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INTERNATIONAL MONETARY FUND

Seminar 74/1

10:00 a.m. and 3:00 p.m., November 6, 1974

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R. Gavaldá	J. L. Zabala
A. Kafka	B. Martins
K. Kawaguchi	M. Wakatsuki
	M. Shein
P. Lieftinck	T. de Vries
	J. B. Zulu
F. Palamenghi-Crispi	J. L. Mora
P. S. N. Prasad	W. M. Tilakaratna
A. K. Rawlinson	P. J. Bull
	L. Fuenfgelt
	R. Guarnieri
	G. de Margerie
A. W. Yaméogo	

W. L. Hebbard, Secretary, a.m.
R. V. Anderson, Acting Secretary, p.m.
P. A. Bickerton, Assistant, a.m.
D. Ross, Assistant, p.m.

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Also Present

R. van S. Smit, Principal Resident Representative of South Africa. African Department: M. Touré, Director. Central Banking Service: M. R. Wyczalkowski. European Department: L. Hansen. Exchange and Trade Relations Department: C. D. Finch, Deputy Director; T. Sweeney. IMF Institute: C. Tognetti. Legal Department: J. Gold, General Counsel and Director; J. G. Evans, Deputy General Counsel; G. Nicoletopoulos, Deputy General Counsel; A. S. Gerstein, S. A. Silard. Middle Eastern Department: A. S. Gerakis. Research Department: J. J. Polak, Economic Counsellor and Director; A. D. Crockett, H. R. Heller, R. R. Rhomberg. Secretary's Department: N. K. Humphreys. Treasurer's Department: W. O. Habermeier, Treasurer; R. J. Familton, Deputy Treasurer; F. C. Dirks, M. Martin, D. Williams, G. Wittich. Western Hemisphere Department: F. A. Vera, Deputy Director, S. T. Beza, J. D. Guenther. Bureau of Language Services: J. S. Haszard, Director. Finance and Development: I. Bowen. Information Office: J. H. Reid, Director; C. S. Gardner, H. M. Koelle. Personal Assistant to the Managing Director: D. W. Green. Advisors to Executive Directors: J. K. E. Cole, M. S. Nan Nguema. Technical Assistants to Executive Directors. C. J. Batliwalla, M. Berger, G. F. Carmody, D. C. Chessell, J. A. Crosby, A. Doizé, G. E. Heyden Q., R. Khonsary, J. Lintjer, W. Monroe, A. B. Nymark, C. C. Ozumba, M. Pietinen, Z. Porath, F. Saccomanni, W. Sanner, T. P. Sweeney, A. Takahashi, J. R. Vallet, M. A. Wasfy, H. Yamaguchi.

1. FUTURE ARRANGEMENTS FOR GOLD

The Executive Directors considered the staff paper on future arrangements for gold (EBS/74/213, 7/18/74).

Mr. Kafka commented that all of the proposals made in the staff paper required amendments in one way or another. The instruction from the Committee of Twenty, which had been endorsed by the Executive Directors, was part of a program for immediate action. Therefore, he wondered whether action that could be taken immediately, without amendment, to make monetary gold more useful as a reserve asset without prejudice to the objectives of the reform, should not also be studied.

Mr. de Groote observed that EBS/74/213 clearly sketched the outline of a new Fund under a fundamentally reformed monetary system based on the SDR, with gold demonetized through the establishment of a substitution account. If progress from the present transitional period were ever achieved, he hoped it would be along the lines presented in the staff paper. However, since Executive Directors had to present to the Interim Committee by January a set of proposals for approval and further implementation by parliaments, it was doubtful whether it would be possible to go as far as was recommended in the paper. His authorities did not at present envisage any action beyond that required to make it possible for the Fund to accomplish its role in the present circumstances of transition and uncertainty. Of course, as the General Counsel had remarked, even if the suggested amendments were to be of limited scope, they had to be conceived with a view to the future. However, he was convinced that it would greatly impair the chance of taking the necessary steps for the interim period, if the impression were created that rather than embodying the general recommendations of the Committee of Twenty for the interim period in the Outline, an attempt was being made to impose elements of a decision belonging to a further phase in the reform of the system. Any such attempt would neither be in conformity with the intentions of those who would be participating in the Interim Committee meeting, nor realistic in the present circumstances, when there was clearly disagreement on the fundamental issues.

There were three main subjects of immediate importance on which his authorities would like to see amendments proposed for consideration by the Interim Committee, Mr. de Groote continued. First, there was the question of an amendment enabling members to pay 25 per cent of their quota increases in media other than gold. That issue, which was not directly raised in the staff paper, would have to be settled soon. His authorities would favor the use of national currencies for the payment of the whole quota increase. Gold previously paid to the Fund would continue to be registered in the Fund's accounts at the official price until agreement was reached as to its ultimate fate. Obviously, some adaptation of the present repurchase obligations of Fund holdings above 75 per cent of the member's quota would also become necessary.

Second, a set of amendments was needed to abolish the legal link that still existed between the SDR and gold, Mr. de Groote observed, so that only a single price for gold would prevail, namely, that established by the market. The legal implications of the present official price for gold had been clearly set out by the staff. The false impression had perhaps arisen that the staff felt that central banks should not freely use their gold reserves at the market price. In fact, its only concern had been to state the present legal situation in the absence of amendments to abolish the official price of gold, and any such misunderstanding should be dispelled. Third, if an amendment were proposed in order to sever the relationship between the price of gold and the SDR, further amendments should be envisaged to make it possible to define the par values of currencies in terms of SDRs. However, there was some doubt whether the third amendment was essential for the interim period.

Unless the proposals were limited to those of the sort he had mentioned, Mr. de Groote believed, the next meeting of the Interim Committee would not be productive. In the circumstances, he did not wish to examine at length the various possibilities raised in EBS/74/213, although he hoped that they would remain at the center of attention whenever it became possible seriously to envisage establishing some kind of substitution account. The Fund could well be authorized to dispose of gold on the market after the interim period, once a new system was defined. It should not be assumed that the Fund would have systematically to dispose of the gold that central banks had sold to it. In that respect, he failed to understand fully the first sentence of Section 3 on page 5 of the staff paper, to the effect that: "if gold is to be phased out of the system, it would be natural that gold would also cease to be the central asset of the Fund, and that the Fund's existing stock of gold would be replaced by other assets." The role of gold in the Fund could be analogous to that of the consolidated claims that many central banks in European countries had acquired vis-à-vis their own governments as a result of the wars. The Fund could obtain sufficient remuneration on its assets by means that might be similar to those that enabled central banks to maintain their accounts in balance. Such an approach would certainly enhance the role of the Fund as an international monetary institution.

