SSOAR

Open Access Repository
www.ssoar.info

The premium gold controversy in the International Monetary Fund

Geiger, Theodor

Veröffentlichungsversion / Published Version
Monographie / monograph

Zur Verfügung gestellt in Kooperation mit / provided in cooperation with:
Universitäts- und Stadtbibliothek Köln

Empfohlene Zitierung / Suggested Citation:
Geiger, T. (1961). *The premium gold controversy in the International Monetary Fund.* (ICP case series, 63). Alabama: University of Alabama Press. https://nbn-resolving.org/urn:nbn:de:0168-ssoar-90290-9

Nutzungsbedingungen:
Dieser Text wird unter der CC0 1.0 Universell Lizenz (Public Domain Dedication) zur Verfügung gestellt. Nähere Auskunft zu dieser CC-Lizenz finden Sie hier:
https://creativecommons.org/publicdomain/zero/1.0/deed.de

Terms of use:
This document is made available under the CC0 1.0 Universal Licence (Public Domain Dedication). For more Information see:
https://creativecommons.org/publicdomain/zero/1.0/deed.en

gesis
Leibniz-Institut
für Sozialwissenschaften

Mitglied der
Leibniz-Gemeinschaft

A H 2128

THE INTER-UNIVERSITY CASE PROGRAM

Cases in Public Administration and Policy Formation

The Inter-University Case Program was organized to stimulate the use and writing of case studies as aids to the teaching and practice of public administration and policy formation. By encouraging the writing and distribution of case studies which depict the work of the executive branch in the governmental process at all levels from local to international, the ICP aims to:

1. enlarge the existing basis for realistic generalizations about administrative organization and behavior;
2. explore the manner in which the insights developed by the various social sciences and disciplines can be marshaled in administrative policy making;
3. make generally available a body of varied case materials useful for teaching purposes, for scholarly inquiry, and for analysis by practitioners in the field of public administration; and
4. secure widespread acceptance of the case study technique as a scholarly tool of research and reporting for use in theses, dissertations, and learned articles.

Membership in the ICP is open to all colleges, universities and other institutions concerned with public administration and policy formation; some sixty schools and institutions are now affiliated. The Program is supported by annual subscription-membership fees from participating institutions and by a grant from the Ford Foundation of New York. ICP members receive copies of all ICP publications when issued. ICP publications are listed on the back cover of this pamphlet.

The ICP furthers case writing and teaching at universities and allied public administration research centers by publishing selected case studies of high quality written by students, faculty members and other scholars under the auspices of the ICP; by furnishing advisory and editorial services through its Executive Board and central staff; by acting as a clearing house for information on case development and use; and by allocating funds to assist in the development and writing of case projects proposed by interested persons and approved by the Executive Board. Queries and proposals on membership and on future case studies are welcomed by ICP and should be addressed to Inter-University Case Program, Edwin A. Bock, Staff Director, 45 East 65th Street, New York 21, New York.

(R 8)
(R 31)

ICP CASE SERIES: NUMBER 63

The Premium Gold Controversy in the International Monetary Fund

COPYRIGHT 1961 BY THE INTER-UNIVERSITY CASE PROGRAM
PUBLISHED BY UNIVERSITY OF ALABAMA PRESS, UNIVERSITY, ALABAMA

The Inter-University Case Program

The Premium Gold Controversy in the International Monetary Fund

Theodore Geiger

#63

Published for the ICP by
UNIVERSITY OF ALABAMA PRESS
University, Alabama

UNIVERSITÄTS- UND STADT-BIBLIOTHEK KÖLN A

THEODORE GEIGER is Chief of International Studies of the National Planning Association and is the co-author of *The Political Economy of American Foreign Policy*, report of a study group sponsored by the Woodrow Wilson Foundation and the National Planning Association in 1955.

This study was made possible by a special grant from the Carnegie Corporation of New York. The Corporation has no responsibility for the contents.

1962 FG 1785

Contents

PREFACE 1

1. FROM THE GOLD STANDARD TO THE INTERNATIONAL MONETARY FUND 2

The Passing of the Gold Standard, 2; The Rise of the Clandestine Gold Market, 3; How Private Trade Occurred, 4; The Purposes of the International Monetary Fund, 5; Functions and Organization of the Fund, 6; The Leading Participants in the Controversy, 8; The Role of the United Kingdom, 9; The Minority Countries, 10; South Africa's Role, 11.

2. THE GOLD POLICY OF THE INTERNATIONAL MONETARY FUND 12

Formation of the Fund's Gold Policy, 12; Compliance with the Fund's Gold Policy, 14; The Participants' Attitudes Toward the Fund's Gold Policy, 15; The United Kingdom Supports the Fund's Gold Policy, 16; Minority Attitudes, 17.

3. THE BEGINNING OF THE CONTROVERSY 18

South Africa's Postwar Problems, 18; South Africa Plans a Premium Transaction, 20; South Africa Proposes, 21; The Fund Tries to Dispose, 22; The Executive Board's First Discussion, 23; The Meeting with DeKock, 25; The Fund's Reply, 26.

4. SOUTH AFRICA CHALLENGES THE FUND 28

The Issue Is Joined, 28; The Fund Considers Action, 30; A Draft Reply Is Approved, 31; The Crisis, 32; The Fund Chooses its Tactics, 34; South Africa Counters, 36.

