the monetary status of newly-mined gold than to managing the price in private markets.

For the intermediate period, say 1969 and 1970, the price in private gold markets will be dominated by confidence in the dollar. If the United States is successful in strengthening its balance of payments, the price of gold may tend to decline during the next year or two. If, in the meantime, the plan for issuing SDRs is activated and works reasonably well, speculators may unload their holdings and force a decline in the price to $35 an ounce, or possibly less. On the other hand, if the U.S. payments deficit remains large, so that the danger of devaluation is not entirely eliminated, speculators may bid up the price to $40 or more. In short, despite the present technical position, with a large overhang of gold in the hands of speculators, it is possible to have renewed speculation and a rise in the London gold price if confidence in the dollar is not restored within the next twelve months.

Three or four years from now, assuming that the international monetary system is working well, the price of gold in private markets will be determined by supply and demand conditions, without being much affected by speculative expectations regarding a change in the monetary price of gold. Most of the speculative overhang will have been absorbed and the price in private markets may be down to $35 an ounce or possibly less. By then, a growing private demand for gold for industrial use and for hoarding, stimulated by higher incomes, together with a slower growth of gold production, due to higher costs, will gradually change the balance of supply and demand and may bring about a slow rise in the price of gold in private markets—say, about 2 per cent a year, depending on the general price level. Such a moderate upward trend in the price of gold would not induce speculation because of the very high cost of maintaining a speculative position. As the international monetary system would no longer be dependent on additions of gold to monetary reserves, it would be unaffected by the slowly rising price of gold in private markets.

III. GOLD, DOLLARS, AND SPECIAL DRAWING RIGHTS

Equivalence of All Reserve Assets

The new gold standard will have as monetary reserves an unchanging amount of gold, about $40 billion, a fixed fiduciary issue of about $24 billion of foreign exchange (mainly dollars and sterling), and a steadily increasing proportion of SDRs. With only SDRs being added to reserves, growing at a rate of about $2 billion a year in the initial 5-year period, it will be possible to have an assured growth of aggregate monetary reserves at a trend rate suited to an expanding world economy. There is a danger, however, that a traditional preference for gold as reserves, perhaps intensified by higher prices in private gold markets, could disrupt the smooth functioning of the new gold standard.

An international monetary system based on multiple reserve assets cannot operate effectively unless the different reserve assets are equally attractive to hold and to use. Otherwise, there is a danger that central banks will hoard the preferred reserve asset (gold) and use the other reserve assets (dollars and SDRs) in international settlements. If such an attitude should emerge, transfers of SDRs would not have the disciplinary effect in inducing balance-of-payments adjustments that is essential for the proper functioning of the international monetary system. On the other hand, transfers of gold, after using up less preferred reserve assets, could have the effect of signaling an impending reserve crisis. The only way to avoid such disruptive behavior is to require countries to use all of their reserve assets indiscriminately in international settlements.

This problem has been in the forefront of all discussions on the creation of a new reserve asset. One method of avoiding a disruptive preference for gold would be to link gold and the new reserve asset at a fixed ratio in all settlements—say, $1 of gold and $1 of the new reserve asset. Such a composite gold standard could work reasonably well among a limited number of countries such as the Group of Ten. It could not be applied effectively when all of the 107 members of the IMF hold and use the new reserve asset, as many of the members have a major part of their reserves in dollars and sterling. The basic principles for the indiscriminate use of all reserve assets were stated by a distinguished French expert in November 1965, when the French Ministry of Finance was urging the adoption of a new reserve asset in the form of the CRU (the collective reserve unit). The two principles can be summarized as follows:

(a) Each deficit country should use its different reserve assets for settling its deficit in pre-