Mr. Palamenghi-Crispi observed that the Italian authorities had accepted the long-term objective of the reform, which was to place the SDR at the center of the monetary system. In their view, that objective was not incompatible with arrangements designed to make gold an asset that was fully usable for financing oil deficits, both in 1974 and in future years. They had welcomed the understandings reached by the Ministers of the EEC in April 1974, and by the Ministers of the Group of Ten in Washington in June 1974, which they believed to have contributed to the gradual process of mobilizing gold reserves. In their view, any further arrangement that might be reached in the interim period should not compromise in any way what had already been achieved with respect to the mobilization of gold. Monetary authorities should enjoy complete freedom of transaction with respect to gold, both among themselves and with the free market, within established guidelines to be agreed upon by the International Monetary Fund. The official price of gold, at $35 an ounce, should no longer be a guidepost for members' gold transactions, and no member should have any obligation to buy gold from or sell gold to the Fund. Any transactions with a substitution facility that might be established by the Fund for the purpose of exchanging gold against SDRs should, therefore, be voluntary.

With respect to EBS/74/213, Mr. Palamenghi-Crispi made some personal observations. Some of the ideas outlined by the staff--in particular the question of gold purchases by the Fund within the framework of the substitution facility, and the problem of the use of the Fund's existing gold stock--required further consideration. Once the monetary system was firmly established on an SDR basis, it might be possible to take decisions on Fund operations in gold and the disposal of the gold stock. In that connection, he would not eliminate the possibility of the Fund selling its gold back to members, against SDRs or currencies. Once the question of whether the Fund should sell gold or return it to members was settled, it would be possible to consider the various options regarding the use of the proceeds, with reference primarily to the need to maintain the Fund in a comfortable liquidity position and the possibility of contributing to the flow of assistance to developing countries. As a matter of principle, he would find no difficulty in granting to the Fund the right to buy and sell gold provided that it was agreed that such gold transactions, particularly with the market, would be subject to close international supervision and that they would be carried out within guidelines agreed upon by the Fund.

Mr. Zulu remarked that the Committee of Twenty had specifically instructed the Fund to discuss the future role of gold and that the subject of gold appeared on the agenda of the Interim Committee. In discussing proposed amendments in the recent past, the Executive Directors had been required to defer their comments on gold because its future role remained to be clarified. Since the Fund was itself a major holder of gold, accounting for 150 million ounces, or approximately 10 per cent of total official holdings, the consensus reached so far that gold should gradually be phased out of its present central monetary role was of considerable importance. Gold was a sensitive issue, and the immediate and long-term considerations were intertwined.

Although EBS/74/213 was not exhaustive, Mr. Zulu remarked, it did outline the basic issues in a constructive manner. The suggested 30-year period for phasing out gold seemed rather long, particularly in view of the present rapidity of change in international monetary affairs. Nevertheless, for psychological reasons, it might be appropriate to move fairly slowly. Arrangements for withdrawing gold from the monetary system should be simple, efficient, and attractive to all interested parties; hence the arrangements proposed in EBS/74/213 should be simplified. In particular, they should initially be neutral with respect to the size of global liquidity. Therefore, he would support the proposal to sell gold to the Fund through a substitution account in exchange for SDRs created for that purpose. The right of the monetary authorities to sell gold directly in the private market would be disruptive, and would create the incentive to buy, both of which would be undesirable. In order to make the sale of gold attractive, the Fund should accept some element of risk. In that connection, he would support the suggestion that the Fund stand ready to buy at a fixed margin below the market price.

However, Mr. Zulu said, he was concerned about the proposal for the disposal of gold by the Fund. The suggestion that the Fund should immediately sell each quantity of gold acquired did not only create enormous risks for the Fund but also appeared to complicate the arrangements. Losses on the part of the Fund, or the achievement of only a break-even position, would prevent the achievement of some of the stated objectives. Therefore, he wondered whether the timing of the sale of gold could not become a matter for the exercise of discretion by the Fund.

Finally, Mr. Zulu stated, the arrangements to withdraw gold from a central role in the monetary system should not lead to further distortion in the global distribution of reserve assets. The official gold holders would probably double their reserves, while the sale of gold by the Fund would lead to substantial profit. Therefore, he would support the suggestion that part of those "windfall gains" should be channeled to countries in need, on concessionary terms. Such an arrangement would give credence to the tenet of symmetrical treatment and concern for both developing and developed countries. However, the proposal to use development finance institutions to effect the transfer of such resources to developing countries had to be carefully examined, in order to avoid unnecessary additional bureaucracy, a problem recognized in paragraph 4 on page 7 of the staff paper.

Mr. Kafka remarked that it seemed to him that while the proposals for a narrow set of amendments made by Mr. de Groote would achieve one of the objectives stated by the Board of Governors, namely, to make gold more usable as a reserve asset, they would quite obviously not safeguard the objectives of the reform with respect to the position of the SDR and the distribution of reserve assets. At present, central banks could not in practice use gold at market prices except for sales to the market; as they could not buy from the market, they were reluctant to sell for fear of disturbing the market. They could of course use gold at near-market prices as collateral for loans. However, they might be led either to make sales, if the loans could not be repaid otherwise, or to incur indefinite rollovers, neither of which were satisfactory solutions. If the proposals by Mr. de Groote, which would enable central banks to engage in transactions in gold at market prices <u>inter se</u>, were adopted, they would create a very large potential increase in liquidity for a limited number of countries. Such an outcome would be doubly contrary to the objectives of the reform. Therefore, there would be no alternative other than to adopt the wider set of amendments as proposed by the staff, if there were to be accord with those objectives.