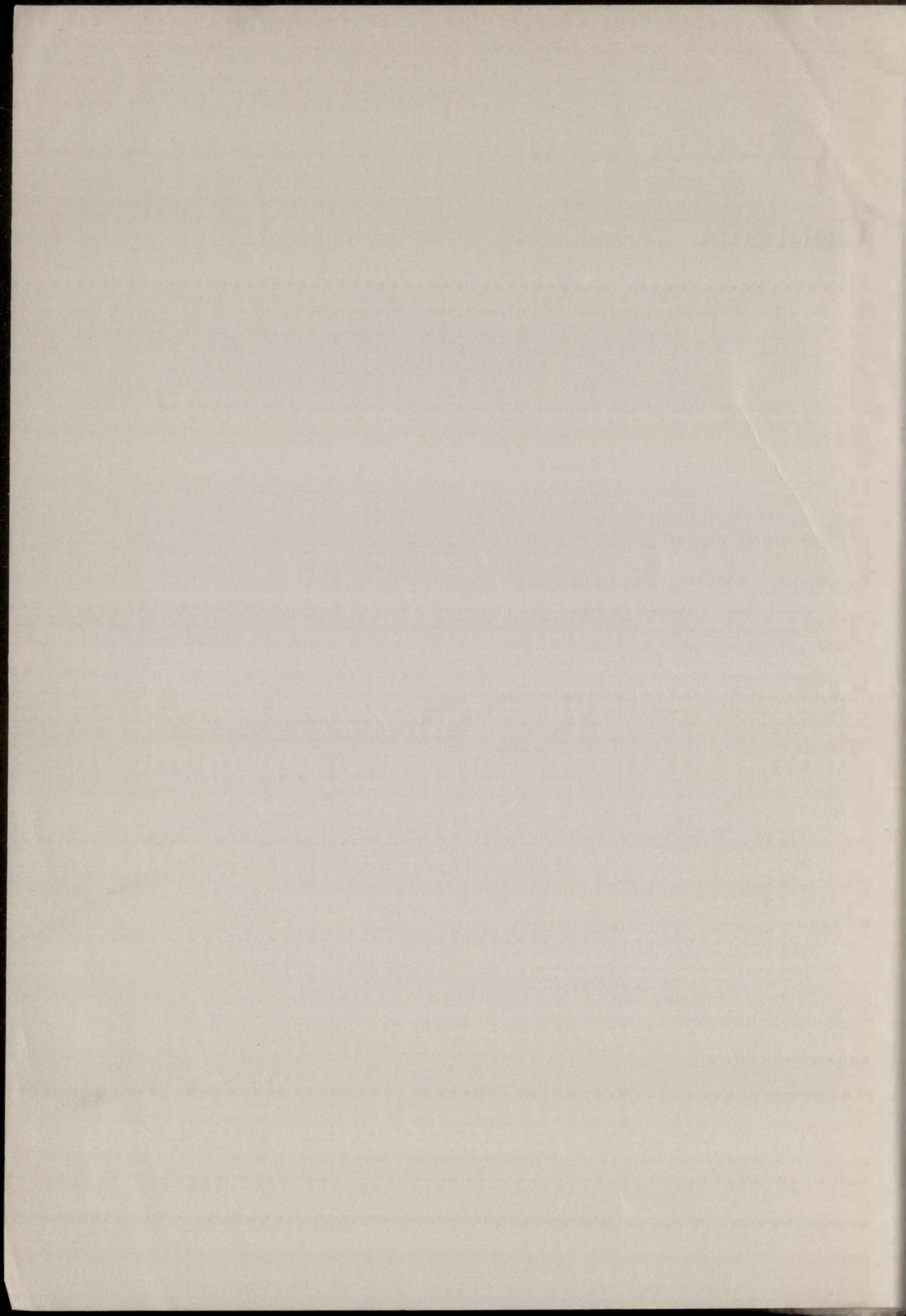
5. GUTT NEGOTIATES A COMPROMISE 38

The Impasse, 38; The Fund's Public Defense, 39; South Africa's Riposte, 40; Gutt's Mission to South Africa, 42; The Staff Studies, 43; The Board Instructs Gutt, 44; The Compromise, 46; Peace Is Announced, 47.

6. EVENTS SAVE THE FUND'S GOLD POLICY 49

The Devaluation Crisis of 1949, 49; South Africa's New Attack on the Fund's Gold Policy, 51; The Staff's Report, 53; The Fund's Gold Policy Is Reaffirmed, 54; The Temporary Disappearance of the Premium Market, 56; The Later Phase of the Controversy, 58.

BRIEF CHRONOLOGY 60



Preface

IN THE LATE 1940s a controversy arose between the International Monetary Fund and one of its members, the Union of South Africa. The immediate issue at stake was whether the Union of South Africa should export part of its newly mined gold at prices in excess of $35 an ounce, which had been fixed by the Fund as the official price for all international gold transactions among its member states. The question of gold sales at premium prices was important in itself. But, because the controversy also generated disagreements over much more fundamental problems of international monetary policy, the real issue soon came to be the Fund's gold policy as a whole, and not merely its specific objection to premium gold transactions. In consequence, a study of the premium gold controversy must inevitably introduce the reader to some of the basic issues and problems of international economic policy in the peculiar conditions of the mid-twentieth century.

This study also seeks to illuminate some of the operating difficulties confronting international economic organizations like the Fund. On the one hand, the Fund's member states have pledged themselves to co-ordinate through its machinery certain of the key elements of their national economic policies; on the other hand, they are reluctant to accept the restrictions on the free exercise of national sovereignty implicit in such co-ordination. In theory, national states have automatically accepted such limitations on their sovereignty by agreeing to co-operate through the medium of an international institution and to abide by its decisions. In practice, however, one of the greatest difficulties of contemporary international organizations has been to find acceptable techniques and devices for making actual this theoretical qualification of national sovereignty. The premium gold controversy is an example both of the nature of this difficulty and of the limited extent to which it could be resolved in the international system of the late 1940s.

