to discuss common interests. Most notable about the communique of this meeting was the apparent easing of opposition to proposals concerning gold since January. No longer were the gold arrangements mentioned in the context of the "SDR-Link," probably indicating that the significant potential of a gold-sale financed trust fund was clear. Now the Group of 24 merely "reaffirmed their support for the early establishment of the Link between the allocation of SDR's and development finance." Despite some softening in their position, they still called for a trust fund financed by universal subscription by all countries with a capacity to contribute, and gold arrangements

...consistent with the Articles of Agreement and designed to reduce the role of gold and strengthen that of the SDR. They had found no proposals acceptable to developing nations. They indicated, however, that no arrangements with regard to gold would be acceptable that are not designed to raise substantially the flow of financial resources to developing countries without imposing a loss on any individual developing country. The Ministers reaffirmed that no decision on gold should accentuate the already inequitable distribution of liquidity.


The June meetings achieved significant progress on the gold issue, but several major points remained unresolved, including arrangements concerning gold transactions between monetary authorities and collaboration with the Fund on gold matters, the appropriate exchange-rate regime, and final political settlement of Fund quotas. Concerning gold, it was agreed that "one part would be sold to all members in proportion to their present quotas, and another part would be sold at
market prices, either to member countries or in the market with the object of using profits to benefit developing countries in various ways, including the establishment of a trust fund." This solution was a compromise between the United States and the developing countries on the one hand, and the Europeans on the other. The developing countries were obviously co-opted into the agreement by the promise of the trust fund.

At this stage it appeared to the developing countries and the United States as if the Europeans were trying to reinstall gold at the center of the international monetary system, since by abolishing the official price of gold they were free to value their gold stocks at the market price. This revaluation would make them much more willing to use gold in international settlements, contrary to the mutually declared goal of phasing gold out. The chief concern of the developing countries was over the effects the revaluation of nationally held gold stocks would have; not so much the fact that the distribution of reserves by book value would be further distorted, but rather the adverse implications this massive increase in liquidity would have for future SDR allocations and for the prospects for the "SDR-Link." There was also concern that the developed countries might use this enormous increase in liquidity to draw real resources from the developing world in the same way the "SDR-Link" was to transfer real resources from the developed to the developing world. By holding more gold initially, the developed nations received seigniorage similar to that which the preferential allocation of SDR's would have given to the developing countries. The safeguards to prevent the above were the principal hurdles to mutually acceptable gold arrangements.
The next meeting of the Interim Committee was held just prior to the Fund's Annual Meeting in September 1975. As usual, the Group of 24 met to discuss policy. Their press communiqué of September 1 indicates that they had not found the proposed arrangements for the IMF gold entirely acceptable and that no gold arrangements would be acceptable unless:

a) they were designed to raise substantially the flow of financial resources to the developing countries without imposing a loss on any individual country, and

b) they did not accentuate the already inequitable distribution of international liquidity. 11

At this meeting, major breakthroughs were achieved in the gold and quota negotiations. Only unsettled exchange rate arrangements prevented adoption of the complete package. The United States and the developing countries were able to impose safeguards (see Appendix) that would effectively freeze the gold stocks of the Group of 10 members vis-à-vis the developing countries. These safeguards included:

1) no action to peg the price of gold by members of the Group of 10;

2) agreement not to increase the total stock of gold in the hands of the IMF and the Group of 10; and

3) the existing agreement not to buy or sell gold in the private market.

However, the Europeans seem to have ultimately got their way by having the option to terminate adherence to the agreements after two years. 12

Allowing the price of gold to fluctuate with the market means that the price at which gold is exchanged among central banks will be very volatile, since it is largely determined by private speculation. This price uncertainty will make central banks reluctant to part with gold when they
perceive the price as being below normal (or low) and equally reluctant to accept it when the price is above normal (or high). Furthermore, restrictions 2 and 3 above ensure that the Group of 10 countries have little scope for using gold except in transactions among themselves, i.e., they can not increase their gold stocks by demanding gold from developing countries to settle deficits or by buying it in the market. And, of course, countries are never forced to settle surpluses in gold -- the developing countries do not have to accept gold from the developed unless they so desire.

