"Despite the improvement in the payments position of many members, sound gold and exchange policy of members continues to require that to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. . . . Accordingly, while the Fund reaffirms its belief in the economic principles involved and urges the members to support them, the Fund leaves to its members the practical operating decisions involved in their implementation, subject to the provisions of Article IV, Section 2 [on gold transactions based on par values] and other relevant articles [of the IMF charter]."

The action taken by the gold pool on March 17, 1968, is in harmony with the principles of the IMF. The members of the gold pool decided not to sell gold to private markets, regardless of price. This includes domestic as well as foreign gold markets, and it applies to the sale of monetary gold for use in the arts and industry as well as sales for hoarding and speculating. The gold pool added a new sanction to make this policy effective. If any country sells gold to the private market, it will not be able to replace it by buying gold from the seven countries in the gold pool. The withdrawal of the gold pool from the London market has greatly strengthened the international monetary system. That is why the IMF endorsed this action in the following statement:

"During their meeting in Washington over the past two days, the active members of the gold pool have decided to stop supplying gold from monetary reserves to the London gold market or any other gold market. This decision is readily understandable as a means of conserving the stock of monetary gold which has recently been subject to heavy drains through such operations in the London market. The decision, of course, involves no departure from the obligation of these countries to maintain the par values of their currencies established with the International Monetary Fund.

"Countries adhering to the Articles of Agreement of the Fund undertake to collaborate with the Fund to promote exchange stability and to maintain orderly exchange arrangements with each other. It is most important that monetary authorities of all member countries should continue to conduct gold transactions consistently with this undertaking, and that they should cooperate fully to conserve the stock of monetary gold. Such action will be an important contribution to the functioning of the international monetary system."

The members of the gold pool also stated that as the existing stock of monetary gold is sufficient, in view of the prospective establishment of the new reserve facility (SDRs), they no longer feel it necessary to buy gold from the market. It will, in fact, be generally helpful to isolate the private market for gold from the monetary stock of gold. Sudden decreases or increases in the monetary stock of gold, because of official sales to speculators or purchases from speculators, cannot be conducive to the orderly growth of monetary reserves at a regular rate. The logic of the new gold standard is that the growth of monetary reserves should come exclusively from the issue of SDRs.

**Price Prospects in Private Gold Markets**

With the isolation of private gold markets, changes in the demand for gold will again manifest themselves mainly in price. Large and sudden changes in the demand for gold can come only from speculators anticipating a change in the monetary price. The prospects have become much less favorable for a change in the present $35 price of gold. With the termination of sales to private markets, gold reserves will be conserved for settlements between monetary authorities. When the plan for SDRs is activated, adequate monetary reserves will be available without changing the present monetary price of gold. The $3 billion of gold sold in the London market between November 1967 and March 1968 has created an enormous abnormal supply. These are some of the factors that have kept the price of gold between $37 and $38 an ounce since the reopening of the London gold market on April 1.

Another factor that will affect the price of gold in the next few months is the policy of South Africa on gold sales. South Africa may decide to sell all of its output in the London market at the best price obtainable. Alternatively, South Africa may decide to sell part of its output in the higher-price London market and part to such monetary authorities as are willing to buy it at $35 an ounce. If South Africa were in a truly monopolistic position in supplying gold to the London market, it could maximize its revenues by selling a substantial part of its output to the monetary authorities—in fact, about half of its output, assuming regularity in the demand curve. Actually, South Africa is not in a monopolistic position in suppling gold under present conditions. Not only are there other important gold producers, including the Soviet Union, but speculators may sell off some of their large gold holding if the price is kept high. South Africa's policy on gold sales may be determined more with a view to retaining