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JOINT COMMITTEE PRINT

THE PROPOSED IMF AGREEMENT ON GOLD

REPORT

OF THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMICS

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

TOGETHER WITH

SUPPLEMENTARY VIEWS AND COMMENTS



DECEMBER 17, 1975

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LETTERS OF TRANSMITTAL

DECEMBER 15, 1975.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report of the Subcommittee on International Economics entitled "The Proposed IMF Agreement on Gold".

The views expressed in this Subcommittee report do not necessarily represent the views of other members of the Committee who have not participated in the hearings of the Subcommittee or in the drafting of the report.

Sincerely,

HUBERT H. HUMPHREY,
Chairman, Joint Economic Committee.

DECEMBER 12, 1975.

HON. HUBERT H. HUMPHREY,
*Chairman, Joint Economic Committee, Congress of the United States,
Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on International Economics entitled "The Proposed IMF Agreement on Gold." It has been approved unanimously by the members of the subcommittee. However, Senators Ribicoff and Taft and Representative Rousselot dissent from Recommendation 5.

The subcommittee wishes to express its appreciation for the views it received from the private experts who appeared before it as witnesses during the hearings preceding this report.

Sincerely,

HENRY S. REUSS,
Chairman, Subcommittee on International Economics.

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THE PROPOSED IMF AGREEMENT ON GOLD

On August 31, 1975, the Interim Committee of the International Monetary Fund (IMF), which is charged with negotiating outstanding issues of monetary reform, announced it had reached substantial agreement on the distribution of a 32.5 percent increase in total quota obligations and on future arrangements regarding gold. (The communique issued by the Interim Committee appears as an appendix to this report.) A third issue—whether or not the IMF should permit members to choose freely between fixed and floating exchange rates—continued to prevent full agreement on international monetary reform. Discussion of this question was postponed until the next meeting of the Interim Committee, scheduled for January, 1976.

On October 10, 1975, the Subcommittee on International Economics conducted a hearing to obtain the opinions of a number of expert witnesses on the various provisions of the gold agreement. Appearing were Henry H. Fowler, of Goldman, Sachs and Company and former Secretary of the Treasury, Jacques de Groote, Executive Director of the International Monetary Fund representing Austria, Belgium, Luxembourg, and Turkey, who appeared in his personal capacity, Professor Fritz Machlup of New York University, Professor Ronald McKinnon of Stanford University, and Frazar Wilde, Chairman Emeritus of Connecticut General Life Insurance Company. A letter dated November 1, 1975, from Secretary of the Treasury William Simon, presenting his views on the Interim Committee gold agreement is also incorporated in the record of the hearings. This report focuses on the Interim Committee's August 31 agreement on IMF quotas and gold.

I. Exchange Rates

This Subcommittee, along with the Subcommittee on International Trade, Investment and Monetary Policy of the House Committee on Banking, Currency and Housing, has already outlined its views regarding fixed versus floating exchange rates in a report published in August, 1975, and entitled "Exchange Rate Policy and International Monetary Reform." We continue to adhere to all the recommendations offered in that report.

The chief executives of six leading industrial countries reached an understanding on economic issues at Rambouillet, France, on November 17, 1975. The communique they issued included the following statement on international monetary stability and exchange rates:

With regard to monetary problems, we affirm our intention to work for greater stability. This involves efforts to restore greater stability in underlying economic and financial conditions in the world economy. At the same time, our monetary authorities will act to counter disorderly market conditions, or erratic fluctuations, in exchange rates. We welcome the rap-

prochement, reached at the request of many other countries, between the views of the U.S. and France on the need for stability that the reform of the international monetary system must promote. This rapprochement will facilitate agreement through the IMF at the next session of the interim committee in Jamaica on the outstanding issues of international monetary reform.

The two exchange rate recommendations from our August report are herewith repeated:

Recommendation 1: Authorization To Float

Floating should require no IMF authorization. Any amendment of the IMF Articles of Agreement should treat the adoption of a fixed parity or the decision to let the foreign exchange value of a nation's currency be determined by private supply and demand in exchange markets as equally acceptable policy options. Each option should be accompanied by a set of agreed guidelines designed to prevent Fund members from manipulating exchange rates to export domestic economic problems.