Turning to EBS/74/213, Mr. Kafka commented on the first four sections, which involved questions of principle. On the issue of the scope of the gold transactions that should be permitted, he believed that central banks should be free to sell to, but not to buy from, the market, and that there should be a provision for gold sales through the Fund, preferably through a substitution account to be established within the Fund. In order to remove certain risks that could otherwise rest on the Fund, in addition to making possible sales to the substitution facility, it would be necessary to provide for the possibility of countries obtaining SDR loans against gold collateral from the Fund, as mentioned in the staff paper.

He saw no reason why the Fund's gold should remain frozen, Mr. Kafka said. It should be given a use. While the distribution of the Fund's gold to members could not be totally rejected, it would be more appropriate and in accordance with the stated objective of bringing about a transfer of real resources to developing countries if the proceeds of the sales of gold by the Fund were to be made available to the development finance institutions, or even directly to developing countries, through Fund investment in securities of such institutions or countries. One possibility was investment in securities paying ordinary interest. Other possibilities as described by the staff were investments in loans made on concessional terms, or securities with a merely concessional interest rate and very long repayment period.

Mr. de Margerie remarked that the staff paper had been issued as a consequence of the mandate given by the Committee of Twenty and confirmed by the Board of Governors. The future arrangements for gold should be judged by the criteria that had been set out in the Outline of Reform, and by the contribution they could make to facilitating the move to the transitional period. They should also be consistent with the long-term objectives of the Outline of Reform, requiring the SDR to become the principal reserve asset, and the role of gold as a reserve currency to be reduced. With reference to the remarks by some speakers concerning "the phasing out of gold," he was unable to find that expression per se in the Outline of Reform. Another objective that had to be considered in studying those arrangements and objectives was the orderly functioning of the international monetary system during the interim period. In that respect, the present status of gold was not satisfactory. There were important reserves in gold that were, de facto, frozen, which seemed a little absurd at a time when the problem of major imbalances was increasing. Moreover, the absence of a solution made various other Fund operations, on which decisions had been postponed from time to time, more difficult. For example, it had accentuated difficulties in connection with quota increases, was at the root of the difficulties that had arisen in discussion of the renewal of the General Arrangements to Borrow, and had burdened the discussions of possible amendments to the Articles of Agreement. A solution to the problems concerning gold should therefore be found quickly. A comprehensive solution would be to deprive gold of its special status and to treat it like any other asset, allowing complete freedom for dealings in gold between central banks.

With reference to EBS/74/213, Mr. de Margerie said that he was in total agreement with some aspects of the paper, particularly the statement that the official price of $42 an ounce for gold should be abolished; he also welcomed the idea that no member should continue to be under an obligation to buy gold from or sell gold to the Fund, according to the present Articles of Agreement. However, other ideas were less acceptable. In particular, there was the tendency to establish a negative attitude to gold, and that idea was contrary to the Outline of Reform, as he had previously commented. Although a reduction in the role of gold had been mentioned, phasing it out completely had not, and whatever the final system would be, it was difficult to imagine that such a major asset could disappear so rapidly.

It would be contrary to sound financial practice for the Fund to reduce or eliminate its holdings of gold at a time when the possibility of a considerably increased lending role was contemplated, Mr. de Margerie observed. If the Fund needed to borrow very large sums, it would seem sensible to retain one of the major assets, in order to offer a sound warranty to potential lenders. Another reason for skepticism about the idea of the Fund selling its gold was that the institution would then be in the position of a regulatory agency, which would create difficult problems. First, he was not certain that the Fund was technically equipped to be a regulatory agency. Second, the market would wonder what the objectives of the Fund were with respect to the price of gold prevailing in the market, and the possible consequences might be difficult to accept. If the Fund did decide to reduce or eliminate its holdings of gold, the only way for it to do so would be to return the gold to the members who had contributed it. The idea that sales of gold would be desirable as a means of effecting a redistribution of reserves was not an attractive one. The redistribution of reserves could be attained by various other means; the "link" for instance, was a more practical solution to the problem.

Another idea which pervaded the staff paper (EBS/74/213) was that the freedom of central banks to deal in gold would be limited in various ways, Mr. de Margerie added. That idea was not at all acceptable. If gold were to be treated like any other asset, total freedom should prevail, with central banks permitted to buy or sell between themselves or in the market, or to enter into any kind of transaction in gold. The staff paper was perhaps not sufficiently precise on certain points. First, he wished to see it more clearly stated that members could still use gold in those transactions with the Fund which at present had to take place in gold under the Articles of Agreement as an option and not as an obligation. His authorities would like a clear statement that the value of gold held by various monetary institutions could be carried on their books at a realistic value--meaning one derived from the market--and not at the present one. One simple technique would be to take the average price of gold on the market during the previous month.

A related problem was the question of possible intervention to stabilize the market price, Mr. de Margerie observed. Central banks could perhaps come to an agreement on some type of stabilization operation. Naturally, such an agreement would have to be worked out in close cooperation with the Fund, which should be able to say by qualified majority at any time, for example, that it would prefer the agreement not to be applied.

In conclusion, Mr. de Margerie observed that the discussion of the gold problem was not an academic one and a decision should be reached quickly, for many reasons. In particular, a decision on gold was required in order to reach a decision on the question of increasing quotas, and the deadlines were imminent. The technical aspects of the question had already been extensively explored. All that remained was to achieve the political will to reach an agreement very quickly. The longer any decisions were to be delayed, the longer would the placing of the SDR at the center of the system be delayed. The only way to reach a quick agreement would be to start by allowing central banks complete freedom to deal in gold, which would not have any particularly dire consequences on the general functioning of the present system.

Miss Fuenfgelt said that her observations would be similar to those made by Mr. de Groote: she had some doubt that many of the ideas developed in EBS/74/213 were realistic. Although she agreed with the general aim of reducing the monetary role of gold and of strengthening the role of the SDR, any concrete proposals to that effect would only be successful if they were compatible with the evolution of international monetary arrangements. Her authorities considered the staff's far-reaching propositions to be rather premature, and in the interest of what the Committee of Twenty had referred to as the "evolutionary process," it would be counterproductive to try to impose artificial solutions on member countries. The Fund would be better advised to develop its rules and policies in the direction of a reduced monetary role for gold in conjunction with a desire by member countries to cooperate constructively with the Fund to achieve that aim.

