

The active members of the gold pool met in Frankfurt, Germany, on November 26, 1967, and issued a statement reiterating their agreement to continue gold pool operations. For a short time this statement calmed the speculation. But the private demand for gold continued at an abnormally high level in December and in the first twelve weeks of 1968.

During the last quarter of 1967 and the first quarter of 1968, the gold reserves of monetary authorities and international agencies were drawn down by about \$2.7 billion. Purchases were primarily for non-monetary purposes, going into the hands of private holders.

The major loss was borne by the United States, whose gold reserves dropped by \$2.3 billion. The conversion of liquid assets into gold on such a large scale placed a very serious strain on the international money market, and short-term interest rates tightened severely. The world faced the possibility of a severe financial squeeze, with rapidly constricting international credit.

The members of the gold pool had continued to supply gold during January, February, and the first half of March, in the hope that the unusual speculative demand would disappear. One factor in this excessive demand was the United States statute requiring gold to be held as a domestic reserve equivalent to 25 percent of Federal Reserve notes in circulation. This gold cover requirement, an historical survival from earlier days when gold and currency notes both circulated domestically, was regarded in the market as a possible limitation on the amount of gold which the United States would be prepared to pay out. The Administration, therefore, recommended legislation to eliminate the gold cover requirement. The House of Representatives approved the measure on February 21, and the Senate acted on March 14. This provided the United States with the flexibility of policy needed to undertake a new approach to the gold problem.

On March 16-17, the Governors of the Central Banks actively participating in the gold pool met in Washington, under the chairmanship of Chairman Martin of the Federal Reserve Board. They adopted the so-called "two-tier" gold price system under which the private commodity price of gold is permitted to fluctuate without official intervention, while the official price of gold in its monetary role remains fixed at \$35 per ounce in transactions among monetary authorities. The participants agreed that in view of the forthcoming facility for Special Drawing Rights, they "no longer felt it necessary to buy gold from the market". The decisions taken in Washington have been broadly supported by most of the monetary authorities of the Free World. During the IMF meeting in Washington in early October 1968 this position was reinforced during some special sessions of the central bank governors of the active gold pool members plus those from Canada, Japan and Sweden.