The period covered in this study is almost two years—from August 1948 to May 1950—but the terminal date is somewhat arbitrarily chosen, because the premium gold controversy did not in fact come to an end in the spring of the latter year. At the time, however, it appeared to all of the participants that the problem was solved, because South Africa had virtually ceased its premium transactions, and the economic circumstances which originally made them possible and profitable were tending to disappear. The outbreak of the Korean War at the end of June 1950 proved this expectation false. The controversy was resumed in an even more bitter form, and it persisted until the underlying causes were mitigated by the partial relaxation of international tensions after Stalin's death and by the easing of international economic difficulties during the mid-1950s.

This study is based almost exclusively upon primary sources—documents, letters, memoranda, reports—and personal interviews with executive directors and staff members of the Fund and with United States government officials concerned with the Fund's affairs. While there is, of course, a massive literature on the economics of gold, it contains little specific information on the premium gold controversy. The events described herein are perhaps too recent and their details, both economic and administrative, as yet too inaccessible for them to have been much noticed by scholars in the fields either of international economics or of international administration. Consequently, this study has both the advantages and the shortcomings of a pioneering venture.

1. From the Gold Standard to The International Monetary Fund

THE FUNCTIONS OF GOLD within the world economy have changed considerably over the past generation. During the nineteenth century and substantially until the great depression of the 1930s, most of the world's trading nations adhered in principle to the gold standard. Under this system, central banks endeavored to maintain gold reserves adequate to cover their liabilities in bank notes and deposits, which they had to be prepared to redeem in gold coin or bullion at any time. National currencies were backed by gold holdings; they were freely convertible into gold and, through the actual or theoretical medium of gold, were freely convertible into one another. Private individuals as well as central banks bought and sold gold without restraint. Except in times of severe crisis or panic, no attempt was made to control or interfere with the access to the gold market of private traders.

By means of this free international market in gold and currencies, the uncontrolled movements of gold and of short-term capital were believed to act as equilibrating devices which automatically harmonized economic conditions in various parts of the world and permitted freedom of international trade and payments to be maintained. For example, an important trading nation might experience—for a variety of reasons—a deterioration in its external balance of payments and a consequent loss of gold. Interest rates might be raised to encourage an inflow of short-term funds from abroad. In addition, the loss of gold might itself force a contraction of the amount of currency in circulation. This would tend to lower internal prices and thereby encourage an increase in exports. These and other related economic movements would contribute to a new equilibrium in the balance of payments. Converse reactions might take place in the event a country experienced an unduly favorable swing in its balance of payments.

This simplified description of the theoretical operation of the gold standard is intended only to illustrate the role assigned to the free international gold and money market in harmonizing economic conditions throughout the world. Although the unrestricted operation of these market forces frequently resulted in severe money panics, commercial crises, and unemployment, it made unnecessary the imposition of import and export quotas, exchange controls, and other restrictive techniques whereby nations subsequently sought to balance their international accounts and to protect their domestic economies from the adverse impact of economic developments elsewhere in the world.

The Passing of the Gold Standard

Temporarily during and immediately after World War I and permanently since the onset of the great depression of the 1930s, the major trading nations abandoned the essential features of the gold standard. Associated with certain long-term, structural changes in the world economy,[1] this development was hastened by the disintegrating effects of two world wars and the intervening depression. The strong political and social pressures generated by these changes forced national governments to assume conscious control over their national economic conditions instead of permitting them to be automatically determined by price incentives and free market factors. The growing burdens on national budgets imposed by depression, war, and new popular expectations for higher living standards and greater economic security compelled governments to untie their currencies from gold and to use the fiduciary

1 See *The Political Economy of American Foreign Policy*, report of a study group sponsored by the Woodrow Wilson Foundation and the National Planning Association (New York: Henry Holt & Co., 1955), Chapter I.

mechanisms of the state to mobilize the needed financial resources. In consequence, most governments sought to channel gold and readily convertible currencies into official reserves, where they would be immediately available to cover deficits in the balance of payments and thereby prevent any interruptions in the flow of imports believed to be essential. Popular pressure during the 1930s to reduce or prevent unemployment and to protect noncompetitive industries—and the consequent need to force the export of surplus commodities or (as during the 1940s) to obtain at any cost essential quantities of imports in short supply—also hastened the adoption of import and export restrictions, exchange controls, and bilateral trade and barter arrangements. Thus, by one means or another, governments tried to insulate their national economies from the unpredictable and frequently drastic effects of market forces generated elsewhere in the world economic system.

As a result of this process, gold ceased to be the basis of most national currencies. It no longer enjoyed a free market either internationally or within many countries, and gold and short-term capital movements were unable to act as the automatic regulators and harmonizers of world economic conditions as they had before 1914. Instead, the principal official function of gold since 1946 has been to serve as the ultimate means for settling international obligations, particularly between other nations and the United States. In most countries the purchase, sale, export, and import of monetary gold by private individuals and firms was prohibited or rigidly controlled by government regulations. Gold could be held, used, and exchanged by businessmen and individuals only for officially specified industrial, artistic, medical, and dental purposes.

The Rise of the Clandestine Gold Market

As gold ceased to perform the functions characteristic of the gold standard, it began to acquire new significance in connection with a very old monetary function which had tended to be unimportant during the comparatively secure and peaceful century from 1815 to 1914. This ancient function was serving as a store of value for private individuals. Since antiquity, gold coins and bullion have been one of the chief forms of private savings, particularly in Oriental economies. The economic and political stability of the nineteenth century and the attendant growth of investment as the major outlet for private savings relegated the nonproductive hoarding of gold by private individuals to a very minor role in Western societies.

However, the increasing political instability and economic dislocations of the twentieth century combined to provide a powerful incentive for renewed private hoarding. Since the 1930s, people in many parts of the world have kept their savings and even parts of their capital in the unremunerative form of gold—unremunerative because hoarded gold earns no interest or profits. Nonetheless, so eager have private hoarders been at times to obtain gold that they have been willing to pay higher and higher prices for it. The resulting competition between private hoarders and official "hoarders" has been a major feature of the history of gold in recent decades.

