might also be placed in doubt. Thus, in conjunction with making the Washington agreement a permanent feature of the international monetary system, it is only reasonable to include a guarantee against the possibility of a decline in the official value of existing gold reserves.

Gold reserves deposited with the Fund (or stocks earmarked under an IMF facility) would be limited to the quantity of such reserves reported on a specific date, say March 31, 1968—the first quarterly period terminating after the Washington agreement. This provision would eliminate any opportunity to purchase gold on the market at bargain prices and then deposit (earmark) it with the Fund in exchange for more valuable reserve assets. The value of gold deposits (earmarked stocks) would be guaranteed in terms of dollars or an appropriate weighted average of several national currencies. To insure that all sales by gold producers would be channeled into the free market until the positive differential between the private and official prices has been eliminated, the deposit (earmarking) facility, although approved, would not be activated until the Managing Director was satisfied that the free market price had stabilized at or below the official value.

If the members of the special commission appointed by the Managing Director preferred an earmarking mechanism to a gold deposit facility, no physical transfer of gold reserves would be necessary. Central banks would merely notify the Fund that they wished to avail themselves of this guarantee by earmarking either the entirety or a specified portion of their gold stocks in behalf of the IMF. No change in ownership or physical location would occur. Central banks would be constrained only in that they would be pledged not to spend earmarked gold reserves. Moreover, the quantity of reserves held by each nation would remain unaltered, since reserves deposited or earmarked under this reform would be matched by equivalent accounting balances with the IMF.

In contrast to this proposal for resolving the ambiguities that may arise from a downward movement in the price of gold on the private market, the subcommittee strongly opposes any effort to reintroduce a minimum price. IMF purchases of gold at $35 an ounce would signal speculators that they once again enjoyed the benefit of monetary purchases—banned under the March 17 Washington agreement—to divert gold supplies from the free market. We therefore urge the U.S. Governor to resist staunchly any resumption of official purchases. Without official intervention at a minimum price, gold producers have no alternative but to obtain the foreign exchange needed to purchase imports and to finance investments abroad through sales of gold to private interests.

But to reintroduce a floor price would encourage a new burst of speculation. Until last March 17, the knowledge that potential losses were limited by the $35 per ounce official value of gold assured speculators that they could gain much and had comparatively little to lose. Removal of this assurance has caused some speculators to sell and has made others reluctant to buy. The reintroduction of a minimum price, however, would tend to increase speculative demand for gold, to widen the differential between the free market price and the official value, and to raise the likelihood of an initial deterioration sparking another even more serious crisis.