The above provisions would appear airtight for the first two years were it not for the ambiguous role the Bank for International Settlements (BIS) is to play. The BIS is owned by the Western European central banks and functions as a central bank for these central banks. The BIS is expected to be one of the principal buyers of IMF gold, ostensibly to stabilize the price and ensure that the trust fund realizes its goals. But the gold the BIS would buy in these auctions would be added to its monetary stocks — gold it would not be able to use unless its European owners (central banks) had a future monetary role for gold in mind. One therefore suspects the BIS will be buying gold on behalf of the European central banks. In fact, there is nothing in the agreements to prevent the BIS from buying gold for direct resale to European central banks, thus simply channeling IMF gold into Europe.12

The developing countries' immediate reaction to the gold agreements was mixed. One group, including Afghanistan, Bangladesh, Taiwan, and Bolivia (for 20 Latin American countries) praised the decision to establish
the gold-sale financed trust fund, while others, including India, believed that most of the benefits would accrue to the developed countries in the form of revalued nationally-held gold stocks. Most Europeans expressed less polar opinions. The Dutch Finance Minister, for instance, thought the "outcome justifies the sacrifices that have been made on all sides."\(^{13}\) However, with time, the developing countries appear to have realized the potential impact of the agreements and, prior to the January 1976 meeting of the Interim Committee, they issued a communiqué expressing "strong dissatisfaction with the fact that those proposed arrangements would grossly distort the distribution of international liquidity at the expense of developing countries, and undermine the position of the SDR."\(^{14}\) This strong dissatisfaction was probably instrumental in the recent move to have gold restituted to developed countries at the market rather than the official price, with the difference being distributed among developing countries. However, even this would do little to redress the potential adverse impact of the arrangements on the developing countries.

The Jamaica meetings of January 1976 resulted in the adoption of the entire package of reform (U.S.-French exchange rate differences having been reconciled at the November 1975 Rambouillet economic summit meetings). Under the arrangements agreed upon, floating would be legalized with the objective of returning to "stable but adjustable" exchange rates when international economic conditions permitted, as determined by the IMF. French agreement to what was essentially the U.S. position on exchange rates was at least partially due to U.S. acceptance of France's intention to carry its gold stock at the market price once the Interim
Committee had reached complete agreement on the package of reform issues.

THE IMPLICATIONS OF THE GOLD AGREEMENTS

As the preceding section indicated, the developing countries were principally concerned that the gold agreements could result in the creation of massive world liquidity if the industrialized countries revalued their monetary gold stocks at the market price. If this revaluation took place, total world liquidity would jump from some $227 billion currently to over $300 billion instantaneously -- the industrialized countries' increase being from $122 billion to $191 billion. This increase, the developing countries argue, would create an unfavorable environment for moving towards the Committee of Twenty's goals of increasing the role of the SDR, reducing the role of gold, making the distribution of international reserves less skewed, and increasing the flow of real resources to the developing countries. Such allegations are easily made and, although they withstand initial scrutiny, if the past has taught us anything about gold negotiations, it is that they are highly political and arouse strong emotions that tend to distract attention from the underlying economics of the situation. But it is ultimately these underlying economic forces, and not the emotions of the instant, that determine the role gold will and will not play. The developing countries objections and fears should be examined more closely before one passes judgment on their validity.

The crux of the question as to which bloc will benefit the most
would appear to lie in the two-year clause. The developing countries (together with the U.S.) have effectively ensured that the Group of 10's gold stocks will remain frozen relative to themselves for the next two years (although not necessarily within the Group of 10). This would imply that the Group of 10 liquidity has not increased vis-à-vis the developing countries, but rather only among themselves. In addition, as was suggested in the previous section, the Group of 10 countries may well prove reluctant to settle in gold among themselves if its price is allowed to fluctuate with the market. Together, these two points would imply that even though the book value of gold may increase, their reluctance and/or inability to use gold in international transactions would mean that, in effect, no new liquidity has yet been created. Hence, as long as the existing agreements are renewed, developing countries' fears of a gold-link that would draw real resources out of developing countries have little substance.

