

To change the price of gold in terms of all currencies requires a majority of the weighted votes in the IMF, subject to veto by any member who has over 10 per cent of the voting power.² A uniform reduction in par values is not, therefore, within the control of the U.S. alone, although the U.S. has a veto power over such a change.

The only independent option for the U.S. is to change its par value, although, as I have said, the exercise of the option does not imply that other countries would allow the devaluation to permit a change in exchange rates. The U.S. has not exercised its 10 per cent option so it could still change its par value up to 10 per cent after notifying the Fund, and getting the approval of Congress.

Prior to the new amendments to the Articles of Agreement, the Executive Board could waive the maintenance-of-gold value clause of Fund assets with a simple majority vote. Now this decision will be reserved for the Board of Governors and requires an 85 per cent majority; this change was instituted to give the E.E.C. a veto, and it means, effectively, that a world-wide doubling of the price of gold would be associated with a doubling of the size of the Fund, and that the Fund provides an escape through which other countries can acquire a gold-value guarantee on a position of their foreign exchange reserves.

So much for legal complications. Legally, gold is the unit of contract. We can say that gold is the *de jure* numeraire. But the "economic numeraire" is the dollar. The dollar is the *intervention currency*, the currency that is used in the exchange markets by foreign central banks to stabilize exchange rates. Countries are required by the Articles of Agreement to keep exchange rates of other member currencies against their own within a margin of one per cent on either side of parity.³ Formally this would mean that each country would have to concern itself with $n-1$ exchange rates, where n is the number of members. The n countries collectively would be involved in $n(n-1)$ price commitments altogether of which, of course, only $\frac{1}{2}n(n-1)$ would be effective since either country can perform the stabilization function. If the division of labor on this were shared, with each country protecting, say, its lower bound, there would be again $n(n-1)$ "desks" needed to fix rates.

Obviously, multilateral intervention of this kind would lead to a very complicated system. A centralized pegging system is clearly more efficient. Thus early in the Fund's history, it was agreed that fixing rates in terms of the dollar within the margins would fulfill the legal requirements. This was the origin of the dollar's role as an intervention currency.

II. THE MARKET SYSTEM

In the market system, by contrast with the legal system, the emphasis is on the *dollar price of gold* and the *dollar price of other currencies* rather than the gold prices of currencies. The dollar is the numeraire and it is more natural to transform the coordinates of the graph to reflect this fact. The same information is contained in Figure 2 as in Figure 1 and the vectors corresponding to A, B and C in Figure 1 are A', B' and C' in Figure 2. All we have done is to change the frame of reference.

Now consider again the meaning of devaluation. Suppose the U.S. "devalues" in the legal sense and we say that other countries do "nothing." Nothing here can mean nothing in the *jurisphere*, or nothing in the *ecosphere*. If exchange market operators stand pat so that exchange rates remain fixed to the dollar, all countries except the U.S. would be in violation of the Fund's rules. If, on the other hand, countries continue to comply with Fund rules, they have to appreciate their exchange rates with respect to the dollar. *Ceteris paribus* "juris" means something different from *ceteris paribus* "ecos!"

I have raised these various meanings of the term devaluation not because they are important in themselves, but primarily to show why it is that people get confused about the meaning of dollar devaluation. It is hard not to get confused about it. The difficulty arises from the role of gold as the unit of contract and measure, and the role of the dollar as the unit of quotation and intervention.

But enough of technicalities. Let us turn to the economics of the subject.

²The new amendments have altered this provision in order to withdraw the veto privilege from the U.K., and to give it to the European Economic Community; a uniform change in par values will require an 85 per cent majority.

³Actually, somewhat wider margins are permitted to allow for the wider spreads that result when the major countries peg their rates to the dollar, while some other countries peg their exchange rates to the pound sterling, the French franc or the Portuguese escudo; the Fund Regulations permit wider spread (up to about two per cent) as a "multiple-currency practice."