The price of gold is expressed in national currencies and theoretically it depends upon the purchasing power of each particular national currency. Governments have always fixed by deliberate action the exchange rate between the unit of their national currency and a given quantity of gold of a specified fineness. This ratio is known as the par value of the currency. Under the gold standard, national treasuries and central banks were usually prepared at the request both of private individuals and of other governments to redeem their currencies in gold at the official par values or to buy gold at the same rates (plus or minus small service charges). Gold was also bought and sold for national currencies in the free international market by private traders at prices which usually varied slightly from the official par values depending largely upon (1) the demand for such national currencies to settle international commercial and capital transactions, and (2) the supply of gold available to the free market at any particular time. As long as the free international market for gold and currencies existed and governments were prepared to redeem their currencies in gold at the official par values, private traders could always engage in "arbitrage," that is, they could take advantage of the fluctuations of exchange rates and of the differences between official par values and free market gold prices for national currencies to buy gold or currencies

cheap and sell them dear. A prolonged or unusually large loss of gold by a country would generally be interpreted as a sign that a change in the par value of the currency was necessary, and the par value would be adjusted accordingly.

Since the early 1930s, the purchase and sale of gold has largely taken place among national governments for the purpose of settling payments balances among the various national treasuries or central banks arising from the international trade and capital transactions of each country. Some national treasuries, of which the United States Treasury has been the leading example, have always freely converted their own currencies into gold at the official par values on the request of other governments (not of private individuals, however). Such currencies are said to be "convertible" or "hard" because they are considered to be the equivalent of gold. In contrast, from the mid-1930s to the late 1950s, most other national treasuries sold gold to other governments or provided hard currencies in exchange for their own only by special arrangement and under carefully defined conditions. These currencies are called "inconvertible" or "soft."[2] The United States dollar has been the leading convertible currency since World War I, and its official par value—$35 for each ounce of gold of the requisite fineness—has become the universally accepted unit of account for international transactions involving gold or hard currencies.

These developments of the 1930s and 1940s coincided with, and were produced by, the same basic causes as the growing demand for gold on the part of private individuals for hoarding purposes. But, after the beginning of World War II, official restrictions and prohibitions in most countries virtually destroyed the free international gold market and legally cut off private individuals from access to gold supplies except for permitted industrial, artistic, and professional (for example, dental) purposes. In consequence, there developed during the 1940s a largely clandestine private trade in gold which was conducted at premium prices for gold in terms of national currencies. These premiums exceeded the official par values in more or less direct proportion to the unfavorableness of political and economic prospects and the difficulties of evading the official restrictions and prohibitions.

How Private Trade Occurred

The clandestine private trade in gold was able to exist during the 1940s and early 1950s for a number of reasons. Certain countries, notably some in the Near, Middle, and Far East,[3] still permitted private individuals to buy, sell, import, and export gold. In consequence, a number of small, but legal, organized private gold markets existed at times in such places as Hong Kong, Aden, Beirut, Cairo, and Tangiers. Other nations, particularly France, Switzerland, Greece, and some of the Latin American republics, permitted private individuals to engage in domestic gold trading but prohibited sales for export. These tolerated private gold markets were linked to one another largely by clandestine gold movements, which took place through smuggling, illegitimate currency deals, improper invoicing of permitted gold movements, and the like. The supply of gold for these premium markets came largely from (1) the existing private hoards, (2) leakages out of official gold reserves, and (3) the illegal diversion of gold sold to private individuals for permitted industrial, artistic, and professional purposes. When South Africa proposed to sell some of its newly mined gold directly in the premium markets, the majority members of the Fund believed that South Africa would in effect be adding a fourth source of supply for the private trade in gold.

The premium gold markets and the clandestine private gold movements which grew up during the 1940s were superficially analogous to the free international gold market which existed under the gold standard, but in practice their effects were quite different and were deplored by most

[2] The terms "hard" and "soft" are frequently applied in other connections as well. For example, although sterling was for twenty years an inconvertible currency, it was considered "hard" by certain countries unable to earn enough sterling or currencies convertible into sterling to balance their payments with the Sterling Area.

[3] China before the Communist conquest was the chief country in this group. Although the importation of gold on private account was legally forbidden, the Chinese Nationalist government was powerless to suppress this traffic. Chinese demand for gold generated by political danger and runaway inflation was a major factor in the premium gold market until the Communist conquest in 1949.

national governments. Since so much of the private trade in gold was illegal, or at best an evasion of the intent of official regulations, governments were *ipso facto* opposed to it. More important, however, it was claimed that the operation of the premium markets diverted gold from official reserves to private hoards and thereby diminished the amounts of gold available to governments for settling payments imbalances among them. Also, the fact that gold was sold at premium prices in national currencies—usually well in excess of the official par values—meant in effect that such currencies were depreciated not only in terms of gold but also in terms of one another, since the premium on gold purchased with soft currencies was generally larger than with hard currencies.[4] Rightly or wrongly, most governments viewed the persistence of the private premium trade as an evasion of authority, a diversion of scarce resources to uneconomic purposes, and a menace to the stability and prestige of their national currencies.

Thus, first through shifting national currencies from a gold to a fiduciary basis, and later through the restriction or prohibition of private trading in gold, national governments were able to manipulate their currencies to fit their domestic budgetary needs and world trade problems. They could reserve their national gold resources for the main purpose of balancing their international commercial and capital transactions, thereby assuring the continuation of essential imports. Just as a free international gold market and ready access by private individuals to gold supplies were essential conditions for the maintenance of the nineteenth century gold standard, so the exclusive control of gold prices and of gold use by national governments was an essential element of the more consciously "managed" international economy of the mid-twentieth century. Basically, it was because gold policy was considered so important a weapon for protecting a nation's interests in the contemporary international economy that it became an almost sacrosanct symbol of a government's authority in the economic field and that controversies over gold policy tended to generate more heat than light within and among national governments.