Within the two-year horizon, one also should examine more closely the developing countries' fears that increasing the book value of monetary gold will harm the SDR creation process. This argument is valid only as long as SDR allocations were going to be made in the first place, and there are strong indications to suggest that these would have not been forthcoming. The excessive levels to which world liquidity grew in the years until 1973 (by Group of 10 standards, at least), and the current world-wide recession have left the strongest members of the IMF feeling that new SDR allocations are not needed at this time. The second reason is equally compelling: under a system of flexible exchange rates, such as currently exists by and large, the main reason for accumulating monetary
reserves (to be able to defend exchange rate parities) vanishes. Therefore, with the advent of this flexible exchange rate system, the need for increments to world liquidity has disappeared.\textsuperscript{15} However, as currencies are not truly floating, and monetary authorities still intervene in the foreign exchange markets, additions to liquidity may still be needed, but hardly on the scale developing countries would like (again the "SDR-Link" is in the back of their minds).\textsuperscript{16} This would be the case almost regardless of the value at which the Group of 10 carried its gold stock or whether the arrangements are renewed or not.

If the arrangements are not renewed in 1978 and the Europeans do in fact attempt to make gold the principal settlement asset again, then are the developing countries' concerns still warranted? Again, closer examination reveals that they probably are not. Regarding SDR allocations, the previous paragraph argued that as long as the major countries maintain flexible exchange rates, they will at best be minimal. The thrust of the developing nations' opposition must shift to the issue of whether the developed countries will attempt to extract real resources from them by settling in gold. But again, their argument appears flimsy. Gold is a primary reserve asset, meaning that when one country has accumulated more balances of another country's currency than it desires, it can present them to the issuing country in exchange for gold. Countries do not literally pay one another in gold, rather central banks enter to settle imbalances that have occurred in trade and financial transactions between private parties in the two countries (or other public parties). This is
important, because it means that in practice, the developed countries cannot make the gold-link work. If the developing countries choose to hold the currencies, as they usually do, the developed countries will never get the opportunity to give them the gold at $120 per ounce (for instance) that cost them only $35 per ounce. But the strongest protection the developing countries have in this respect is the fact that they are much more liable to be running deficits vis à vis the developed than balance of payments surpluses. This would mean that the developed countries would be able to extract gold from developing countries. However, as settlement in gold is no longer part of the IMF Articles of Agreement, to which members have pledged to adhere, the developing countries are under no obligation to settle in gold.

To compound the apparent baselessness of developing countries' fears, it appears that even if some countries tried to re-establish the gold-standard, their attempts would fail. The developing countries' argument here is that by being free to value their gold at the market price, the Group of 10 nationally-held gold stocks would become unfrozen (remonetized) and used more often in international settlements. However, as is pointed out earlier in this section, with the market price as volatile as it is in the fact of speculation, countries could still be reluctant to use gold widely in settlements. Gold would fail to represent the stable store of purchasing power vis à vis the currencies in which it is expressed, as the most desirable reserve assets do. If some countries tried to stabilize the price of gold to enhance its attractiveness for settlement purposes, they would probably suffer the same fate as the
London gold pool. If they set the price too low, pegging would prove extremely expensive as they lost gold to speculators, who thrive when the lower price of gold is bounded. Similarly if they set the price too high, they could end up with too much gold relative to currencies in their portfolios. The number of countries that would conceivably be interested in pegging the price of gold again is very small, and would definitely not include the United States, who has declared it would never support such efforts. Despite a reduction in the United States' economic role in the world vis-à-vis Europe's and Japan's, it is still the most powerful nation in the world, both politically and economically, and no international economic arrangements would prove viable without the United States' support.

Finally, the developing countries can find comfort in history. In every era when the international monetary system has supposedly been based on gold, one currency has emerged as the strongest and has slowly replaced gold in the role of a reserve asset. The reasons for this have primarily been convenience and economic efficiency (gold does not earn interest). There is every reason to believe that this would happen again were there any attempt to reinstate gold at the center of the system, particularly if the price of gold were free to move with the market. The only uses for gold that the author can currently envision are passive ones, such as its use as a guarantee in inter-central bank loans (which the Europeans are already doing). Another, more traditional, use, is as a medium of exchange in wartime, but, given the probable nature of the next world war, even in this connection gold would appear to have little use.
CONCLUSION