Referring to specific proposals in the staff paper, Miss Fuenfgelt commented that she was in agreement with the statement on page 2 that the price of gold at SDR 35 per ounce should no longer guide either the Fund's or members' gold transactions. However, her authorities would be unable to agree to the establishment of a substitution account. The General Account could, if that were desired, purchase gold for currencies and the limits mentioned by the staff on page 3 under paragraph (a) would be unlikely to come into operation very soon. Under paragraph (b), on page 3 of the staff paper, the idea of restricting member countries' rights to sell gold on the private market was completely unrealistic. Under paragraph (c), she would support the legalization of gold sales between central banks at market-related prices. Section 2 on page 4, "Terms for Fund Purchases of Gold," illustrated the considerable difficulties that the Fund would encounter in entering into gold transactions under present circumstances. Any proposals based on the assumption of a continued upward trend of the gold price were, to say the least, unsafe. In view of the considerable doubts existing with reference to Section 3, it would not be useful to enter into a discussion of that section, or the subsequent sections, even in a seminar.

Mr. Lieftinck remarked that he considered the most immediate problem to be the question of the subscription of the 25 per cent of quota increase and the fulfillment of other obligations, presently expressed in gold under the Articles of Agreement. Mr. de Groote had said that he was in favor of substituting payment in members' own currencies for the 25 per cent payment in gold; he himself could not agree to that. Rather, he thought, those payments should be made in SDRs. Otherwise, countries would be required to make virtually no sacrifice, and could easily print their own money. The other matter of urgency was to abolish the completely irrational official gold price, which was linked to the SDR. The remainder of the suggestions made by the staff in EBS/74/213 should be considered in the context of what would be realistic, both at the present time and in the foreseeable future.

It would not be useful to precipitate the achievement of solutions that were clearly unacceptable to the major holders of gold, Mr. Lieftinck continued. Further steps to enhance the position of the SDR and reduce the role of gold, beyond those indicated on page 2 of the paper, could not be taken until the position of the SDR was better established and there was more willingness to part with gold from individual reserves and the assets of the Fund. At present, there was little willingness on the part of most of the gold-holding countries, including the Netherlands, to part with gold other than under emergency conditions. The selling of gold in the private market was considered as an ultimum remedium, to be avoided if at all possible. If a number of gold-holding countries were to sell their gold in the market, great uncertainty with respect to the price of gold would be created, probably leading to a sharp decline in price because of the limited capacity of the private market in comparison with the amount of monetary gold in existence. Similarly, the Netherlands authorities did not consider that the sale of gold to the Fund under a substitution account in exchange for SDRs would be attractive, because they retained more confidence in gold than in SDRs. It would be unwise for the Fund, as for any gold-holder, to substitute SDRs for gold or to sell gold in the market, so long as the SDR was not considered to be a better asset than gold.

A number of gold-holding countries, Mr. Lieftinck commented, would consider the removal of legal obstacles to gold transactions between themselves to be an important forward step. They might be willing to conceive that the Fund would act as an intermediary, regulatory agency, to produce an orderly situation with respect to the monetary gold price that would then govern the transactions between central banks. Nevertheless, his authorities did not believe that that could constitute an alternative to complete freedom. If the Fund were to volunteer to operate as such an agent, they would seriously consider allowing it to do so, but if they felt that their interests were better served by direct bilateral transactions, they would wish to have the freedom to undertake them.

Finally, Mr. Lieftinck noted that a higher price of gold for such transactions would naturally have its consequences for liquidity creation. A certain number of countries would enjoy an increase of liquidity that could jeopardize the interests of certain other countries. It would be important to keep such considerations in mind, particularly with respect to further allocations of SDRs, and to allow them to influence any decision.

Mr. Kawaguchi remarked that, like other Executive Directors, he wished to endorse the agreed objectives of the monetary reform, namely, to make the SDR the principal reserve asset, reduce the role of gold in reserves, and improve international management of the volume of global liquidity. Based on those principles, he would make some comments with respect to EBS/74/213, particularly Section 1.

There was a need to mobilize existing holdings of gold reserves, Mr. Kawaguchi observed, provided that the mobilization was effected in a manner compatible with the objectives he had mentioned. Therefore, if the achievement of those aims would be assured, it would seem advisable to establish the conditions to enable transactions in gold to take place between central banks, or between the Fund and member countries, in addition to sales of gold to the market by central banks. However, he would strongly oppose the adoption of any devices to support the price of gold, especially the revaluation of official gold prices or the establishment of any new intergovernmental prices for gold. Purchases of gold from the market by central banks should be precluded, since it was vitally important that the aggregate volume of official gold holdings should not be allowed to increase.

With respect to Section 2, "Terms for Fund Purchases of Gold," Mr. Kawaguchi wished to state only the general principle that the Fund should not take any financial risks in connection with gold transactions. Normally, any possible financial loss which the Fund might incur should be uniformly borne by all members. However, the burden sharing in such cases would cause inequity, particularly with respect to developing countries. In that connection, he found some difficulty in agreeing with certain sentences in the staff paper, particularly the statement on page 4 that: "whether or not an initial price decline would result from the introduction of a Fund scheme, the price at any moment thereafter will have to be such that there is an expectation of a medium-term rise, of the order of the market rate of interest... ." Such a presentation was rather simplistic. For example, whether there was an expectation of a medium-term rise would depend upon the extent of the initial decline in market prices of gold at the commencement of sales by the Fund. Therefore, such an expectation was very much related to the reasonableness of the starting price, which in turn would be affected by the proposed Fund scheme.

With respect to Sections 3, 4, and 5 of the paper, Mr. Kawaguchi commented that it seemed premature to discuss such technical aspects. The use of proceeds from gold sales and the allocation and the timing of gold sales by the Fund, though important and interesting issues, were nevertheless rather peripheral. He was not unaware of the interest of developing countries, but such questions should be considered separately from the basic issue.

Mr. Rawlinson said that he would agree with many of the views that had been expressed by previous speakers, particularly those by Miss Fuenfgelt; his authorities did not consider many aspects of the question of gold to be at all urgent. Therefore, he would suggest that the Executive Directors concentrate on the relatively few matters of immediate operational interest, and retain the remainder of the issues raised in the staff paper for decision in the future. Were it not for the question of amending the Articles of Agreement, his authorities would probably be even more disinterested. However, they were in favor of a comprehensive amendment of the Articles, including certain changes in the area covered by EBS/74/213, without necessarily reaching definitive conclusions about all possible future action by the Fund.