Recommendation 2: Intervention

The United States monetary authorities should intervene in exchange markets only to combat or to prevent the emergence of disorderly conditions. Intervention should not attempt to influence the trend of exchange rate movements. Swap borrowings and loans entered into between the Federal Reserve and foreign monetary authorities should normally be liquidated, i.e., the position fully reversed, within six months of the initial transaction. Only as a result of the most extraordinary circumstances should swaps remain outstanding for more than a year. U.S. monetary authorities should not accumulate additional reserves in the form of foreign exchange.

Precisely what are "erratic" fluctuations in exchange rates and whether they result exclusively from "disorderly market conditions" remains to be defined. It appears, nevertheless, that any intervention required to counter such fluctuations can be conducted within the guidelines stipulated in Recommendation 2.

II. The Gold Agreement

The Interim Committee's August 31, 1975, agreement contains three major provisions: first, the official price of gold should be abolished; second, the obligation of IMF members to pay 25 percent of quota subscriptions in gold and to use gold in certain other transactions with the Fund will be eliminated; and third, one-sixth of the IMF's gold holdings will be sold in the market, the profits being used to benefit developing countries, and another sixth will be restituted or sold to the monetary authorities of member countries at the official price.

Profits from sales will be proportional to the difference between the market price and the official value of gold, approximately \$42 per troy ounce. Restitution will presumably occur in proportion to members' quotas and will constitute an exchange of Fund gold for national currencies at the official price. The agreement also proposed a delegation to the Fund of enabling authority permitting it to dispose of the remaining two-thirds of the Fund's gold stock according to the wishes of members holding 85 percent of the total voting power in the IMF.

Included as part of the communique was an understanding reached by the G-10, i.e., the Group of Ten largest industrial nations in the IMF, intended to help implement the Interim Committee agreement. These countries committed themselves for a two-year period to take "no action to peg the price of gold" and not to increase the total stock of gold in the hands of the Fund and their national monetary authorities. In other words, collective purchases by the central banks of the Group of Ten would not exceed total sales by the IMF.

In numerous reports issued over past years, the Joint Economic Committee has urged that the international monetary role of gold be progressively reduced and that Special Drawing Rights (SDRs), a fiduciary asset issued by the International Monetary Fund, become the primary reserve medium. Progress toward this goal has been negligible. At the end of August, 1975, total international reserves held by all member countries of the IMF were worth the equivalent of \$227 billion, of this amount, gold (valued at the official price of \$42 per ounce) constituted \$42 billion, Special Drawing Rights \$10 billion, reserve positions in the Fund¹ \$13 billion, and foreign exchange \$161 billion.

In 1971 and 1972, the foreign exchange component of international reserve stocks soared as a consequence of international capital flows engendered by exchange rate misalignments. The shift to floating exchange rates eliminated most of the speculative international capital flows that had produced these huge reserve gains. But the quadrupling of oil prices in 1973 caused oil importing nations to borrow funds to meet the increased costs and initiated another round of large foreign exchange accumulations, this time by the governments of oil producing countries.

Anticipating and fearing a world-wide movement to raise the official value of gold, the Joint Economic Committee in its annual report published in March, 1974, recommended that the official price of gold be abolished. Subsequently, the French government, in January, 1975, decided to revalue its gold reserves according to a market-related price. To date, no other major countries have followed the French lead.

On June 12, 1975, the IMF Interim Committee issued a communique summarizing the extent of agreement at that date on the future monetary role of gold. Among the points agreed to were abolition of the official price of gold and abrogation of all obligations to use gold in payments between the Fund and member countries. The communique also foresaw "the sale of a portion of the Fund's gold at the approximate market price for the benefit of developing members in general . . . and the sale of another portion to members at the present

¹ The amount which member countries are entitled to borrow automatically from the Fund without being subject to any review.

official price". In June the amounts of gold to be sold for the benefit of developing countries and to be restituted were still at issue.

In reaction to that communique, this Subcommittee recommended in its August report that "sales of gold by the International Monetary Fund should adhere to an agreed schedule for disposing of Fund gold holdings". The discussion following this recommendation said in part:

Linking the future monetary role of gold and financial assistance to developing countries risks confusing two independent issues, with counterproductive results. The Interim Committee's decisions to abolish the official price of gold and to dispose of Fund gold holdings are entirely appropriate. But the future international monetary role of gold should be determined by the pace at which Fund members choose to shift the reserve basis of the system toward SDRs. If profits accrue from IMF gold sales, and if the member countries agree to use these profits for the benefit of developing nations, excellent! But the pace of IMF gold sales should not be influenced by the financial needs of developing countries.