It is particularly easy when one has read or written a lengthy paper on some subject to form an inflated impression of that subject's importance. I would therefore like to open this conclusion by examining the trust from the perspective of its contribution to total official development assistance (ODA). As previously mentioned, it is expected to provide some $400-500 million for balance-of-payments assistance for the next four years only (but depending upon what happens to the remainder of the IMF gold, perhaps up to 24 years). In 1975, this would have amounted to about 4% of total DAC ODA and would have covered only 22% of the projected collective balance-of-payments deficit of 29 of the NSA's (less than half the eligible countries, but including the Indian subcontinent). Although the trust fund will hardly solve their collective deficit problem (but perhaps some individual member's problems), it is not an insignificant amount of assistance, especially when one remembers that it is completely untied and highly concessional. Of this most costless and therefore desirable form of assistance, it represents a more significant increase. This is, of course, assuming that other levels of assistance are not reduced in light of the decision to create the trust fund.

Compromise is the essence of international negotiation -- for every benefit obtained, something had to be given up in return. There are no a priori grounds for assuming the trust fund negotiations were any different and, after investigating the perceived costs and benefits
individually, the time has come to strike a balance from the perspective of the developing world. However, before proceeding, it is worth recalling the pitfalls involved in taking international agreements at face value, or worse still, interpreting them for their worst implications. It is the tendency of every nation to try to obtain more in benefits and concessions from the other negotiating parties than it concedes in costs. And, as additional concessions are made, perceived benefits have a tendency to require an increase at a greater rate. But such behavior is inconsistent for all members, as a group, since one nation's benefits are generally others' costs, and negotiations would tend to stagnate. The escape from such impasse is the loosely-worded final agreement, in which nations maintain sufficient latitude for national actions, regardless of whether they have serious intentions of implementing the agreement or not. For this reason, as well as the highly political nature of gold negotiations in the first place, speculating on economic repercussions may involve trying to extract more from the agreements than the negotiating parties ever realistically had in mind in terms of implementation.

With this well in mind, I will nevertheless proceed to strike a balance. As the opening paragraph of this section indicated, the benefits of the trust fund are well known and, happily, quantifiable. Analyzing the costs, however, is an insuperable task -- not only is the nature of the costs subject to speculation, but their magnitude is as well. Speculation compounded in this fashion hardly provides a solid basis for analysis, but speculate I must if I wish to proceed.
Ignoring the political costs incurred in the arrangements, developing countries perceive two potential costs: the "SDR-Link," and an instantaneous, exogenous increase in developed country wealth in the form of revalued gold stocks that could potentially be converted into developing country resources. Regarding the "SDR-Link," this study concluded that SDR allocations of any sort are unlikely. Furthermore, preferential allocations of these SDR's to developing countries that would form the "SDR-Link" are still adamantly opposed by the United States, among others. In this context, the developing nations have given up something they would almost certainly have never achieved in the first place. Hence, the trust fund can be viewed as costing virtually nothing in terms of the "SDR-Link." What happens in four years time is difficult to predict, but there is no reason to assume that by accepting the trust fund today, they have sacrificed the "SDR-Link" at that time as well.

The question of the effects of revalued gold stocks is more difficult to assess, and a complete section of this paper was devoted to this issue. I ended up arguing that, unless the developed countries were able to induce the developing countries to accept gold in direct payment for developing country exports, institutional constraints both within the IMF and in international financial practices would prevent the feared transfer of real resources. I personally think the chances of developing countries' fears being realized are very slim, but the enormous stakes (the developed countries gold stocks would increase in value by some $70 billion) suggest one should not take their objections overly lightly.
All this is assuming that the Europeans will in fact try to effectuate such a resource transfer process which, as suggested earlier, is also questionable.

In the final analysis, I think the trust fund should not be regarded as something for which the developing countries had to fight long and hard, and pay dearly. On the contrary, it took most people by surprise, and had the endorsement of the developed world. This I feel was the fortunate consequence of the coincidence in time of many political and economic forces, including the desire to diminish the role of gold in international monetary affairs, and a desire to help the poorest countries cover their balance of payments deficits. But whether, in fact, these gold arrangements represent effective reform in the direction the Committee of Twenty called for, is another question. To many, they appear as just another patchwork attempt at solving currently pressing problems of a basically unsound international monetary system.
APPENDIX -- THE GOLD AGREEMENTS

The Interim Committee's consensus on the subject of gold, as described in paragraph 6 of its communiqué of August 31, 1975, was as follows:

At the meeting of the Interim Committee on January 16, 1975, it was decided to move "toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national authorities to enter into gold transactions under certain specific arrangements, outside the Articles of the Fund, entered into between national monetary authorities in order to ensure that the role of gold in the international monetary system would be gradually reduced."

