
NOTES AND REFERENCES

1. Herbert Grubel recounts this development as follows: "In the absence of an orderly provision of reserves by international agreement, the world developed a temporarily very successful gold exchange standard by accident. The United States emerged from the Second World War with an overwhelmingly dominant economy in terms of production, capacity and national wealth, including reserves of monetary gold. In the eyes of the rest of the world dollar holdings were more desirable than gold, since they were readily exchangeable into the metal and brought interest to their holders. During the 1950's U.S. balance-of-payments deficits were welcomed as a source from which the reconstructed nations of Western Europe could replenish their depleted stocks of international reserves. They did so, holding mostly dollars but also exchanging some of them for gold, thus reducing the U.S. gold stock. It has been argued and it is possibly correct that these deficits made possible the widespread return to convertability in 1958 and that they made a significant contribution to world prosperity after 1950. The United States had thus, without formal international agreement taken on the role of a World Banker and helped to sustain an efficient monetary system". International Monetary System, Efficiency and Practical Alternatives, Penguin Modern Economic Texts, 1969.

2. It was then decided to withdraw the support of monetary gold to the price in the market. Instead, a two tier system of pricing was announced. Thereby, the price of monetary gold remained fixed at the old level of \$35 an ounce but the price of non-monetary gold was left free to find its own level. The implications of this as well as subsequent developments with regard to monetary gold were reviewed by the present writer in his articles, (1) Changing Role of Gold (2) The Price of Gold (3) World Monetary Crisis and Underdeveloped Countries published in The Economic and Political Weekly of January 1970, January 1971 and October 1971 respectively.

3. Referring to the rather large U.S. balance of payments deficit in 1970 - \$10.7 billion - the London Times of May 17, 1971 complained that "Americans have gone on spending, investing and soldiering abroad as if the nation were still the overwhelming economic power that it was immediately after World War II". The point of the comment was that U.S. was able to spend and invest abroad not because it was any longer that dominant economically as immediately after World War II but on the basis of the savings of other nations wishing rather to hold dollars in official reserves than to allow their currencies to appreciate in terms of the dollar. Indeed, the phenomenal expansion in reserves during the period, 1968 to 1973, was due entirely on this latter account.

4. Robert Triffin, International Monetary System, Yesterday, Today and Tomorrow (1968) Random House, New York, p.87.

5. There is a strong tendency in some circles, however, to play down the gain accruing to a reserve centre from the acceptance abroad of its short-term liabilities as reserves. (See for instance) H.G. Johnson, Theoretical Problems of the International Monetary system in R.N. Cooper (xx.) International Finance (Penguin 1969). However, as Grubel (Op-cit) points out the real resource transfer involved in the process is not only regressive but inefficient.
6. As F. Machlup has pointed out, "the 'sale' of currencies of countries in surplus, out of the Fund's holding, against currencies of countries in deficit, with the obligation of the latter countries to 'repurchase' their own currencies with convertible currencies is only a lending operation described in fancy terminology" and it reduces the Fund to a warehouse or cloakroom. The Cloakroom Rule of International Reserves: Reserve Creation and Resource Transfer, in R.N. Cooper, International Finance, (Penguin 1969).
7. Triffin speaks in this context of the 'bewildering overlapping' of quota increases, general arrangements to borrow, bilateral swaps, swap standbys and the rest. Op. cit; p.59.
8. F. Machlup, Op. cit., p.350.
9. Proposal by the Managing Director on the Allocation of Special Drawing Rights for the First Basic Period, IMF, International Reserves, Needs and Availability, 1970.
10. Revalued in terms of SDR, the increase in total international reserves works out to be rather misleadingly small for 1973. H. Robert Heller, International Reserves, Money and Global Inflation, Finance and Development, March 1976.
11. Who knows, if these had been foreseen, the SDRs might never have seen the light of the day.
12. The combined surplus on current account of the major oil exporters rose to an estimated \$70 billion in 1974 compared with \$6 billion in 1973. As a result, they added more than \$50 billion to their net international financial position including \$37 billion of net additions to their official reserve assets.
13. According to Tom de Vries, "it took three speculative waves of unimaginable proportions, with the counter value of billions of dollars moving from one country to another in a single day, sometimes in a single hour, to finally move the World in March 1973 to flexible exchange rates, at least for an interim period". Jamaica or the Non-reform of the International Monetary System, Foreign Affairs, April 1976.
14. IMF, Annual Report, 1975, p.14.

15. In theory, however, this is precisely what one would expect to happen because while under the fixed exchange rate regime a country must have sufficient amount of international reserves to support a given rate for its currency in the market by purchasing its excess supplies, under a flexible exchange rate regime the country concerned would need only as much of the international reserves as are required to moderate the movements in rate, if one assumes that intervention is not altogether ruled out. If intervention is ruled out altogether, the need for international reserves goes away altogether, for then the market is free to determine the exchange rate. But the latter is hardly practical politics.
16. International reserves expanded at the average annual rates of 2.3 per cent and 3.1 per cent respectively during the decades, 1950-59 and 1960-69.
17. International Monetary System, Yesterday, Today and Tomorrow, p.59. "Losses of sovereignty" were involved in such a system, "(a) for the creditor countries by the accumulation of dollar or sterling reserve claims, which contribute inevitably to the financing of United States or United Kingdom deficits and policies in which they have no voice and with which they may thoroughly disagree; and (b) for the debtor countries by the constant threat of sudden and massive conversions into scarce gold metal of the indebtedness piled up by them toward other central banks over the course of many years past".
18. I.M.F., Annual Report, 1975.
19. The new Article IV makes it clear that the new exchange arrangements may include i) the maintenance by a member of a value for its currency in terms of the special drawing rights or other denominator other than gold selected by the member, or ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members or iii) other exchange arrangements of a member's choice. In his statement before the House Sub-Committee on International Trade, Investment and Monetary Policy, the U.S. Treasury Secretary, William Simon, while explaining the Jamaica agreement observed that should it be decided at any time in the future by 85% majority to return to the par value system "the United States cannot be required to establish or maintain a par value for the dollar". It is quite clear therefore that the U.S. is, for the present at least, firmly opposed to even the idea of a return to a fixed rate regime.
20. To be precise, while the proportion of profit corresponding to their share of total quotas in the Fund will be given to all the developing countries, to each in the proportion of its quota, the balance of the profit will go to the Trust Fund to which only low income countries will have access.
21. H. Johannes Witteveen, the Fund Managing Director, has expressed this hope however. IMF Survey, June 25, 1976.

22. These are the Fund forecasts. H. Johannes Witteveen, IMF Survey, May 3, 1976.
23. To a member in need of credit i.e. when it wants to finance a balance of payment deficit, a dollar of SDR should be always preferable to a dollar even in the first credit tranche with the Fund.
24. In fact, Johannes H. Witteveen said so already. IMF Survey, April 19, 1976.
25. As Tom de Vries (Op.cit) puts it, "no matter how responsibly the U.S. authorities behave in managing the dollar, the world (i.e. including even the influential group of industrial countries other than U.S.A.) is unlikely to put up indefinitely with a system under which these benefits (the benefits of reserve creation) flow almost exclusively to the United States". (Parentheses ours).
26. A monetary arrangement among the developing countries which gives the oil exporting countries adequate voice to assure them of the safety as well as remunerativeness of their placements would not only help in rectifying the present imbalance in the transfer of real resources but also provide an alternative avenue for the placement of their reserves to the oil exporting countries.