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International Monetary System: An alarming shortage of gold

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COMMENTS

World Bank

The IDA Crisis

Since it commenced its activities in 1960, the International Development Association—the affiliate of the World Bank—now finds itself for the second time in acute financial difficulties. Currently, its available funds amount to barely \$ 100 million. Already last autumn the President of the World Bank group, George D. Woods, demanded that its funds for financing purposes should be increased considerably and proposed that contributions should be raised from \$ 250 million p. a. to \$ 1,000 million p. a.

IDA is currently the most important multi-lateral development aid organisation in the world. Its credits, with which projects with a high development policy priority are financed, are granted "on easy terms" (duration 50 years; interest 0.75 %) and—at least hitherto—on the basis of the most favourable international tender. The major recipients have been India and Pakistan (over 70 % of its funds), Africa (more than 10 %) and Latin America (about 8 %). The main contributors are the USA, UK, Germany, France, Japan, Canada and Italy; together, these countries make available about 85 % of the funds.

The crisis about replenishing IDA funds arose mainly because of the conditions posed by the United States. American negotiators are striving for an arrangement, as a condition of this increased capitalisation, which would reduce the negative balance-of-payments effects of the American contribution to IDA: on an American subscription of 41 %, only about 22 % of all foreign currency paid out has been used for purchases in the USA. As a compromise, the United States proposed to the World Bank that 40 % of IDA loans should be tied to supplies from contributing countries, whilst 60 % should be freely available internationally, as hitherto.

Objections have been made to this compromise, mainly by Britain, who currently contributes 13 % of IDA funds, but receives about 25 % of all orders financed by the IDA. Germany and Italy are also against the proposals, by means of which the United States is attempting to draw profit from the IDA crises. On the one hand, any departure from the principles hitherto in force for the application of IDA funds signifies a further distortion of international trade and, on the other, a decrease in efficiency of these multi-lateral development funds. For both reasons, it is preferable to stick to the present principles of allocation. Only if no agreement can be

reached on this basis would the second-best solution be to agree to something like the compromise described above, in order to enable the necessary expansion of IDA's capital dotation. However, such a solution should be only an exceptional regulation for donor countries with acute balance-of-payments difficulties. hch.

International Monetary System

An Alarming Shortage of Gold

The supply of gold to the West is decreasing alarmingly. In 1966, for the first time in modern monetary history, the official gold reserves diminished, whilst all the new gold on offer passed into private hands. American gold stocks sank by about 50 % between 1948 and 1966 because of the National Bank's obligation to honour foreign exchange claims made by foreign banks of issue in gold; the amount of gold still available for monetary purposes is too small to be able to achieve a sufficient increase of currency reserves via gold.

Several sources, particularly France and South Africa, insist that the price of gold, which has remained the same since 1934, is responsible for these difficulties. They argue that only by increasing the price of gold can our current monetary problems be solved. The dollar value of America's metal reserves would rise accordingly and the South African gold mines would be in a position once again where they could work at a profit and increase their production. Developing countries could also participate in the profits thus obtained.

On the other hand, the United States and the IMF are opposed to any increase in the price of gold. They do not think that this will increase international liquidity to any considerable extent; they feel that to increase the price of gold would have an inflationary tendency and might destroy confidence in the dollar as a reserve currency.

If the present price of gold is maintained, however, this would force most gold mines in the West to close down within the next 30 years, since they will not be able to cover their production costs at the current price. The only major gold producer to benefit from this development would be the Soviet Union.

A way out of this dilemma would be to have the courage to go ahead, before too long, with the proposed reform of the international monetary system.

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