I. The International Monetary System in 1968—Progress and Problems

The year 1968 has been a crucial one in the evolution of the international monetary system—probably the most significant year since the establishment of the Bretton Woods institutions in 1944–45. Conceivably this year will prove the most important turning point in the monetary system since the emergence of the pre-war international gold exchange standard system.

There have been two major developments during the year.

The first was the establishment of the two-tier gold price system drawing a clear distinction between the role of gold as a monetary reserve and the private commodity market for gold.

The second was the completion of negotiations on a Proposed Amendment to the Articles of Agreement of the International Monetary Fund establishing the facility for Special Drawing Rights. This amendment was approved by the Governors of the Fund for submission to member governments. When this Amendment is ratified by the requisite number of member countries of the IMF, it will enable the nations of the Free World for the first time to create international reserves by deliberate multilateral decision. They will, thereby, bring to an end the traditional reliance on uncertain supplies of newly-mined gold or the growth of liquid claims in the form of dollars, sterling or other reserve currencies, associated with balance of payments deficits of the reserve currency countries.

Role of Gold in the Monetary System

Following the devaluation of the pound sterling on November 17, 1967, the international monetary system was placed under severe pressure by heavy speculation in gold. Large amounts of gold were purchased in the London market by foreign holders of dollars and other currencies. This demand far exceeded current supplies of newly-mined gold, and was met from gold supplied by the active members of the gold pool—Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States. (France withdrew from active participation in the pool in the summer of 1967.) Through selling gold in the market the pool was able to maintain the commodity price of gold in London at about $35.20, a figure roughly equivalent to the monetary price plus handling charges and costs of shipping gold to London from the United States.