More specifically, Mr. Rawlinson remarked that he would endorse the two basic propositions at the top of page 2, which suggested that an official price should no longer guide the Fund's or members' transactions in gold and that no member should have any obligation to buy gold from or to sell gold to the Fund. He would express some reservation, although not a definitive opposition, to the suggestion made by Mr. de Margerie that the gold option should be retained. In order to establish the SDR as a central asset in the system, his authorities would favor the exclusion of gold with all deliberate speed. Their approach, therefore, was rather different from that relayed by Mr. Lieftinck on behalf of his authorities, who favored more restraint in movement in that direction. The U.K. authorities would be in favor of the Fund having power, under revised Articles, to sell gold in the open market, without necessarily taking a definitive position at the present time as to either the precise manner in which that operation should be carried out, or the purpose of doing so. Conversely, they would be opposed to the Fund buying gold in the market, and also to any participation by the Fund, or by anyone else, in any price maintenance scheme in the gold market.

Turning to Section 1 on page 2 of the staff paper, Mr. Rawlinson said that, with reference to paragraph (a), his authorities would be in favor of provision for sales of gold to the Fund against a substitution facility for SDRs. On paragraph (b), they would be in favor of members being able to sell gold on the private market, although they would not be attracted by the suggestion that such sales should be channeled through the Fund. The question of transactions between central banks, referred to in paragraph (c), did not generate strong interest in either direction. If there were a general desire on the part of other member countries to engage in such transactions, his authorities would have no objection to a provision being made in order for that to occur. They would not favor purchases from the Fund, or Fund purchases from the private market, mentioned in paragraphs (d) and (e), respectively. Gold collateral transactions, referred to in paragraph (f), should be permitted, and any remaining legal obstacles to those transactions should be removed. With reference to Section 2, he would not favor purchases of gold by the Fund from the market, nor any participation in price maintenance arrangements. He did not wish to express a view as to the manner in which the Fund should sell gold in the market, although he did believe that the power to do so should be provided under revised Articles of Agreement. Although his authorities were interested in the suggestion of sales that would benefit the less developed countries, they believed that any proposal would need to be considered in the context of future developments in relation to such questions as the SDR-aid link.

Mr. Prasad remarked that the discussions appeared to have centered upon peripheral, minor operational details, rather than on the basic issue of the distribution of international liquidity. The major gold-holding countries seemed to be more interested in pursuing nationalistic policy objectives than in discussing international reform objectives. There appeared to be no real readiness on the part of the international community to assist developing countries. If the gold-holding countries were to provide themselves with a reasonably ample liquidity by selling their gold at market-related prices they would advise the Fund that there was no need for any allocation of SDRs in the foreseeable future, and in such a situation, any acceptance of the principle of the "link" would become meaningless. The suggestion of a special allocation of SDRs to countries in need would be incompatible with the framework of law operative in the Fund. Therefore, the Executive Directors should engage in a formal debate and propose to the Interim Committee any conclusions which might consequently be reached, in order to allow the Ministers to consider the problem further.

Mr. Drabble observed that his authorities, rather like those of Mr. Rawlinson, were of the opinion that there was less urgency with respect to certain aspects of the question of gold than existed in relation to several of the other difficult matters that had to be considered at the present time. They completely accepted the idea that the role of the SDR should increase and the role of gold should decrease in the international monetary system. They also recognized that the unprecedented size of present current account balance of payments deficits required that gold should be usable in order to finance them, in a manner consistent with both the development of the SDR as the principal reserve asset and international control over global liquidity. For that reason, they shared the concern expressed by Mr. Kawaguchi over the possibility of losing all control over purchases of gold by central banks.

With respect to the two basic propositions set forth at the top of page 2 of EBS/74/213, Mr. Drabble said that his authorities found no difficulties. However, there was the problem that if the present injunction with respect to purchase of gold by central banks was only made effective by the technicality that purchases could only be made at the official price, and the official price ceased to exist, there might have to be some other clause to maintain the restriction. There should, of course, be a continuation of the right of central banks to sell in the private market. The use of gold as collateral on an ad hoc basis in the present difficult circumstances might be one way in which an alternative method of using gold could be permitted, without the possible disturbing effects to which large gold sales directly into the private market would lead. Although the case was eloquently stated in the staff paper, his authorities were not immediately attracted by the idea of sales of member countries' gold to the Fund. However, should gold-holding countries wish to organize some cooperative pooling arrangement of their own, strictly for the sale of gold, in order to facilitate sales to the private market with a minimum of disturbance, they need not obligatorily do so through the Fund. Sales might be effected through some other agency or some newly created one.

Another point that his authorities would at least like to consider further, Mr. Drabble continued, was whether, as a measure for the interim period rather than for the more vague and indefinite future, the Fund should not be empowered to sell to the private market and, in effect, to have the same rights as the central banks of member countries. The Fund would thus be enabled to increase its financial resources. Some of the interesting suggestions contained in EBS/74/213 might be helpful in various ways, both to the Fund and as a method of generating flows to development institutions.

Mr. Amuzegar remarked that his views were of a personal nature. The major interests of his constituencies were the effectiveness and stability of the international monetary system and the proper functioning of the Fund as a monetary institution. For those reasons, he would favor amending the Articles of Agreement as soon as possible, in order to facilitate the revision of Fund quotas. The 25 per cent gold subscription might be replaced either by SDRs or even by local currencies. Not only would it be both easier and cheaper for countries to fulfill their obligation by using local currencies; it was also cheaper for the Fund to hold and use currencies.

He would be opposed to any scheme or arrangements, substitution or otherwise, that might legalize an artificially high price for gold, either directly or by allowing transactions between central banks at market-related prices, Mr. Amuzegar continued. He would also oppose the Fund being placed in a position in which it acted as a broker for the interests of the major gold-holding countries, and he feared that a substitution account might serve such a purpose. Any profit from possible Fund sales of gold in the market should be allocated exclusively to assist the developing countries. Finally, he would approve the maintenance of the status quo with respect to the freedom of central banks to sell gold to the private market, and perhaps to each other, since such sales could not be effectively prevented once the principle of the use of gold as a collateral was accepted. However, he would not favor the sale of gold by central banks to the Fund at market-related prices, or to other central banks at higher legalized prices.