To implement this general undertaking, provisions should be made for:

1) Abolition of an official price for gold.

2) Elimination of the obligation to use gold in transactions with the Fund, and elimination of the Fund's authority to accept gold in transactions unless the Fund so decides by an 85% majority. This understanding would be without prejudice to the study of a gold substitution account.

3) Sale of one sixth of the Fund's gold (25 million ounces) for the benefit of developing countries without resulting in a reduction of other resources for their benefit, and restitution of one sixth of the Fund's gold to members. The proportion of any profits or surplus value of the gold sold for the benefit of developing countries that would correspond to the shares of quotas of these countries would be transferred directly to each developing country, in proportion to its quota. The rest of the Fund's gold would be subject to provisions in an amendment of the Articles that would create enabling powers exercisable by an 85% majority of total voting power.

The Committee noted that, in order to give effect to the understandings arrived at in this Committee, the countries in the Group of Ten have agreed to observe during the period referred to below the following arrangements, which could be subscribed to by any other member country of the Fund that wishes to do so. Other members might adhere to these arrangements, and on such occasions the necessary modifications in them would be made:

1) That there be no action to peg the price of gold.
2) That the total stock of gold now in the hands of the Fund and the Group of Ten will not be increased.

3) That the parties to these arrangements agree that they will respect any further condition governing gold trading that may be agreed to by their central bank representatives at regular meetings.

4) That each party to these arrangements will report semi-annually to the Fund and to the Bank for International Settlements the total amount of gold that has been bought or sold.

5) That each party agree that these arrangements will be reviewed by the participants at the end of two years and then continued, modified, or terminated. Any party to these arrangements may terminate adherence to them after the initial two-year period.

Many members from developing countries expressed concern that the proposed arrangements for gold would give rise to a highly arbitrary distribution of new liquidity, with the bulk of gains accruing to developed countries. This would greatly reduce the chances of further allocations of SDR's, thereby detracting from the agreed objective of making the SDR the principal reserve asset and phasing out the monetary role of gold. This aspect should be studied, and measures explored to avoid these distortions.
THE STRUCTURE OF THE IMF GOLD SALES

IMF gold stock
150 million ounces

Sold over the next four years
50 million ounces

Sold in future years?
100 million ounces

Restituted to all IMF members at the official price
25 million ounces

Restituted to the developing countries at the official price
7.5 million ounces

Sold on the open gold market
25 million ounces

Net profits towards all 98 developing countries
7.5 million ounces

Net profits towards a trust fund to benefit the 60 least-developed
17.5 million ounces

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<tr>
<th>Net Value of Arrangements to:</th>
<th>60 Least Developed</th>
<th>38 More Developed</th>
<th>Industrial Developed</th>
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<tr>
<td>of the Trust Fund</td>
<td>$1400 million</td>
<td>$ --</td>
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<tr>
<td>General Restitution</td>
<td>258 &quot;</td>
<td>345 million</td>
<td>1400 million</td>
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<tr>
<td>LDC Restitution from sales</td>
<td>258 &quot;</td>
<td>345 &quot;</td>
<td>&quot;</td>
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<tr>
<td>$1916 million</td>
<td>$ 790 million</td>
<td>$ 1400 million</td>
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*An alternate system is being discussed under which the developed countries would pay the IMF the market price for their restituted gold, with the proceeds going towards all LDC's. This would change the value of the arrangements markedly:

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<tr>
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<tr>
<td>LDC Restitution from sales</td>
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<tr>
<td>$2516 million</td>
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Note: Market price of gold assumed $122.22/oz.
Possible revaluation effects of existing gold stocks not considered.
NOTES


3. These recent developments, as well as many other technical details regarding the gold arrangements were kindly provided by Mr. Ishan Kapur of the IMF.


