PRESS REPORTS

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HOW THE POOL HAS WORKED

A continental correspondent writes:

It was not only in the political sphere that Russia proved unexpectedly helpful in the Cuba crisis of three weeks ago. The international gold market, which had suffered a violent upheaval from the Cuba flare-up, was immediately calmed not only by the political accommodation itself but also by some equally remarkable large sales of Russian gold. On the Tuesday and Wednesday of the crisis private buying of gold in London reached $45-50 million, and this sum had to be provided by the concerted "gold pool" of Europe's central banks. But at the end of the same week the pool partly replenished itself by buying a substantial amount of Russian gold, believed to be about 20 tons (roughly the same in millions of dollars).

It is now possible to give a reasonably detailed picture of the working of this secret gold pool. Contrary to many impressions, it is not near exhaustion. The pool was set up in December, 1961, by the leading European central banks. Each country was given a quota for the amount of gold it was willing to put into the pool against dollars; the individual quotas are impossible to establish but the total commitment, as generally known, is $250 million. The pool which is managed by the Bank of England, was completed last spring by complementary arrangements for purchases in the market. These are normally confined to supplies from Russia or from private sellers; newly mined gold from South Africa is left to be taken up by the Bank of England in the usual way, a practice which has occasionally caused some resentment among continental members of the pool.

At the end of each month, the net balance of the pool, between the month's sales and purchases, is communicated to members, and the deficit or surplus is then divided between them according to their quotas. At the end of March, the pool had a deficit of $13 million. But at the end of June (helped by the gold sales from Canada's reserves?) the pool had repurchased sufficient gold to have a stock of $46 million. The subsequent speculation against the dollar quickly involved a loss of around $100 million, for at July 20th there was a net deficit of $50 million. At this point the United States itself appears to have put $35 million into the pool. This was in line with the general arrangement that the pool should not bear the whole strain of a general wave of mistrust against the dollar.

So at the end of July the pool had a net deficit of $15 million. In August, there was a further deficit of about $12 million, even though the pool now found opportunities to purchase gold again in London. The cumulative deficit at end-August was thus about $27 million, which was divided up in the usual way among the participants, each of them supplying gold to the Bank of England against dollars. In September there was a further deficit of $20 million. In October, the net result of the large sales to private hoarders as balanced by the purchases from Russia was a deficit of $35 million for the month. The upshot is a cumulative deficit in the pool of something over $80 million. Gross sales by the pool on the London market have, as explained above, been notably higher. But the pool's periodic replenishment, from Russian and American as well as from ordinary market sources, has left the bulk of the $250 million still available for use.

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INTERNATIONAL LIQUIDITY

STAMP II, TRIFFIN II

Mr. Maxwell Stamp has now put forward a revised version of his plan for combining a solution to world payments stresses and inadequate aid programmes. When he first put forward this plan two years ago, he now says*, he felt the unorthodox proposal had "at best one chance in ten" of being adopted. Mr. Stamp ventures no odds on the current version, which has been tailored to meet some of the practical criticisms, but is still strong meat for Mr. Stamp's fellow bankers. The essense of the Stamp Plan was and is the creation of special certificates of the International Monetary Fund to be granted in aid to under-developed countries, which could pass them on to the supplying countries in exchange for their national currencies. Mr. Stamp's main modifications are

A more modest start--an issue of $2 billion rather than $3 billion.

A limit on the amount of certificates a country needs to accept, equal to its IMF quota.

Provision for a country to opt out of the scheme completely--which would mean asking that contracts arising from the aid funds should not be placed with its manufacturers.

Provision for the IMF to redeem the certificates from its own resources in certain cases.

Channeling of the certificates through the International Development Association, so that they would be lent (for fifty years) rather than given away. Mr. Stamp also says that IDA would pay over to the Fund interest received on its loans, but so far these have been interest-free.

The special virtue of the Stamp scheme is that it goes straight to the heart of the wider object of international financial reform, which is to provide the means for larger overseas aid and fuller use of the west's

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* In "Moorgate and Wall Street," published by Philip Hill, Higginson, Erlanger, London, EC2.

productive capacity. The most serious aspect of the current payments situation is that while the unbalance between the main countries is much smaller than before, most countries are still very sensitive to letting their payments balances deteriorate and their reserves fall, and are accordingly hesitant in taking on commitments of overseas aid--which if taken on by all industrial countries together would have very little effect on their reserves or payments balances.

But in cutting the corners to a simple scheme of "just print it," Mr. Stamp is still almost certainly giving the traditionalists more than they will swallow. For those who flinch from creating new international money, especially if it is "unbacked" by other liquid assets, his scheme is less acceptable than the other runners in the field. These now include, besides Mr. Maudling's plan for a limited centralising of sterling and dollar balances in IMF deposits and Mr. Roosa's plan or expedients for bilateral arrangements for the dollar, continental ideas for standard ratios of gold and credit in countries' reserves.

This scheme was first put forward by Dr. Posthuma of the Netherlands Bank, and has now been taken up by Professor Triffin, who is a consultant to the European Economic Commission. At a meeting of the Round Table on European questions at Basle last weekend Professor Triffin said that such a scheme would be considered by the monetary committee of EEC, with an initial portion of 25 to 30 per cent in credit, perhaps later rising to 40-50 per cent. Within this credit portion would be included both special credits (whether through IMF, "mutual aid" in the common market or deposits in the Bank for International Settlements) and ordinary key currency balances.