The August 31, 1975, agreement is a compromise designed to accommodate conflicting views among both industrial and developing countries. By divesting the IMF of a portion of its gold stock, the agreement seeks to begin the process of phasing gold out of the international monetary system. By selling 25 million ounces of gold at market prices and using the profits to benefit developing countries, it seeks to aid the impoverished of the world. By selling an equivalent amount of gold to IMF members at the official price and by calling these sales "restitution", it seeks to satisfy the desires of those IMF members that either desire to retain an international monetary role for gold or want for themselves the potential profits from resale of this gold in the market. But like many compromises, this one runs the risk of failing to accomplish either of its major objectives—phasing out gold as a monetary asset or aiding developing countries.

The 25 million troy ounces of gold that the IMF plans to sell is equivalent to about 55 or 60 percent of the total amount of gold supplied annually to the market. The gold market is extremely thin. If the IMF were to attempt to sell the full 25 million ounces in one year, the price would collapse. Even the threat of IMF sales has pushed the market price down about \$20 per ounce to the current level near \$140. Thus, if significant profits for the benefit of developing countries are to be derived from IMF gold sales, these sales must be spread over several years. On the other hand, the longer the period over which the disposal of IMF gold reserves is stretched, the longer gold will retain a significant international monetary role.

How the market will react to IMF gold sales, and the amount of profit derived from these sales are highly uncertain. In addition, how much gold that the IMF sells might be purchased by central banks, and the price at which these banks may value their gold reserves are unclear. If central banks were to purchase the full 25 million ounces, as is permissible under the Group of Ten's understanding, and if monetary authorities were to value this gold at about three times the current

official price, the international monetary role of gold could be accentuated rather than diminished. Because of these ambiguities about the impact of the agreement, it should be clarified when the IMF's Interim Committee next convenes in January. The commitment of IMF members to phase gold out of the international monetary system should be strengthened. This objective should be the primary one and take precedence over maximizing the profits from gold sales.

Recommendation 3: The Schedule of IMF Gold Sales

Sales of IMF gold should be executed according to a predetermined schedule designed to begin phasing gold out of the international monetary system. Sales should not be increased or decreased, accelerated or delayed, in an effort to maximize profits.

Whenever, now and in future years (see Recommendations 5 and 6 below), a portion of the IMF gold stock is selected for sale on the market to benefit developing countries, the incremental amounts and the schedule of sales should be announced in advance and adhered to. The timing and size of incremental sales should not be manipulated in an effort to maximize the profits derived from those sales or for any other purpose. If a schedule is announced, individuals dealing in the gold market will be able to take this knowledge into account. They will be able to estimate to the best of their abilities the prices at which such transactions are likely to occur and to plan their own future purchases or sales. Pacing IMF sales according to the level of prices in the gold market would permit that market to determine the rate at which Fund action to phase out gold as a reserve asset is executed. Such a procedure could also introduce a de facto floor under the price of gold. Making announcements of Fund gold sales at irregular intervals would be likely to have a disruptive effect on the market and generate over it a cloud of intense uncertainty. For these reasons the most satisfactory procedure is to announce a series of sales extending for some time into the future, say three to five years, and then to adhere to that schedule irrespective of the developments that subsequently occur. Of course, how the market responds to sale of the initial increment, whether 25 or 50 million ounces (see Recommendation 5), will have a major impact on the timing and size of any subsequent series of sales that may be contemplated (see Recommendation 6).

Recommendation 4: No Management of the Gold Price

The IMF Interim Committee's decision to abolish the official price of gold and the Group of Ten's commitment to take no action to peg the price of gold are both highly commendable. The members of the IMF should also agree not to undertake any organized effort either to sustain the market price of gold through purchases or depress it through sales.

The G-10 pledge to take "no action to peg the price of gold" is vague and unnecessarily limited. To peg the price of the commodity is to hold it fixed within narrow margins. Concerted efforts can be exerted to smooth fluctuations in the price of a commodity or to maintain that price within a broad range without necessarily pegging it. Organized or concerted efforts by IMF members to smooth variations in the price of gold or to keep it within a broad range should also be forsworn, since such actions would tend to preserve artificially the monetary role of gold. Perhaps, this was the intent of the G-10 understanding. If so, there should be no problem clarifying its intent. If not, this pledge against pegging is an empty device and should be amplified and strengthened.