Mr. Cross commented that he would agree with Mr. Amuzegar that the discussion should center upon the aspects of gold relating to the effectiveness and efficiency of the international monetary system, rather than the increase of wealth for gold-holding countries or the provision of resources to non gold-holding countries. Changes in the gold price could have enormous effects upon world liquidity. At a time when there was increasing concern about the difficulty of managing the world monetary system, he would favor the accepted objective of reducing the role of gold and removing it from the center of the system. Any consideration of immediate issues should be without prejudice to the consistency of the longer-term evolution of the system, in the context of the objective of reducing the role of gold in the system. It was very difficult to state unequivocally in all cases whether particular moves would operate to reduce or to enhance the role of gold in the system.

There were two aspects of the question to be considered, Mr. Cross continued; those were the de jure and the de facto. With respect to the former, he had some doubts as to whether amendments should be confined to a relatively limited group of topics. The aim should be to remove gold from the Articles of Agreement and to establish, in law, an SDR-centered system. As to the manner in which gold could actually be eliminated from the system, he would agree with Mr. Palamenghi-Crispi that the recent measures taken to allow countries to sell on the market at the present time represented an important move toward at least allowing gold to move out of the monetary system somewhat more freely than had been possible in the past. For similar reasons, it was important that the Fund should be permitted to sell its gold in the market and to use the proceeds to expand its normal resources. As Mr. Kawaguchi had noted, many details remained to be resolved on the technical aspects of the question, but, although important, they were subsidiary issues.

The matter of buying gold created far more complicated problems, Mr. Cross added. Any agreement to allow countries to buy gold would make it necessary to adopt careful safeguards and transitional provisions in order to ensure that gold did move out of the system and did not return. Such measures could be part of a total "package" that would operate to reduce the role of gold in the monetary system in a very substantial way. Provisions for the Fund to act as a warehouse for the storage of gold, or for the Fund to buy gold, or for a substitution account all appeared to provide the opportunity for gold to remain in the system, which was contrary to the long-term objective. In addition, he would share the concern expressed by Mr. Kawaguchi with respect to any arrangement by a particular group of countries to enter into price-fixing agreements. Great care should be taken to avoid any return to a system centered upon gold.

Mr. Åsbrink observed that his authorities were very conscious of the existence of a gold problem and would be prepared to cooperate in undertaking necessary amendments to the Articles of Agreement in relation to gold. However, they were concerned that the scheme proposed in EBS/74/213 was intended to establish a system for maintaining a new, more or less "fixed," gold price close to the present market price and at a much higher level than previously. The current market price of gold could equally be termed a non-market price, since it was a price established at a time when none of the main holders of gold was making any offerings of gold on the market. A scheme that attempted to stabilize the price for actual dealings in gold at the present so-called market price would inevitably fail, unless there was some power willing and able at any time to buy or sell unlimited quantities of gold to prevent the price from changing. It was, to say the least, unlikely that the IMF could assume the role of such a power. Therefore, he was unable to agree to the scheme as presented.

A number of very real problems failed to receive adequate attention in the staff paper, Mr. Åsbrink continued. It avoided, for example, consideration of the phasing out of gold from the monetary system and of the impact of the proposed scheme on the world liquidity problem. Although he would share to a certain extent the views expressed by Mr. Prasad on liquidity, he was less confident that the major holders of gold would have easy access to unlimited liquidity if channels were established for the sale of gold on the market. Rather, the effect of selling gold might be to cause a reduction in the gold price and, consequently, in the so-called windfall profits which theoretically existed, but which probably were not to be greatly relied upon.

His authorities, Mr. Åsbrink noted, would not favor any action that could prevent the ultimate realization of the aim of phasing gold out of the international monetary system. They would oppose the Fund becoming a guarantor for a new gold price, because they did not believe that the institution was equipped to fulfill that function. The only result, if such a scheme were adopted, would be that gold speculation might receive a new stimulus and, ultimately, a new situation of prevailing disorder would be created. Therefore, he believed that it would be preferable to concentrate upon the problems involved in the amendment of the Articles of Agreement.

Mr. Brand observed that EBS/74/213 seemed to go beyond the Committee of Twenty's request for a study of the method of reducing the role of gold in reserves. For example, a whole section was developed around the opening phrase, "if gold is to be phased out of the system," on page 5 of the staff paper. As Mr. Rawlinson had remarked, attention should be concentrated upon matters of immediate operational interest. He would have liked to see the paper produced in two sections, rather like the Outline: first, immediate steps and, then, possibilities for the future.

Like Mr. Rawlinson, he would oppose the introduction of any price maintenance scheme, Mr. Brand continued. The references to the possibility of avoiding disruptive movements in the market price and the need to develop a formula for Fund sales, created some concern. Would a formula of the nature proposed there be kept secret--indeed how could it be kept secret? As Mr. de Margerie had queried, was the Fund really equipped to be a regulatory agency? If the Fund did see a need to reduce its holdings of gold, which he personally would doubt, then, as Mr. de Margerie had said, the best policy would be to return the gold to the members who had initially subscribed it.

Mr. Smit, Principal Resident Representative, South Africa, recalled the remarks on the subject of gold that had been made by the Governor for South Africa at the Annual Meeting, and in a paper presented by the South African Deputy to the Deputies of the Committee of Twenty. Circumstances had changed, but the validity of some of the points remained unimpaired.

His authorities, Mr. Smit observed, showed little enthusiasm for the proposal to reduce the role of gold. However, even if that were the general desire, the extent to which it should be reduced should still be carefully considered. There was a fundamental difference between phasing out gold and reducing its role. In addition, as several Executive Directors had commented, the distinction between immediate steps and longer-term reform measures relating to gold should be considered. Immediate steps were necessarily more restricted and limited than those for the longer term. A particularly high degree of priority should be afforded to measures to make it possible to use gold as a monetary asset in the immediate future.