[4] A more important manifestation of currency depreciation was, of course, the black market in currencies.

The Purposes of the International Monetary Fund

The International Monetary Fund, along with its sister organization, the International Bank for Reconstruction and Development (IBRD), often called the World Bank, was established as a result of the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in the summer of 1944. The Fund was a specialized agency of the United Nations, with headquarters in Washington. Although originally intended to embrace all United Nations members, during the period of the controversy the Fund included only Czechoslovakia of the Communist nations.[5] A number of countries which were then excluded from full United Nations membership by the opposition of the Soviet Union had, however, been admitted to the Fund. Of these, Italy was already a member before the outbreak of the controversy, but West Germany and Japan were admitted only in 1952.

The initiative for the Bretton Woods conference, as well as for the subsequent establishment of the Fund and of the IBRD, came from the United States and the United Kingdom as part of their wartime planning for the postwar period. In the view of United States Treasury officials, these two proposed international agencies were conceived to be essential and permanent features of a long-range program for maintaining worldwide, nondiscriminatory, multilateral trade and payments and a free flow of capital funds once immediate postwar reconstruction and readjustments were completed. The Fund in particular was not supposed to participate in the postwar emergency relief and rehabilitation programs of the United States and of the United Nations, but was to preserve its financial resources for use when "normal" world economic conditions had returned.

In such a prospective world, the consciously directed activities of the Fund were intended to replace the automatic operations of the vanished gold standard as the equilibrating mechanism of the international economy. To this end, the Fund was charged with two basic functions: (1) to provide consultative machinery through

[5] Subsequent to the premium gold controversy, Czechoslovakia was suspended for nonpayment of its financial quota and ceased to be a member at the end of 1954.

which the monetary and financial policies and programs of its member nations could be deliberately harmonized with the object of maintaining a high level of nondiscriminatory, multilateral trade and payments; (2) to provide, within fixed limits and under specified conditions, certain types of temporary financial assistance to those members who suffered imbalances in their international trade and payments which they could not cover at the time from their own resources. Thus the role of the Fund has been to assist its members to abolish, and then to prevent future resort to, the discriminatory and bilateral trade and currency restrictions and practices which had grown up during the 1930s and early 1940s in response to the depression and wartime emergencies. The Fund would achieve this objective by consciously attempting to harmonize monetary and financial policies in place of the automatic harmonizing action of the gold standard and, when necessary, by making financial help available to members who, in the absence of such assistance, might have to impose exchange controls and import restrictions to correct a trade and payments imbalance.

Functions and Organization of the Fund

To enable the Fund to carry out these purposes, the members were required to subscribe certain sums in gold or dollars and in their own currencies to the operating capital of the organization. They also had to pledge themselves to consult with the Fund before modifying certain key features of their international monetary policies. Chief among the elements of national economic policy which were not to be changed before consultation were the par values of national currencies, the system of currency controls and regulations, and the convertibility of a member's currency. While in certain cases the Fund itself might be expected to take the initiative in proposing changes in these policies to one or more members, it was generally felt that the individual members should assume the responsibility of bringing their problems before the Fund. In this way, the activities of the Fund would not appear to infringe too overtly upon the free exercise of national sovereignty by the members.

A member which disregarded or violated its obligations to the Fund could be denied access to the financial assistance which the Fund could provide and, in extreme cases, could be expelled from the organization. More important than these two specific sanctions, however, was the fact that once a nation withdrew or was expelled from membership in the Fund, the remaining members were automatically free to impose exchange controls and trade restrictions against that country. The ultimately effective sanction, therefore, was the retaliatory power of its sovereign members rather than anything which the Fund itself could do.

The powers, obligations, and organization of the Fund were prescribed in a document known as the Articles of Agreement, which was adopted at the Bretton Woods conference and subsequently ratified by the member governments in accordance with their individual constitutional procedures.[6] Under the Articles of Agreement, all of the powers of the organization were vested in the first instance in a board of governors, which consisted of one representative of the national treasury, central bank, or other national financial institution of each member. Each governor had an alternate. Governors and their alternates served for five-year terms and might be reappointed at will by their national governments. The board of governors was required to meet only once a year but might itself make provision for more frequent meetings or might be convened at any time by the executive directors (described below). The board selected one of its members to be chairman. In general, members have appointed to the board of governors the heads of their national treasuries or central banks.

To provide for the continuous operation of the Fund, the Articles of Agreement also established an executive board consisting of not less than twelve executive directors. Here was the real locus of power in the Fund. The executive board was responsible for the conduct of daily operations and exercised those powers delegated to it by the board of governors. The executive directors resided continuously at the headquarters of the Fund in Washington and met as frequently as business required. The five member nations

[6] The Articles of Agreement were based largely upon proposed rules and regulations prepared by the United States Treasury prior to the Bretton Woods conference. These were modified during the conference in order to meet the objections or needs of other countries.

which made the largest financial contributions to the Fund's capital were each entitled to appoint one executive director. Seven additional executive directors were elected by the other members. Of these, two had to be elected by the Western Hemisphere members not entitled to appoint directors. Over and above this minimum of twelve directors, two more might be appointed by certain members in special circumstances. Elected directors served for two-year terms, appointed ones at the pleasure of the appointing government. Each executive director had an alternate who attended board meetings in his absence.