Recommendation 5: The Proposed Sales of One-Third of the IMF Gold Stock²

There should be no restitution of one-sixth of IMF gold to Fund members, as proposed. Profits from all IMF gold sales, whether one-third or one-sixth of the present stock, should be used for the benefit of poor countries and should be dispersed through a trust fund, preferably established under the International Bank for Reconstruction and Development.

The gold held by the International Monetary Fund has been paid into that institution by member countries as one-quarter of their subscriptions. The Fund's Articles of Agreement stipulate that a quarter of quotas should be paid in gold and also specify that various other transactions between the Fund and member countries should be in gold. According to the Articles, the only way a member can recover its gold and currency subscription payments from the Fund is in the event of withdrawal from that institution. Thus, abolishing the requirement that certain payments be made in gold and selling a portion of the Fund gold stock to members at the official price both require amendment of the Articles.

The title to the gold now held by the Fund resides with the IMF and not with the respective member countries. Not only do the Articles lack a provision for returning gold to the monetary authorities of member countries, but also the plan outlined in the Interim Committee agreement is extremely inequitable. The 25 million ounces of gold scheduled to be restituted will apparently be sold back to member countries in proportion to their quotas and at the official price of about \$42 per troy ounce. If this gold can be resold in the market at a profit of about \$100 an ounce, the benefit to the United States could be as large as \$570 million, since this country has the biggest quota. The potential gains to Great Britain might be \$230 million, to Germany \$140 million, to France \$130 million, and to Japan \$100 million.

² See the comments of Senators Ribicoff and Taft and supplementary views of Representative Rousselot.

By contrast, the poor would receive short shrift. The potential gains to Malaysia would be \$16 million, Korea \$7 million, Afghanistan \$3 million, drought-stricken Mauritania \$1 million, Bangladesh \$11 million, Sri Lanka \$8 million, Colombia, \$13 million, and Honduras \$2 million. Instead of this uneven distribution of benefits, all gold that is disposed of by the IMF—whatever that amount may be—should be used to benefit developing countries and the profits should be allocated according to need.

Equally important as the inequity of selling 25 million ounces of gold to the monetary authorities of member countries at the official price, with the largest portions going to the wealthiest, restitution would most likely enhance the monetary role of gold and reduce the need for additional issues of SDRs. Gold held by the IMF is largely immobile. Taking a portion of the IMF stock out of its coffers and returning it to the monetary authorities of member states could increase the use of gold as an instrument for settling debts among monetary authorities. If monetary authorities valued their gold reserves at market-related prices, the nominal worth of reserve stocks could also increase substantially. The role of Special Drawing Rights would then be eclipsed and future issues postponed.

The fundamental responsibility of the International Monetary Fund is to foster and preserve the health of the international monetary system. This function includes surveillance of member countries' balance-of-payments policies and even domestic economic policies that affect their external payments positions. The exercise of these duties obliges the Fund occasionally to require countries to adopt measures of economic discipline that the officials of the member countries would rather avoid. By contrast, in recent years the Fund has assumed a variety of tasks that primarily ease the burdens of member countries. Examples of these functions are the compensatory financing facility to aid nations experiencing short falls in export receipts due to events beyond their control and the facility to assist countries particularly hard-hit by the increased cost of oil imports. The trust fund to benefit developing countries would have an even more explicit aid-giving purpose and, in contrast to the provisions of the IMF Articles, would discriminate among members regarding the interest rate charged on loans. For this reason, the Fund cannot itself make low-interest loans to developing countries from the profits derived from gold sales.

The establishment of such a trust fund is entirely praiseworthy; the only question is whether it should be under the aegis of the International Monetary Fund. Since a potential conflict exists between the objectives of the trust fund and the regulatory responsibilities of the IMF, this facility would more appropriately be housed under the umbrella of the International Bank for Reconstruction and Development (World Bank), the leading aid-giving organization. Moreover, if this assistance is disbursed under the supervision of the World Bank and its affiliates, the expenditures are likely to support existing development programs and aid objectives.

Recommendation 6: Sales of the Remaining Portion of the IMF's Gold

The IMF should be granted enabling authority to sell, with the approval of member nations holding 85 percent of the total voting power, the remaining portion of the Fund's gold stock at times and in amounts that are consistent with the desired evolution of the international monetary system.

