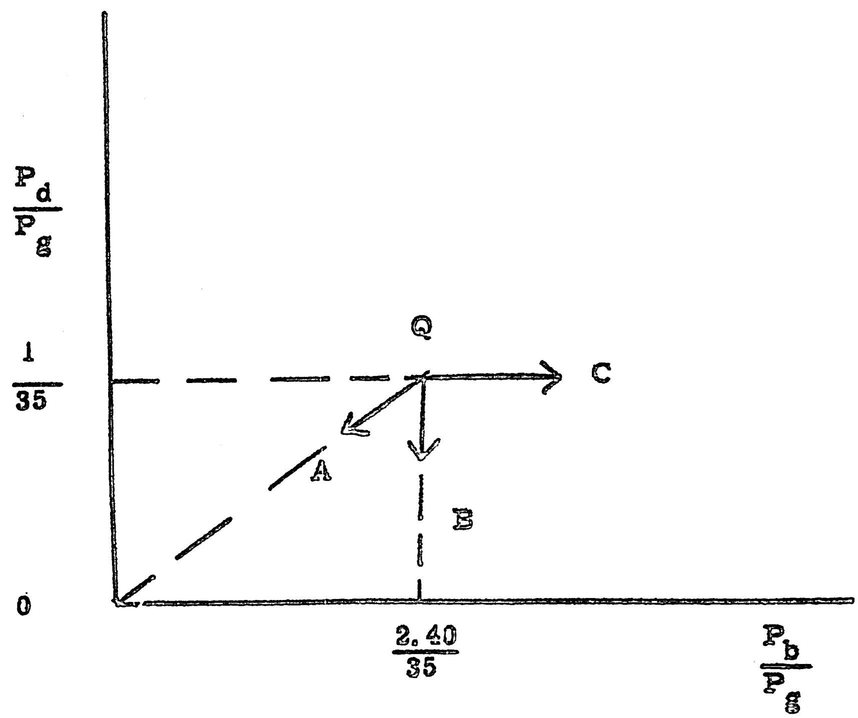
Figure 1



Let us consider now "devaluation" of the dollar. This could mean a reduction in the price of the dollar in terms of gold, the gold price of the pound being constant; this means a movement in the direction B. It could mean an increase in the price of gold in terms of both the dollar and the pound; this means a movement in the direction A. Or it could mean a reduction in the price of the dollar in terms of the pound, the dollar price of gold remaining constant (an appreciation of the pound) ; this means a movement in the direction C. What considerations are involved in selecting one or the other?

First, we should clarify the legal system. The unit of account in the IMF system is gold, not dollars; par values are defined in gold or "1944 gold dollars." The term "gold dollars" sometimes gives rise to confusion. This results from the failure to distinguish between two meanings of a unit of account: a unit of *quotation* and a unit of *contract*. In domestic monetary systems these are invariably the same. But in the international monetary system the *dollar* is the unit of quotation but *gold* is the unit of contractual obligations. This means that if the U.S. alone lowered the par value of the dollar the dollar price of gold would be raised and, legally, so would the dollar price of all foreign currencies; we would move in the direction B. Thus, when we consider devaluation of the dollar in the same sense that we consider devaluation of any other currency, we mean by this an increase in the dollar price of gold *and* an increase in the dollar price of every other currency. This is because gold is the legal unit of contractual obligation in the IMF Agreement.

To change exchange rates it is not enough, however, for the U.S. to change the par value of the dollar. It is necessary also that the par values of some of the other members of the Fund stay constant or are reduced to a smaller proportion. A change in exchange rates involves a change in the slope of the ray OQ, but the U.S. acting alone within the framework of the Articles, can only determine (in consultation with the IMF) its vertical position in the graph. Because other countries have control over horizontal positions, they can cancel any change in the slope the U.S. may wish to make. This is why exchange rate changes have to be made (or at least are most effectively made) in consultation with an international body.