

# SWARAJYA

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## THE DECISION ON GOLD

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THE NEW AGREEMENT regarding gold arrived at by the Interim Committee of the International Monetary Fund, early this month, denotes a compromise settlement between the view which demanded total dethroning of gold from its pedestal as a reserve currency in respect of international monetary system and the demand that the old fixed exchange rates linked to an accepted gold price should be restored as early as possible. Twenty Finance Ministers, each representing a leading member of the I.M.F., have agreed to the following decisions:

(1) The official price of gold, viz., US \$42.22 an ounce, will be abolished; but in order to avoid distortions in revaluation, the central banking authorities would set up conditions for trading in gold.

(2) The total stock of gold now in the hands of the I.M.F. and the monetary authorities of the Group of Ten countries would not be increased during the life of the new arrangement (i.e., for two more years).

(3) There should be no action to peg the price of gold over a two-year period.

(4) The I.M.F. will be allowed to sell a portion of its gold holdings to aid the developing nations.

(5) The I.M.F. would sell one-sixth of its gold holdings and use the profit to establish a Trust

Fund to assist the most disadvantaged of the developing nations to meet the balance of payments problems which became acute due to the hike in oil prices; the amount of gold to be sold would be about 25 million ounces and, at the current market prices in the region of \$160 an ounce, is ex-

### VICTIM

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ed to bring in about \$4,000 million and out of this about 2,500 million would be available for financing the Trust Fund.

(6) Another one-sixth of the gold holdings of the I.M.F. would be returned to member-nations who originally contributed it as part of their subscription to the I.M.F. The rate to be applied would be about 41 dollars an ounce or at the official price of 35 Special Drawing Rights. The remaining two-thirds of the holdings will remain with the I.M.F.

The cumulative impact of the decisions cannot be fully realized at present, since much depends upon how far the member-countries are anxious to use gold only as a commodity of trade and not as a store of monetary value. It is clear, however, that France will be reconciled to the move, though gradually, to depose gold from its monetary throne. Still, there is no final agreement among the various governments, who hold a major share of the world's stocks of gold, as regards the role of the yellow metal in international payment transactions. The US is anxious to sell gold. She removed the 41-year-old ban on private ownership of gold

and decided to sell two million ounces from her stockpile at a public auction on January 6, 1975. This led to heavy fluctuations in gold prices in the free markets of the world and contributed, as an additional reason, to the governments not pegging the future of international trade on such an unstable reserve like gold. France, who had earlier wanted the return of the entire gold holdings of the I.M.F., will now be reconciled to the move for the gradual removal of gold from its position as a reserve currency. The West European countries wanted a world monetary system without gold, but desired to have their currencies stabilized in relation to gold through some agreed formula. The USSR, a gold producing country with considerable stocks of gold, is known to be averse to any trend that will depress the price of gold. South Africa's attitude was well-known and she was keeping her gold stocks away from the markets.

As far as India is concerned, the reaction to the decision taken at Washington by the Finance Ministers of the 20 leading member-countries was expressed by the Union Finance Minister, Mr C Subramaniam, who stated that

SWARAJYA shares with its readers its pleasure in adding to the variety of subjects dealt with in the weekly, particularly the new feature on **TEMPLE ARCHITECTURE**. The issues dated September 13 and 20 carried special articles on this topic. We shall continue this distinctive feature in our future issues as well.

it would have the effect of creating a massive amount of liquidity in the hands of a small number of developed countries, thereby altering the allocation of SDRs and their equitable distribution among the I.M.F. members. The abolition of the official price of gold will enable member-countries to dispose of part of their gold stocks and realize about four times the official price and use the receipts for tackling recession in their economies. Gold rich countries will thus reap an immediate benefit arising from a decontrol in gold prices. But, for countries like India with very little gold holdings, the decision has nothing to offer but that a part of the gold holdings of the I.M.F. will be used for a Trust Fund to benefit weaker nations. It is felt that the I.M.F. has not taken any major step to strengthen the role of the SDR as a unit of account for world monetary system. As the SDRs will account only for 5 per cent of world trade transactions, the position remains that only the gold rich countries will gain by the abandonment of the IMF supervision of governmental transactions in gold. At the same time, the delay in arriving at a final solution in respect of the world monetary system would encourage further continuance of the floating rates system regarding international currencies, which has already adversely affected developing nations. Today, the Major Powers appear to be viewing the basic problem of world monetary order, not from the interest of the growing needs of poorer nations, but only from the volatile situation created by the oil politics, Arab money and its vagaries and the prevailing world-wide inflation.

## PATCH-WORK



Dr. Kissinger's efforts for a Sinai agreement between Egypt and Israel have succeeded

(Article on page 4)

—Courtesy: *National Herald*