Several Executive Directors had referred to the wish of their authorities that the SDR should become the principal asset of the system, Mr. Smit continued. In order to achieve that objective, if it were the wish of the majority, the SDR had to command confidence and universal acceptability. The SDR could not become the principal asset of the system merely by impairing the use of gold as a monetary asset. His authorities believed that the SDR would have to undergo an evolutionary process before it could ultimately assume a principal role. Meanwhile gold could not be dispensed with, particularly since another objective of the reform was to reduce the role of reserve currencies. An immediate expulsion of gold from the Articles of Agreement would not contribute toward the establishment of either a stronger asset system or a stronger Fund.

Turning to EBS/74/213, Mr. Smit said that he was unable to agree with all of the assumptions and objectives stated there. However, he would certainly endorse the statement in (i), on page 2, that the official price of gold should no longer guide the Fund's or members' gold transactions. With reference to (ii) on page 2, the possibility for members to undertake transactions in gold with the Fund should be preserved, but not, of course, at the present official price. His authorities would not favor either the suggestion to remove gold from the international monetary reserves of central banks or treasuries and to place it in national commodity stockpiles, or the suggestion that the Fund purchase gold from members to sell it in the market. They also would not favor the sale of the Fund's gold in the market, but would prefer the option that had been suggested by a number of other authorities, namely, that the Fund could obtain the currency of members or reduce its own holdings by sales of gold to members, thus making it possible to mobilize a greater volume of currencies, particularly in the present situation.

His authorities would favor transactions between central banks both directly at market-related prices and through the private market, Mr. Smit added. They would be prepared to collaborate in any cooperative action that might be undertaken to promote orderly conditions. A number of Executive Directors had expressed apprehension with respect to any price-fixing arrangement. His own authorities had a well-documented record of operating in the market in a way that ensured regular supplies. They had always avoided the manipulation of supplies in any way that might artificially affect price movements. If monetary authorities wished to transact through the private market, some procedures to maintain relatively undisturbed orderly conditions in that market should be adopted. Nevertheless, he would in no way support manipulation of the market price. The market price in recent times had been one that was governed primarily by the supply and demand, not one that was manipulated, certainly not by his authorities. Therefore, he believed that to be the price that would have to operate as the guideline for transactions in gold for any purpose.

Finally, Mr. Smit recalled that his authorities were aware of the concerns of developing countries with respect to the distributional aspects, if gold were revalued to a market-related price or in any other way for purposes of official transactions. They would be willing to participate in arrangements with other countries to mitigate those distributional effects upon developing countries, the majority of which had little or no gold.

The Executive Directors agreed to resume consideration of the future arrangements for gold at 3:00 p.m.

When the Executive Directors resumed their discussion, the Economic Counsellor remarked, in reply to a question from Mr. Åsbrink, that the Fund did not intend to introduce a new system of a gold price supported at a higher level. He sensed that there was agreement on the two propositions at the top of page 2 in EBS/74/213, namely, that the link between gold and the SDR should be abolished and that there should be no further obligation for members to buy gold from the Fund or sell it to the Fund. He wondered how those two propositions could be accepted while still pursuing the major objectives of reform, which were to give an increased role to the SDR and to obtain improved control over the level of reserves. Several Executive Directors had emphasized that the SDR should have an increased role accompanied by a decreased role for reserve currencies and gold in a reformed system, whereas other Executive Directors thought that matter to be secondary and put the main emphasis on the liberation of the stocks of gold on the part of the large gold holders.

Certain amendments were necessary if it were to be accepted that there should no longer be a link between gold and the SDR and that members should not have an obligation to buy and sell gold, the Economic Counsellor commented. Mr. de Groote had suggested that payments of gold to the Fund ought to be abolished and that the official link between the price of gold and the SDR should be broken; by doing that the legal inhibition on members to transact gold between themselves would be abolished. Mr. de Groote had also indicated that it might be necessary to have the SDR as the unit in which par values were expressed. However, if the concern of Executive Directors was more than to make members' gold transactions legal and included the desire to keep the Fund operational and liquid, then the amendments would have to go further. If it was believed that members had no obligations to buy or sell gold, then Article V, Section 6, which dealt with the right of members to sell gold to the Fund for currency, and Article VII, Section 2, under which the Fund had the right to use its gold holdings to obtain currencies, would be in suspense. Executive Directors had to concentrate on that matter and settle it, because the Fund would not be able to operate, even for the interim, if those questions were unsettled.

The proposal that members could sell gold to the Fund for specially created SDRs by means of a substitution account seemed to have met with little support from Executive Directors, the Economic Counsellor observed. To establish such an account would put the Fund in a position where it would be managing the gold market. If the Fund only sold gold it would seem that the Fund was the supporter of whatever gold price there was. He wondered whether Executive Directors envisaged that members that held gold should not receive currency for it from the Fund under any conditions, or that the provisions of Article V, Section 6, should be abolished. If the right of members to sell gold to the Fund was maintained, that would mean that the Fund would have to give up currencies and incur an interest cost to acquire gold on which the Fund would not earn interest.

Referring to the ability of the Fund to use its gold, a number of Executive Directors had pointed out that it should not dispose of its gold, as it was a kind of guarantee of the Fund's liquidity if the Fund were to become a borrower on a large scale in the future, the Economic Counsellor continued. If gold was treated like any other commodity and no member was to be obliged to buy it, the Fund must have the right to sell its gold in the free market. In those circumstances the Fund would acquire currencies against gold and that raised the question as to the purpose for which those currencies ought to be used. Two possible solutions would be to enlarge the ability of the Fund to engage in its transactions or to purchase securities of development finance institutions. No matter what was decided, the issue was one that had to be settled as a minimum requirement of reform. If either purchases or sales of gold by the Fund were maintained, the Fund would be dealing in gold at a price different from the official price, and that would have consequences in the liquidation provisions, for example.

Mr. Palamenghi-Crispi indicated that his views were personal and not necessarily those of his authorities. He hoped that none of the ideas which had been discussed at the seminar would be ruled out because it did not find agreement among the Executive Directors. The idea of a substitution account was of interest to him, and he would have also liked a thorough examination of the possibility of giving gold back to member countries.

Mr. Rawlinson remarked that, although he did not agree with paragraph (b) on page 3 of EBS/74/213, which suggested that the Fund should be the only channel for disposing of gold, he did not want to see the idea of a substitution facility being ruled out.

