

C. THE IMP: AN EXAMPLE

A sponsoring party (e. g., the U.S., Germany, the gold pool or the Group of Ten) invites other countries to deposit some or all of their reserves in a central pool along with specified sums of founding assets (FA). In exchange for these reserves the countries would acquire receipts or certificates, in the form of intors. The plan would come into operation within (say) a month of the invitation.

An example will illustrate how it would work. Think for the moment of an intor as being worth a dollar or .888671 grams of gold at current prices. Suppose \$30 billions worth of gold and \$20 billions worth of other reserves (dollars, sterling, Roosa bonds) are deposited in the pool, and that each founding member is given the right to submit one intor's worth of his own currency for every four intors' worth of exchange reserves. Then the accounts of the IMP could be deposited as follows (IOU's are used to stand for the founding assets):

Assets:	
Gold -----	\$30. 0b.
Dollars and other currencies-----	20. 0
FA -----	12. 5
Total -----	62. 5b.
Liabilities: Intors-----	62. 5b.

Individual countries would have obtained an asset, intors, that represent generalized purchasing power, an unconditional means of payment acceptable at all participating central banks. Any country wishing to do so could use it as an intervention currency or as a unit of contract.

The IMP would have the authority to engage in gold transactions in the private market to further the gold policy of the members, and to exchange intors for the major intervention currency in order to integrate the operation of the pool with the exchange market policies of the members. Other countries would therefore have the choice of using the dollar or the intor as the intervention asset.

Let us consider some of its operations. Suppose the Russians have a bad harvest and offer for sale \$500 million in gold. This would drive down the Zurich or London price to perhaps \$32 or \$30 an ounce under present arrangements, depending on how quickly it was fed into the market. Under our present arrangements dollar-holding central banks—especially the smaller ones—would be tempted to buy up the gold and sell it to the IMF, as under existing arrangements the Fund is obligated to buy gold. To prevent this, the IMF could buy up the total at a price of, say, \$33, paying for it in intors (or dollars), and then neutralize the inflationary impact of the purchases, if necessary, by sales of other assets as far as it was judged to be necessary.²²

It must be recognized that the mere existence of the pool would have a huge impact on the system. Control over the gold market would induce private gold to be released from hoards and sold to the authorities (probably about \$6 billions worth). No country would be able to dominate it. Erratic political behavior by any one country could be quickly punished. And if certain eventualities, perhaps unpleasant to speculate upon but nevertheless worth analyzing, occur, protection would exist for the remaining countries. I shall mention one or two of these possibilities not because I consider them likely, but because a system that provides some insurance against unpleasant big upheavals can readily handle the modest changes that are more likely to occur, but against which the present monetary authorities have felt helpless to cope.

Let us start off with some really dramatic changes so that we can see the kind of protection the IMP would provide and its superiority over the alternatives open at the present time. Suppose that the U.S. demonetizes gold by ending all transactions with central banks and offering to auction off some or all of its remaining gold reserves. The price of gold would fall. We cannot say by how much, because it would depend on whether the Fund felt legally obligated to accept gold at the official price. In the absence of gold hoarding by private or official users, the free market price would probably be below \$25 an ounce. But the overhanging liquid stocks in private hands and the offer of the U.S. to sell would create great problems. In any case gold-holding countries would be deprived of much of the security now provided by their gold stocks.²³ If they

²² The IMP could use either the Bank of England as its agent, as the gold pool did, or establish direct connection with the London gold market or the Zurich pool.

²³ I have gone into this issue in somewhat greater detail in a paper delivered in Geneva "The Future of Gold" (June, 1968).