The reference to enabling authority in the Interim Committee's August 31 communique is vague. When an amendment to the IMF Articles of Agreement is drafted to create such enabling authority, the language of that amendment should permit IMF members to determine the timing and amounts of the gold sales that will be held in the future to further reduce the Fund gold stock. With such enabling authority, additional gold sales will be possible without the formality of amending the Fund Articles again.

SUPPLEMENTARY VIEWS OF REPRESENTATIVE ROUSSELOT

Governments should not intervene in the gold market. Market forces should be permitted to determine the prices of both currencies and commodities. Governments and individuals should be allowed to make contracts involving gold, and no aspersions should be cast upon the decisions of those who choose to trade in gold.

The most serious and persistent economic problem is inflation, which in itself is responsible for a large measure of what is often referred to as a separate problem—unemployment. Accordingly, my primary concern regarding any new monetary system which may emerge from the current series of negotiations is that it not become an engine of inflation. Avoidance of inflation will require a considerable amount of discipline in the conduct of National and international monetary affairs which has been lacking at crucial times in the past.

Concerning the specific recommendations of "The Proposed IMF Agreement on Gold," the following views are given:

Recommendation No. 1.—Floating exchange rates with agreed "guidelines" designed to prevent member countries from manipulating designated "exchange rate guidelines" are desirable.

Recommendation No. 2.—Limitations on intervention in exchange markets to situations in which it is intended "only to combat or prevent the emergence of disorderly conditions" raises the question as to who will determine when, in light of such criterion, intervention might be permitted. Similarly, the suggestion that under "the most extraordinary circumstances should swaps remain outstanding for more than a year" raises the question as to what would constitute "extraordinary circumstances." The limited power to intervene should not be abused.

Recommendation No. 3.—According to this recommendation, the IMF should publish a plan for the sale of its gold holdings and adhere to the plan, irrespective of any change or variations in the gold market. Admittedly, the rationale is that if the schedule of gold sales is known in advance, the market can accommodate such sales with minimum disruption. However, there are other questions to consider. Since the gold sales would be carried out over a number of years, there is no way to predict exactly what the nature of the gold market is going to be over the extended length of time. Even the best schedule cannot forecast severe market disruptions that could conceivably erupt. In our view, the recommendation should make allowances for such possibilities and read that IMF sales be carried out according to the pre-determined schedule, but that the IMF should have the option of departing from the schedule when circumstances so warrant.

Recommendation No. 4.—Most Members endorse the concept that the IMF should refrain from managing the price of gold.

Recommendation No. 5.—Allocation of profits from IMF sale of gold to developing countries is not desirable. It is my view that profits from the sale of IMF gold be allocated according to the participation of the countries in the fund and that any assistance provided to developing countries come directly from each contributing country involved.

In the case of the United States this means that the question of assistance to developing countries would be determined by normal Congressional authorization procedures rather than through the obscure and indirect method of the sale of IMF gold.

Recommendation No. 6.—Since as a practical matter, the United States retains a virtual veto power over the sale of IMF gold stock, this recommendation is consistent with protection of the interest of the United States and the sale of IMF gold.

COMMENTS OF SENATORS RIBICOFF AND TAFT

We agree basically with the report of the Subcommittee on International Economics of the Joint Economic Committee entitled "The Proposed IMF Agreement On Gold."

In particular, we support recommendations 1 through 4, and 6: That nations be free to float their currencies without IMF approval; that the U.S. monetary authorities not intervene in currency markets except to smooth over disorderly conditions; that IMF gold sales proceed according to a rigid, well-publicized schedule; that neither the IMF nor its members seek to influence the price of gold; and that the IMF be free to sell all its gold over time, as the members see fit.

However, we do not agree with the fifth recommendation, which states that all profits from IMF gold sales shall be used for the benefit of third world nations. This is in lieu of an IMF proposal that profits from the sales of $\frac{1}{6}$ of IMF gold should be returned to the subscribing nations, who deposited the gold in the first place, with only the profits from further sales to go to developing nations. Even this more moderate aid program is off base.

We see no reason to confuse the two distinct questions, "What should be the role of gold in the international monetary system?" And "How much foreign aid should we give over the next few years?" Either the gold belongs to the IMF, or it belongs to the member states, which contributed the gold in proportion to their quotas. In either case, the profits should be distributed to the member nations in proportion to their quotas.