Mr. Kafka noted that he had expressly supported the idea of a substitution facility. There were three possibilities for the future arrangements for gold. One was to adopt the series of amendments that had been outlined in the staff's paper; however, many Executive Directors thought that unrealistic. The second possibility was the list of amendments proposed by Mr. de Groote. Executive Directors would find that list unrealistic because it only achieved the objective of mobilizing gold reserves, without protecting the future position of the SDR, providing for the international management of liquidity, or achieving an appropriate distribution of reserves. Third, there was a possibility that only one amendment would be agreed upon, thus abolishing the 25 per cent gold subscription to be paid if quotas were increased, and even that might not prove to be necessary.

Mr. Guarnieri commented that he was somewhat surprised by the divergence that still existed in relation to the urgency of settling the gold question, and by the high degree of skepticism and misgivings expressed in regard to the consistency of certain proposals in the staff paper. A certain sense of despair had emerged as to the best way to proceed in order to accomplish the final objectives of the reform. Although some skepticism might have been justified, that shown by some Executive Directors revealed their attachment to strictly national objectives. It was regrettable to find a lack of the necessary political will to go ahead with the mandate of the Committee of Twenty.

A decision on future arrangements for gold was urgent, not only in the light of the agreed objectives of reform but also because it was related to other urgent matters such as the review of quotas, Mr. Guarnieri considered. In the light of the present economic situation it was necessary to increase the usefulness of gold in the international monetary system, both for financing the large trade imbalances and for improving the supply of long-term funds for economic development. Because future arrangements for gold should be solely guided by considerations related to the efficiency of the international monetary system, both the official price of gold and the obligations of Fund members to transact gold for certain purposes should be abolished, and SDRs used instead. In order to gradually reduce the role of gold in the system the Fund should sell its holdings in the market, and the proceeds should be used particularly for the benefit of the developing countries. Such an outcome could be achieved in several ways that were not mutually exclusive; there might be an advantage in combining the indirect approach of providing resources to development finance institutions with more direct means to ensure a fair distribution of the benefits that would be realized through gold sales. The staff paper had discussed the indirect provision of funds to developing countries; he would welcome consideration of direct means to accomplish that end.

Regarding the scope of official gold transactions, gold sales to the Fund, and sales in the private market, Mr. Guarnieri remarked that those operations should be allowed to be carried out in connection with a substitution facility and within the guidelines of paragraph (b) on page 3 of EBS/74/213, as that was fully consistent with the objectives of the reform. His authorities would not support gold purchases by member countries from the Fund or from the private market. Such transactions would be in conflict with the final aims of phasing out the role of gold in the international monetary system. The proposal for gold collateral transactions was consistent with increasing the usability of gold for the financing of balance of payments imbalances.

Mr. Amuzegar indicated that the substitution account seemed to be a device by which the Fund could become involved in the business of buying and selling gold; that was a job that the Fund was not prepared, able or welcome to perform. The Fund should not stabilize the price of gold at an absurdly high level and members should not be required, encouraged or allowed to sell gold at any price, and certainly not at market-related prices. The Fund should sell its gold at regular preannounced intervals at auctions, with the profits distributed among less developed countries.

Mr. Lieftinck said that even if Executive Directors were to restrict their discussion to the three modifications proposed by Mr. de Groote, it was still necessary to examine other issues. Article V, Section 6, on purchases of currencies from the Fund for gold, was not formulated in the form of an obligation, and therefore should be clarified. A member should not have the right to sell gold through the General Account, but the possibility should exist for a voluntary transaction between a member and the Fund, thus giving members the option of selling their gold to the Fund, and receiving from the Fund a set price in terms of SDRs. Another problem to be settled was whether the Fund should have the right to sell gold either in the free market or to members. The future role of gold in the monetary system could be decided on if those two matters were settled. If further examination was given to amending the Articles of Agreement, a phasing out of gold might be more easily achieved.

Mr. de Margerie asked why it would be necessary, as a minimum, to modify the provisions of Article V, Section 2, or Section 6. Because no country was eager to sell its gold to the Fund, he did not understand the urgency behind that proposition. Further, was it necessary to take a position on the possibility of gold sales by the Fund?

Mr. de Groote noted that he regarded his proposals as a minimum set of amendments. It would have been helpful if the possibility of sales of gold to the Fund by members and by the Fund to members, and the provision for the Fund to use its gold to obtain currencies, had been included in the list of amendments. Executive Directors were not contesting the need to take into consideration the distribution of reserves and the management of world liquidity when the future arrangements for gold were being discussed.

Mr. Shein wondered whether the abolition of the official price of gold would be consistent with the long-term objective of reducing the role of gold, which would require discouragement of gold purchases by monetary authorities from private markets. Under the existing Articles, the present official price had in practice deterred purchases of gold by members.

The Economic Counsellor, replying to a question by Mr. de Margerie, indicated that there was no emergency need for Fund purchases of gold or for the Fund to use its gold to acquire currencies. However, the question of gold could not be settled, even for an interim period, if the Fund did not know where it stood on that issue. The system would be undefined until it was decided whether or not a member had the right to sell gold to the Fund. Members of the Fund ought not to be in the position of not knowing whether a provision of the Articles entitling them to sell gold to the Fund still retained its former validity. A more urgent question was that of sales of gold by the Fund. A group of members had subscribed to paragraph (ii), on page 2, namely that no member should have any obligation to buy and sell gold. At present members had an obligation to buy gold from the Fund when the Fund offered it to them; that was what enabled the Fund to consider gold as part of its liquidity.

Referring to Mr. Shein's question, the Economic Counsellor remarked that he regarded the abolition of the official gold price as a least-bad solution from the point of view of the objectives of reform. However unattractive it was in itself, the abolition of the official gold price seemed to be an inevitable necessity.

The Chairman concluded that different views on a number of aspects of the problem of gold had been discussed and a certain amount of agreement had been reached. Executive Directors had centered their discussion on what was necessary in the present context of preparing certain amendments. Further, Executive Directors should bear in mind the final monetary system when they discussed some immediate steps. However, as the discussion had taken place in a seminar Executive Directors would not draw any conclusions nor could they drop or add to any of the proposals in the staff paper.

The Executive Directors concluded their seminar on future arrangements for gold and agreed to bring the subject to the agenda of the Executive Board in the near future.

W. LAWRENCE HEBBARD
Secretary