WORLD GOLD DISTRIBUTION, 1946–66

[In millions of ounces]

	Distribution	Percent
1. To official monetary reserves	290	40
2. To industry, jewelry, and the arts	156	21
3. To traditional hoarding centers	173	24
4. To other private gold holders	113	15
Total	732	100

Source: M. Spieler in "Monetary Reform and the Price of Gold," edited by R. Hinshaw, The Johns Hopkins Press, 1967.

There are two things to consider. On the one hand, there is the willingness of central banks to buy it at $35 an ounce. Central banks are not *required* to buy gold at prices below the official parity and may, by general consent, abstain from doing so; the U.S. may, for example, be able to discourage other countries from private market purchase transactions below $35 an ounce by not agreeing to buy it from them at that price. This could raise the question as to whether the U.S. is fulfilling its obligations under Article IV–4–b, under which the U.S. has undertaken to buy and sell gold freely "within the margins prescribed by the Fund." I have argued for several years that these margins should be widened.

The second issue concerns the IMF's obligation to buy gold. Members of the Fund have the right to buy gold (but not to sell it) below a price of $35 an ounce on the private market (but, of course, not to each other); and the IMF apparently, has the obligation (Article V–6) to buy gold from members in exchange for currencies, making a "reasonable handling charge" (Article V–8–b), so that if the free market price dropped below $35, any member could profit by buying it at bargain rates and selling it to the Fund. This kind of arbitrage obviously would keep the free market price from going much below $35. The question is going to turn on how the Articles are interpreted. The interpretation on this point has not, so far as I know, been made.

As I mentioned above, however, the IMF can prescribe the gold margins; and it seems to me that it may be inclined to widen them now, even though it has resisted this change in the past. In that case, the floor would be taken away from the gold price, and even central banks, fearful of the liquidity of their gold holdings, could dump gold and acquire dollars, leading to a lower price in the private market.

There are two important points to recognize, however. One is that, if the separation of the official and private markets can be maintained, the market is potentially in *severe disequilibrium*. This is because of the two factors we have already mentioned, namely: an excess of regular current supply over normal demand, and an excess of actual over desired stocks once (or if) belief in a doubling of the central bank price founders. But how can the price remain near $40 an ounce if the market is in disequilibrium?

The answer, of course, is that South Africa has been withholding supplies from the market. The forces feeding gold speculation apparently believed that, in the sequence of actions leading up to the March crisis, they could exert enough pressure to panic the central banks into increasing the price of gold. When, instead, the two-tier system was introduced, they continued to withhold supply to keep the private market price well above $35 an ounce.

This tactic was based on a miscalculation of psychological attitudes: a belief that the central banks could not agree to stay out of the market long enough to retain the two-price system; and/or a belief that the election campaign in the U.S. or a new administration will result in a basic change in U.S. gold policy.

The validity of the first premise seems less likely now than it did before the March crisis. The French uprising has weakened the French position, possibly irreparably, as far as French ability to exert a controlling voice over the price of gold; and the French may have to sell gold in the months ahead if they do not devalue. To be sure, a very substantial French devaluation would be encouraging to gold bulls. But the question is, how many tons of gold would this add to demand? I seriously doubt that the French authorities will be able to accumulate much more gold, given existing social commitments; and it may well be that the French public, to the extent that it anticipates devaluation of the franc, would flee from the franc into dollars.