The IMF is not designed to be a relief agency, nor an investment agency. If the nations owning stock in the International Bank for Reconstruction and Development wish to increase their subscriptions, or to increase their bilateral aid, out of IMF gold sale profits or with any other funds, then well and good. However, such a decision should be taken openly, by each nation, unencumbered by an artificial link between the question of aid and the role of gold in international payments.

APPENDIX

[International Monetary Fund Press Release No. 75/40, Washington, D.C., Aug. 31, 1975]

PRESS COMMUNIQUE OF THE INTERIM COMMITTEE OF THE BOARD OF GOVERNORS ON THE INTERNATIONAL MONETARY SYSTEM

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its fourth meeting in Washington, D.C. on August 31, 1975 under the chairmanship of Mr. John N. Turner, Minister of Finance of Canada. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee, Mr. Gamani Corea, Secretary General UNCTAD, Mr. Wilhelm Haferkamp, Vice President, EC Commission, Mr. René Larre, General Manager, BIS, Mr. Emile van Lennep, Secretary General, OECD, Mr. F. Leutwiler, President, National Bank of Switzerland, Mr. Robert S. McNamara, President, IBRD, and Mr. Gardner Patterson, Deputy General, GATT.

2. The Committee had a discussion of the world economic situation and outlook, and expressed its concern about the current severe problems of recession and unemployment, balance of payments disequilibria, and inflation. The Committee felt that industrial countries which have slack domestic demand conditions and relatively strong balance of payments positions, and which have made progress in reducing inflation, should lead in the promotion of a satisfactory rate of expansion in world trade and activity. The Committee believed that, on the basis of such a coordinated policy approach, a resumption of economic growth might be expected for the industrial world during the latter part of 1975 or the first half of 1976. Although rates of price increase in industrial countries have generally been subsiding, the Committee noted the disturbing fact that economic recovery in the industrial world will get underway with rates of inflation still unacceptably high.

Throughout the Committee's discussion, particular concern was expressed for the many primary producing countries, and especially the developing countries, whose current account deficits have been greatly enlarged by the increase in import costs and the downturn in global demand. Resumption of growth in world trade is urgently needed to alleviate the plight of such countries. Moreover, the Committee feared that, unless they were able to obtain adequate financing, many primary producing countries might have difficulty in fending off pressures to restrain imports, either through deflationary demand measures that would undermine their development efforts or through resort to trade restrictions. In view of these dangers, the Committee expressed the hope that the Executive Board would consider various steps that might be taken by the Fund to meet the present urgent need for a greater volume of financing.

3. The Committee noted the improvements in the 1975 Oil Facility introduced as a result of the July review by the Executive Directors and endorsed the efforts now in progress to raise the amount of resources that the Fund would be able to borrow for the financing of purchases under that facility to the total of SDR 5 billion that was agreed at the meeting of the Committee in January 1975. The Committee also endorsed the intention of the Executive Directors to have another review of the 1975 Oil Facility at an early date, one purpose of which would be to determine what action needs to be taken in the best interests of the international community, and also to undertake at about the same time a broader examination of the Fund's policies on the use of its resources.

4. The Committee welcomed the establishment of a Subsidy Account to assist those members that have been most seriously affected by the current situation

to meet the cost of using the Oil Facility and commended those members that have already stated their willingness to make contributions to that account. At the same time, the Committee expressed concern at the fact that the total amount of the contributions by members that have already stated their willingness to contribute is substantially short of the total support that was contemplated and urged those members that have not yet pledged their support to make every effort to do so as soon as possible.

5. The Committee noted the progress made by the Executive Directors on the Sixth General Review of quotas within the framework of the understandings reached at previous meetings of the Committee. The Committee noted the agreement on increases in the quotas of almost all members. In particular, the increases for the industrial countries and for the major oil exporting members have been agreed. The differences that remain among the other members are few and are expected to be resolved soon. The Committee asked the Executive Directors to prepare and submit to the Board of Governors a resolution on increases in the quotas of individual members. The Committee also asked the Executive Directors to complete their work on the mode of payment of the increases in quotas on the basis of the understandings already reached in the Committee so that appropriate recommendations can be submitted to the Board of Governors at the same time as the resolution on increases in quotas. The Committee reiterated its view that all of the Fund's holdings of currency should be usable in its transactions. The Committee agreed that on the question of majorities for the adoption of decisions of the Fund on important matters, a majority of eighty-five percent should be required under the amended Articles for those decisions that can now be taken by an eighty percent majority. It also agreed that amendments of the Articles should become effective when accepted by three-fifths of the members having eighty-five percent of the total voting power.