The system of voting used by the Fund in the deliberations of the governors and the executive directors and in the election of the seven executive directors depended upon the financial relationships of the members to the organization. Each member had a number of votes in direct proportion to the size of its original financial quota,[7] but the number of votes might be increased or reduced depending on whether the Fund had subsequently increased or reduced its holdings of a member's currency. Each governor and appointed executive director cast the number of votes to which the country appointing him was entitled at any given time. Each elected director cast as a unit the total votes of the country or group of countries responsible for his election. Thus the Fund operated by a system of weighted voting which made it possible for the members with the largest financial quotas to exercise greater influence in the organization. A simple majority was required for most decisions.

The executive directors elected as their chairman a Managing Director, who could not be either an executive director or a governor and who voted only in the event of a tie. The Managing Director was also chief of the Fund's international staff and conducted the daily business of the Fund under the executive board's supervision. Staff members, appointed by and responsible to the Managing Director, acted as technical and professional advisers to the Fund and its members, collected information, undertook research and analysis, and prepared reports and publications on matters of interest to, or within the competence of, the Fund. One of the staff's most important duties was to prepare drafts of the resolutions, communications, and reports in which the decisions and opinions of the executive board and the board of governors were embodied.

The Managing Director and the staff were the only international personnel of the organization and were required to make their first and only concern the welfare of the agency as a corporate international entity. Members were under the converse obligation—to respect the international character of the Managing Director and staff and to refrain from all attempts to influence them in the discharge of their duties. At the Bretton Woods conference it was thought that the executive directors would also be international personnel in certain respects, for it was expected that governments would appoint or elect to the executive board outstanding financial and monetary experts who would be permitted wide latitude for the exercise of their personal judgments in matters before the Fund. In practice, however, most members—especially those with the largest number of votes, the United States and United Kingdom—appointed or elected to the executive board permanent treasury or central bank officials who acted purely as national representatives. Elected directors had, in practice, a little more personal leeway than appointed directors because they exercised the voting power of all countries which elected them. Nevertheless, with the occasional exception of individual executive board members, the Managing Director and staff were the only personnel who were formally or informally international in character.

The Managing Director and the staff were in an ambiguous position *vis-à-vis* the executive board, which represented national governments. On the one hand, they were the servants of the board and were without independent authority of their own. On the other, they were obligated to act only in an international capacity, with the best interest of the whole organization as their objective. There was little difficulty when the members of the executive board were in substantial agreement on a problem before the Fund. But when there was a sharp cleavage of opinion within the executive board, the Managing Direc-

[7] Upon joining the Fund, each member was assigned a financial quota which it paid into the Fund partly in gold or dollars and partly in its own currency. The size and composition of a country's quota determined the size of the "drawings" which it was subsequently permitted to make on the Fund's resources to meet its temporary payments problems.

tor and staff were faced with a delicate situation, especially if their own judgment on the best course of action for the Fund happened to coincide with the views of the minority directors. Awareness of their advisory and service capacity and a natural fear of losing the confidence of the majority members of the board made them reluctant to recommend compromises which their own sense of responsibility to the organization as a whole might convince them were necessary or desirable.

Of the member countries important to the controversy under study, only the Union of South Africa did not possess an elected or appointed representative of its own nationality on the executive board. At the outset of the controversy, South Africa was represented, and its votes were cast, by the Dutch member of the board. Shortly after, the Australian member assumed these responsibilities. The shift occurred during the fall of 1948. Though South Africa had strong sentimental and traditional ties with the Netherlands, Australia was not only a fellow member of the British Commonwealth of Nations, but it was also a major gold producer and exporter and could, therefore, be expected to make a sympathetic presentation of the South African case before the Fund. It is important to remember that South Africa did not participate directly in the major discussions or decisions of the executive board, although on occasion representatives from South Africa or from the South African Embassy in Washington were invited to board meetings as observers or to explain in person their government's position.

The Leading Participants in the Controversy

Most of the Fund's members had assigned to their national treasury departments or ministries of finance the responsibility for providing and controlling their representation in the Fund. All government agencies tend to develop institutional patterns, policies, and attitudes which are sufficiently distinctive and persistent for other governments to take them into account in the conduct of their international business. Consequently, each national treasury formed an impression—mistaken or correct—of the attitudes and policies of its cognate agencies in other governments. These were perforce impressionistic and colored somewhat by the particular prejudices of the observing government. The following paragraphs attempt to convey in a freehand manner how the attitudes toward the Fund held by the principal participants in the premium gold controversy appeared to the other participants.

Since the establishment of the Fund, the *United States* had been the most influential member. It made the biggest contribution to the organization's capital and consequently cast the largest number of votes. Also, the Fund was in a very real sense the creation of the United States government. Though the Bretton Woods conference was convened at United States and British initiative, the organizational plans and economic policies and programs adopted at the conference were largely those proposed by the United States representatives. Since their inception, the Fund and the IBRD had been the objects of special solicitude on the part of the United States Treasury. This deep and abiding American interest in the welfare and progress of the two Bretton Woods institutions sprang in part from a sincere attachment to certain economic principles and policies and in part from the bureaucratic situation of the United States Treasury Department.

As explained above, the major purpose of the Fund was to help maintain a worldwide system of nondiscriminatory, multilateral trade and payments. The attainment of this objective had been a cardinal principle of United States foreign economic policy since the great depression of the 1930s, when widespread discrimination against the dollar first became a major feature of the world economic landscape. The dominant view within the United States government during the early postwar years was that the evils of currency inconvertibility, bilateralism, barter trade, import and export controls, discrimination against dollar goods and dollar payments, and the like, must be attacked directly by inducing other nations to pledge themselves to forego these practices. The Reciprocal Trade Agreements Program before and since the war, the proposals of the mid-1940s for a permanent International Trade Organization (ITO) to supervise world commerce, and the General Agreement on Trade and Tariffs (GATT) were leading examples of the application of this strategy of direct attack on the discriminatory features of the world trading system.

