abandoned the dollar as an intervention currency and switched to gold they would, on the other hand, be confronted with the threat of an inflation not unlike that which threatened silver countries after the U.S. demonetized silver in the last century. The IMP could protect them against this eventuality because they could switch to intors as the intervention currency and let the dollar depreciate in terms of *intors* without altering the fixed exchange rate relations they may want to preserve with each other.

Suppose next that the U.S. doubled the price of gold. This would benefit gold-holding countries compared to dollar holding countries and apparently dishonor the U.S. government because of its previous pledges. It would also be very expensive in view of the gold-value guarantee of Fund obligations. But the option of reducing or increasing the par value of all currencies (raising or lowering the price of gold) was built into the IMF articles and the door to such a possibility should be left open in case there arose a sudden need for a drastic upward or downward adjustment in liquidity (e.g., in case of a world depression or important new gold discoveries). The IMP would make it far easier to adjust the price of gold because it has the effect of distributing the gains or losses from a change evenly distributed among gold-holding countries. It contains, in this respect, the virtues of the Profuma plan, and does not unfairly penalize gold-holding or dollar-holding countries.

As a final example, suppose the U.S. embarks on a course of accelerated inflation. Europe has no feasible protection against U.S. inflation under the present system. Under a properly working system gold conversions would warn the U.S. of the dangers of this policy. But under the present system the countries cannot convert excess dollars into gold because they know the U.S. Treasury will simply close off that option.

It is true that the U.S. has said it will "defend the dollar up to the last ounce of gold," but this is hardly credible. It would be more correct to say that the U.S. will defend the dollar up to the last ounce of gold the Treasury will sell! Faced with this threat the other countries could pin their currencies to gold, but gold might have an unstable purchasing power even compared to an inflating U.S. currency; clearly intors would be better because their contract domain extends over all the (other) convertible currencies. Alternatively, they could let their exchange rates float, but not without allowing intra-European rates to fluctuate or adopting a European currency as an intervention currency. (Neither Germany nor France however are enthusiastic about choosing, respectively, francs or marks as the intervention currency.) Moreover, flexible rates would disrupt institutional arrangements in the Common Market; in any case flexible exchange rates are only a transitional system. With the IMP countries could latch onto intors and preserve their exchange rates among themselves without all exchange rate strings passing through the trading desks of the New York Federal Reserve Bank.

In these cases the IMP will provide central banks with a protection against the vagaries of Russian sales, South African monopolistic practices, U.S. inflation, a bouncing gold standard, or the political disadvantages of the Roman solution. It will provide a hedge against the grave uncertainties that are presently facing Central Banks as well as more freedom for the U.S. to opt out of those responsibilities that have led officials in Washington to adopt a system of controls. The present scheme shows that the rest of the world is not as hopelessly at the mercy of erratic policies in either Washington, Paris, Moscow, Johannesburg or Zurich.

The scheme would not, however, be useful only in its role of taking command over the gold market and providing central banks with a conservative and safe international currency reserve. The pool also represents a depository for SDR instruments held by its members. When a country that is a participant in the pool receives SDR instruments, it can dump them in the pool and get intors in exchange. The central banks have a residue of district in the Rio scheme, and will distrust it even more as the implications of the gold-guarantee provisions come to be better understood; the intor system gets them off the hook. It makes a virtue out of some of the defects of the SDR scheme.

D. SOME DETAILS

We have now developed the main outlines of the agreement and some of the major advantages that can be expected from its successful implementation. There are a number of details that are worth considering, even though it would be premature to engage in an overspecific discussion until the main principles are