6. The Committee discussed the problem of gold, including the disposition of the gold holding of the Fund. The elements of the consensus reached are described in this paragraph.

At the meeting of the Interim Committee on January 16, 1975, it was decided to move "toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions under certain specific arrangements, outside the Articles of the Fund, entered into between national monetary authorities in order to ensure that the role of gold in the international monetary system would be gradually reduced."

To implement this general undertaking, provision should be made for:

1. Abolition of an official price for gold.
2. Elimination of the obligation to use gold in transactions with the Fund, and elimination of the Fund's authority to accept gold in transactions unless the Fund so decides by an 85 per cent majority. This understanding would be without prejudice to the study of a Gold Substitution Account.
3. Sale of $\frac{1}{6}$ of the Fund's gold (25 million ounces) for the benefit of developing countries without resulting in a reduction of other resources for their benefit, and restitution of $\frac{1}{6}$ of the Fund's gold to members. The proportion of any profits or surplus value of the gold sold for the benefit of developing countries that would correspond to the share of quotas of these countries would be transferred directly to each developing country in proportion to its quota. The rest of the Fund's gold would be subject to provisions in an amendment of the Articles that would create enabling powers exercisable by an 85 per cent majority of the total voting power.

The Committee noted that, in order to give effect to the understandings arrived at in this Committee, the countries in the Group of Ten have agreed to observe during the period referred to below the following arrangements, which could be subscribed to by any other member country of the Fund that wishes to do so. Other members might adhere to these arrangements, and on such occasions the necessary modifications in them would be made:

1. That there be no action to peg the price of gold.
2. That the total stock of gold now in the hands of the Fund and the monetary authorities of the Group of Ten will not be increased.
3. That the parties to these arrangements agree that they will respect any further condition governing gold trading that may be agreed to by their central bank representatives at regular meetings.

4. That each party to these arrangements will report semi-annually to the Fund and to the BIS the total amount of gold that has been bought or sold.

5. That each party agree that these arrangements will be reviewed by the participants at the end of two years and then continued, modified or terminated. Any party to these arrangements may terminate adherence to them after the initial two-year period.

6. Many members from developing countries expressed concern that the proposed arrangements for gold would give rise to a highly arbitrary distribution of new liquidity, with the bulk of gains accruing to developed countries. This would greatly reduce the chances of further allocations of SDRs, thereby detracting from the agreed objective of making the SDR the principal reserve asset and phasing out the monetary role of gold. This aspect should be studied, and measures explored to avoid these distortions.

7. The Committee noted the work done so far by the Executive Directors on the subject of the establishment of a trust fund and the possible sources of its financing in response to the request of the Development Committee. It was agreed to ask the Executive Directors to pursue their work with a view to completing it at an early date, taking into account the understandings reached in the Committee with regard to the use of profits from the sale of part of the Fund's gold for the benefit of developing countries, without neglecting the consideration of other possible sources of financing.

8. It was agreed that acceptable solutions must be found on the subject of the exchange rate system under the amended Articles, so that these agreed solutions can be combined with those on quotas and gold. The Executive Directors were requested to continue their work in order to arrive at acceptable solutions and to prepare for submission to the Board of Governors, after examination by the Committee at its next meeting, appropriate proposals for amendment of the Fund's Articles on all aspects that have been under consideration.

9. The Committee noted that the Executive Directors are in the process of conducting a review of the Fund's facility on compensatory financing with a view to improving a number of its aspects. It was agreed to urge the Executive Directors to complete their work on this subject as soon as possible, taking into account the various proposals that have been made by members of the Committee.

RAMBOUILLET DECLARATION PLEDGES RECOVERY WITHOUT RENEWED INFLATION

Following is the text of the joint declaration issued November 17 at the close of the six-power economic summit:

The heads of state and government of France, the Federal Republic of Germany, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland, and the United States of America met in the Chateau de Rambouillet on November 15-17, 1975 and agreed to declare as follows:

1. In these three days we held a searching and productive exchange of views on the world economic situation, on economic problems common to our countries, on their human, social, and political implications, and on plans for resolving them.

2. We came together because of shared beliefs and shared responsibilities. We are each responsible for the government of an open, democratic society, dedicated to individual liberty and social advancement. Our success will strengthen, indeed is essential to, democratic societies everywhere. We are each responsible for assuring the prosperity of a major industrial economy. The growth and stability of our economies will help the entire industrial world and developing countries to prosper.