The two Bretton Woods institutions were conceived to be an integral part of this general program—the financial counterparts, so to speak, of the commercial arrangements and agreements embodied in the proposed ITO and the GATT.

There had also been a bureaucratic aspect to the strong attachment of United States Treasury officials to the Bretton Woods institutions. During the late 1940s and early 1950s these were the only international organizations in which the United States representation was controlled by the Treasury Department. Not only did this provide the Treasury with a powerful incentive to maintain the prestige of these institutions both inside and outside the United States government, but Treasury officials also found that their responsibilities toward the Fund and the IBRD gave them a convenient wedge for inserting themselves into the wider aspects of the process of foreign economic policy formation inside the United States. This extension of Treasury influence in the field of foreign economic policy had been further facilitated by the existence of the National Advisory Council on International Monetary and Financial Problems (NAC), established by the congressional legislation which ratified United States participation in the Bretton Woods institutions. The NAC was advisory to the President. The Secretary of the Treasury served as chairman of, and his department provided the secretariat for, the NAC, which consisted of representatives of other government departments concerned with international financial and monetary policy. While the NAC's authority in the general field of foreign economic policy had fluctuated, its jurisdiction over matters affecting the Fund and the IBRD derived from the legislation which established it. By interpreting matters affecting the Bretton Woods institutions in the broadest sense, the Treasury Department had from time to time been able to wield a major influence in the determination of United States foreign economic policy.

As between the IBRD and the Fund, United States Treasury officials had always had a preference for the latter. In its theory—as well as in its method of operation—the Fund came closer to the more orthodox principle of influencing economic trends through the manipulation of fiscal and monetary policy than did the IBRD, which operated by the direct expenditure of public funds or of publicly guaranteed private loans. Also, the greater degree of independence enjoyed by the IBRD's president and international staff made that organization much less responsive than the Fund to the views of its major member nations—by no means a minor consideration in the minds of United States officials.

The posture for which United States representatives consciously strove, in those postwar international organizations whose membership was limited to the nations of the free world, was that of an impartial arbiter and guardian of the international character of the organization. During the premium gold controversy, it was especially difficult for the United States representatives to play this role. They were concerned that South Africa's apparent disregard of the Fund's official gold policy would inevitably impair the prestige of an organization which they valued highly. At the same time, they were vigorous and uncompromising proponents of the Fund's gold policy and were consequently unwilling to make significant concessions to the South African and minority viewpoints. In the circumstances, they were forced to abandon the role of arbiter and to assume that of a partisan—a part which they did not relish and which they feared might ultimately weaken their moral influence in the organization.

The Role of the United Kingdom

After the United States, the *United Kingdom* was the most influential member. The official British attitude toward the Fund was more complex and more sophisticated than that of the United States and was in part determined by Britain's attitude toward international organizations in general. During the 1940s British officials viewed with skepticism the postwar proliferation of international organizations, particularly in the economic field. They were concerned about the real or imagined limitations on the free exercise of national sovereignty which membership in such institutions was believed to impose. At heart, the British felt that they were already the center of a globe-encircling commonwealth of nations which provided all the economic benefits of close international co-operation with a minimum of formal organizational ties. The British Commonwealth and the Sterling Area had for many years used a common currency, had enjoyed substantial internal freedom of trade and pay-

ments, and represented a high degree of international specialization and division of labor. While the British did not regard the Commonwealth or the more extensive Sterling Area as substitutes for a wider organization of nations, they were nevertheless concerned lest their participation in the latter threaten the autonomy and progress of the former.

In addition, the Labour Party government (in office throughout the controversy) was afraid that its international commitments might in some way interfere with its freedom to carry out an independent full employment policy in domestic affairs. Though the Conservatives on occasion criticized this fear, their own conduct in office after the 1951 election provides no reason to suppose that their attitude would have been different had they been in power during the earlier postwar years. For these reasons, the British were then much more enthusiastic about international organization in the defense field, where their own need for close and dependable defense alliances was so obvious, than in the economic and political fields. British officials readily admitted the positive advantages which could in theory be derived from effective international economic agencies. But, in practice, probably the major elements in their willingness to join and actively support international economic institutions were (1) the realization of the need to knit the free nations more closely together in the face of the growing Soviet menace, and (2) the desirability of conciliating the United States belief in the efficacy of international organizations.

British participation in the postwar international economic institutions, therefore, lacked the missionary fervor which characterized much of the United States participation during the 1940s and early 1950s. The British attitude was always correct, usually co-operative, and occasionally permitted the exercise of active and constructive leadership by British representatives. At the same time, however, both United States officials and other Europeans tended to feel that the British representatives were over-vigilant in safeguarding their national sovereignty, were inclined to hamper attempts to increase the initiative and independence of the international staffs, and were particularly adroit at advancing or protecting their own national interests without overtly damaging either the prestige or purposes of the international organizations to which they belonged.

British participation in the Fund during the premium gold controversy exhibited something of this general skepticism about international organizations. Under Lord Keynes' leadership, the British had taken an active part in the Bretton Woods conference but, in the main, their proposals regarding the nature and functions of the Fund had not been accepted. Since its inception, they had conscientiously supported the Fund and had already availed themselves of both its policy co-ordinating facilities and its financial resources. But they made it clear that they did not regard the Fund as the panacea for the world's trade and monetary problems. Other Fund members assumed that many British officials could not forget that for over a century the pound sterling and the London money market had fulfilled all of the essential functions which the Fund was theoretically designed to perform. While few British officials either expected or desired a return to the automatic operation of the international gold standard, they unconsciously viewed the existence of the Fund as confirmation of the passing of Britain's commercial and financial pre-eminence. Nevertheless, for reasons which will be explained in the next chapter, the British sided with the United States throughout the controversy, and these two countries were the permanent nucleus of the majority group in the executive board.