8. The Group of 24 is the caucus of developing countries on the Interim Committee. The number of 24 refers to the number of constituencies they are divided into. The Group of 24 meets prior to Interim Committee meetings to reach agreement on common policy. Reference is also made to the Group of 10. These are the countries that participate in the Fund’s General Agreements to Borrow (GAB). The Group of 10 consists of the United States, Great Britain, France, West Germany, Japan, Belgium, the Netherlands, Italy, Canada, and Sweden. They are, therefore, the most powerful industrial nations.

8 This reflects not so much international monetary experience, as their own past domestic experiences of currency debasement. This had led to a widespread and deeply engrained tendency, even among policy makers, to hedge in gold against loss of currency value. (de Vries, p. 593)

9. It is often difficult to determine precisely who introduced what reform proposal when. In this case, there are others who feel the proposals were introduced by the developing countries themselves after Prof. R. M. Cooper had suggested them to them at a meeting of deputies of the Group of 24 in early 1975.


12. These parts of the arrangements were agreed upon by the United States, Great Britain, France, Germany, and Japan alone aboard the U.S. Presidential yacht Sequoia on August 30, 1975. Some (deVries) feel the gemütlichkeit that prevailed in this setting may have been responsible for the U.S.'s surprising acceptance of the two-year clause after such persistent efforts to reduce the role of gold over the years.

121 The IMF is taking very much a "hands off" attitude towards this aspect of the agreements — when Mr. Witteveen, the Managing Director of the IMF, was questioned to this effect, he replied: "Well, that's a matter for the BIS and for that central bank... Not for us."


141 This, of course, depends on the market price; here a price of $126 an ounce (triple the official) was used. de Vries (p. 536) formulates the market price's effect on global liquidity somewhat differently: each dollar increase/decrease in the market price of gold will add/subtract about $1 billion from global liquidity.

15. Even though not all currencies are truly floating (some EEC countries, for instance, maintain fixed parities among themselves, but float as a group vis-à-vis the U.S. Dollar), recent French Franc experience indicates that while they may have been forced to float independently because they were losing too many reserves, they have still not called for increments to world liquidity which would make it easier for them to return to and maintain fixed parities again.

16. Some quarters also feel nominal SDR allocations should be made simply to keep the SDR alive and in discussion.

17. If developed countries tried to sell gold they acquired at $35 an ounce on the private gold market for $120 an ounce, the feared resource transfer process would not occur. This is because they would now be paying the developing countries in $120 worth of real resources that they acquired by selling $120 worth of gold. Here the transfer process would be from the gold producers who sold gold for $35 that is now worth $120. Considering developing countries produce(2) little if any monetary gold, it would not appear that developed countries selling gold and using the proceeds to settle with developing countries would constitute any form of resource transferring link. But the developed countries would probably not resort to this in the first place if they want to reinstate gold as a principal reserve asset — selling gold in the market is equivalent to demonetizing it.
18. This is assuming that the real value of gold is fluctuating more than the real value of currencies (expressed, say, in terms of SDR's). This is a reasonable assumption in light of recent movement in gold prices, up to almost $200 an ounce and down to about $120 an ounce (this probably partly in anticipation of IMF sales), considerably more variation than even the U.S. dollar has displayed in the same two-year period vis à vis the Deutsch Mark. This is probably because the gold market is thin (only a small percentage of total holdings as in trade, reflecting its asset role; hence, additions to the gold market like the annual IMF sales (about 15% of total annual production) can and obviously do have large effects on the price.

19. MSA figures from James W. Howe, op. cit., Table D-15, p. 270.

20. United States opposition has principally been based upon the argument that with the "SDR-Link," one would have one instrument serving two purposes. It is highly unlikely, they argue, that SDR development needs would satisfy world liquidity needs or vice versa. They also believe that even though SDR's are collective liabilities, if they were to be preferentially allocated to developing countries, they would in some sense become a developing country liability. This, it is believed, would harm confidence in the SDR at a time when strong confidence in the SDR is necessary to firmly establish it. More basic is the question as to whether the IMF should become directly involved in development assistance when other agencies already exist. The developed countries say no. Given this, one might question whether the trust fund is not such a step in the development assistance direction. One can easily argue no -- not that the trust fund's resources are physically limited, but that the fund itself can be seen as an attempt to redistribute some of the windfall benefits that are accruing to the developed countries from the re-evaluation of nationally-held gold stocks and the elimination of IMF gold holdings.
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