3. To assure in a world of growing inter-dependence the success of the objectives set out in this Declaration, we intend to play our own full part and strengthen our efforts for closer international cooperation and constructive dialogue among all countries, transcending differences in stages of economic development, degrees of resource endowment, and political and social systems.

4. The industrial democracies are determined to overcome high unemployment, continuing inflation and serious energy problems. The purpose of our meeting was to review our progress, identify more clearly the problems that we must overcome in the future and to set a course that we will follow in the period ahead.

5. The most urgent task is to assure the recovery of our economies and to reduce the waste of human resources involved in unemployment. In consolidating the recovery it is essential to avoid unleashing additional inflationary forces which would threaten its success. The objective must be growth that is steady and lasting. In this way, consumer and business confidence will be restored.

6. We are confident that our present policies are compatible and complementary and that recovery is under way. Nevertheless, we recognize the need for vigilance and adaptability in our policies. We will not allow the recovery to falter. We will not accept another outburst of inflation.

7. We also concentrated on the need for new efforts in the areas of world trade, monetary matters, and raw materials, including energy.

8. As domestic recovery and economic expansion proceed, we must seek to restore growth in the volume of world trade. Growth and price stability will be fostered by maintenance of an open trading system.

In a period where pressures are developing for a return to protectionism, it is essential for the main trading nations to confirm their commitment to the principles of the Organization for Economic Cooperation and Development pledge and to avoid resorting to measures by which they could try to solve their problems at the expense of others, with damaging consequences in the economic, social, and political fields.

There is a responsibility on all countries, especially those with strong balance of payments positions and those with current deficits to pursue policies which will permit the expansion of world trade to their mutual advantage.

9. We believe that the Multilateral Trade Negotiations should be accelerated. In accordance with the principles laid down in the Tokyo Declaration, they should aim at substantial tariff cuts, even eliminating tariffs in some areas, at significantly expanding agricultural trade, and at reducing nontariff measures. They should aim at achieving the maximum possible level of trade liberalization therefrom. We propose as our goal completion of the negotiations in 1977.

10. We look to an orderly and fruitful increase in our economic relations with socialist countries as an important element in progress in detente, and in world economic growth. We will also intensify our efforts to achieve a prompt conclusion of the negotiations now under way concerning export credits.

11. With regard to monetary problems, we affirm our intention to work for greater stability. This involves efforts to restore greater stability in underlying economic and financial conditions in the world economy.

At the same time, our monetary authorities will act to counter disorderly market conditions or erratic fluctuations in exchange rates. We welcome the rapprochement, reached at the request of many other countries between the views of the United States and France on the need for stability that the reform of the international monetary system must promote. This rapprochement will facilitate agreement though the IMF at the next session of the Interim Committee in Jamaica on the outstanding issues of international monetary reform.

12. A cooperative relationship and improved understanding between the developing nations and the industrial world is fundamental to the prosperity of each. Sustained growth in our economies is necessary to growth in developing countries, and their growth contributes significantly to health in our own economies.

The present large deficits in the current accounts of the developing countries represent a critical problem for them and also for the rest of the world. This must be dealt with in a number of complementary ways. Recent proposals in several international meetings have already improved the atmosphere of the discussion between developed and developing countries. But early practical action is needed to assist the developing countries.

Accordingly, we will play our part, through the IMF and other appropriate international forums, in making urgent improvements in international arrangements for the stabilization of the export earnings of developing countries and in measures to assist them in financing their deficits. In this context, priority should be given to the poorest developing countries.

13. World economic growths is clearly linked to the increasing availability of energy sources. We are determined to secure for our economies the energy sources needed for their growth. Our common interests require that we continue to cooperate in order to reduce our dependence on imported energy through conservation and the development of alternative sources. Through these measures as well as international cooperation between product and consumer countries, responding to the long-term interest of both, we shall spare no effort in order to

ensure more balanced conditions and a harmonious and steady development in the world energy market.

14. We welcome the convening of the Conference on International Economic Cooperation scheduled for December 16. We will conduct this dialogue in a positive spirit to assure that the interests of all concerned are protected and advanced. We believe that industrialized and developing countries alike have a critical stake in the future success of the world economy and in the cooperative political relationships on which it must be based.

15. We intend to intensify our cooperation on all these problems in the framework of existing institutions as well as in all the relevant international organizations.