The Minority Countries

A group of continental West European members, under the leadership of France, played an important role in the premium gold controversy. This group usually included the executive directors representing France, the Low Countries, and the Scandinavian members, with the executive director representing Italy, Austria, and Greece occasionally joining with them. The Australian member of the board, who represented South Africa as well, also voted with this group. Together, they constituted a minority of the voting power in the executive board but they expressed their views freely at all times and earnestly tried to modify the Fund's gold policy, which most of them opposed in varying degrees.

France, Belgium-Luxemburg, the Netherlands, Norway, and Denmark were the permanent members, so to speak, of the minority group. While

the Netherlands and the two Scandinavian countries had traditionally been close to the British financial system and shared something of the British concern over the possible effects of international organizations on the free exercise of national sovereignty, they nevertheless tended to have the same attitude as France and Belgium-Luxemburg toward postwar economic institutions. On the one hand, all of these governments knew full well that their own economic situations in the immediate postwar years made them the chief potential beneficiaries of the financial resources which organizations like the Fund had at their disposal. In consequence, they had been eager to join such institutions and, in general, were conscientious members. On the other hand, they frequently expressed the fear that the kind of economic policies they would be required to follow to remain members in good standing and to enjoy access to the Fund's financial resources would be more rigorous than their then weakened and impoverished economies could stand. Recognizing that the United States and the United Kingdom had the major voice in the affairs of international economic organizations, the continental European members were frequently concerned by what they regarded as doctrinaire insistence by United States officials on freedom of trade and currency convertibility and as covert attempts by British representatives to further their own national interests. The attitude of the continental members, therefore, seemed ambivalent, a mixture of hope and fear, in which their expectation of tangible benefits usually counterbalanced their apprehension of unacceptable conditions.

South Africa's Role

These considerations were also important to the *Union of South Africa* and in part determined its relationships with the Fund. In addition, its attitude toward the Fund was very much influenced by its domestic political situation. In May 1948 the African Nationalists—the party of the Boers—obtained a small but absolute electoral majority and assumed office for the first time in the Union's history. The Nationalist Party was mainly interested in its domestic program of apartheid—forcing a stricter segregation of the nonwhite inhabitants of the Union and rescinding their political and economic privileges. Even then, these domestic policies inevitably influenced South Africa's international relations. Many Nationalists were ardent advocates of secession from the British Commonwealth and of a republican constitution for the Union. They opposed any international commitments which appeared to limit South Africa's freedom of action, and they were especially sensitive to the real or imagined disapproval of their domestic policies by other countries. Consequently, the Nationalist government leaders had to be particularly concerned in their dealings with the Fund not to give the impression in South Africa that they were in any way yielding to foreign interference or pressure. This fear of offending nationalist prejudices was mainly responsible for the bitterness of some of the public statements of South African officials during the controversy, the tone of which was only partly moderated by the simultaneous realization on their part of the serious international political and economic consequences which were likely to follow from an open break with the Fund.

The minority members of the executive board had mixed feelings about their apparent support of the South African position. In part, their dislike of some of the domestic policies of the South African government may have made them unwilling to identify themselves too closely with the international economic policies and practices advocated by South Africa. More important, however, many of the minority members were only slightly less opposed to the premium gold sales of the South African government than they were to the Fund's official gold policy—a policy which, they felt, was largely responsible for these practices.

Thus there were, in effect, four parties to the gold premium controversy—the majority directors, the minority directors, the Managing Director and his international staff, and the South African government. Each of these participants or groups of participants saw the controversy from a different perspective and in terms of a different set of interests and of administrative problems:

1. To the majority members, the problem appeared to be how to maintain the authority and prestige of the Fund (which was especially important to their long-range plans for world economic stability) without making any significant concessions on substantive economic policy.

2. To the minority members, who objected to the majority's gold policy without necessarily condoning South Africa's practices, the problem was how, in the circumstances, to make their own mediating influence effective.

3. To the Managing Director and his staff, the problem was how to enable the Fund to weather the controversy without incurring irreparable damage to the organization itself.

4. To the Union of South Africa, the problem was how to continue doing what it wished about premium gold sales without sacrificing the benefits of Fund membership which were especially important to it at the time.

2. The Gold Policy of the International Monetary Fund

THE SUBSTANTIVE ISSUES involved in the premium gold controversy were by no means limited to a conflict over whether South Africa should export its newly mined gold at prices in excess of $35 an ounce. A distinctive characteristic of the controversy was the fact that, although South Africa engaged in transactions which the Fund believed were contrary to its policy, the conflict became increasingly a dispute about the Fund's gold policy rather than about South Africa's practices. This shift in emphasis occurred because, while virtually all the members disapproved in some measure of the South African government's actions, a substantial minority felt that it was the Fund's policy which in fact made these reprehensible practices possible. In turn, this view led to a basic disagreement over the best method of controlling, and if possible eliminating, the premium gold market. It was this dispute over the method of attaining a generally agreed-upon end which constituted the major substantive issue of the controversy.

Formation of the Fund's Gold Policy

The gold policy which the majority members of the Fund felt themselves called upon to defend rested upon a commitment which was embodied in the Fund's Articles of Agreement adopted at the Bretton Woods conference and to which all members had subscribed. Article IV, Section 2, of the Articles of Agreement stated: "The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin."[8] In addition, Article V, Section 6, specified that "(a) Any member desiring to obtain, directly or indirectly, the currency of another member for gold [that is, desiring to sell gold] shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund" and "(b) Nothing in this Section shall be deemed to preclude any member from selling in any market gold newly produced from mines located within its territories."

Taken together, these two provisions of the Articles of Agreement meant that, in transactions among and between Fund members, gold could only be bought and sold at the official par value (that is, $35 an ounce) plus or minus the customary service charges. In addition, members were obligated not to buy gold from anyone (whether a Fund member or not) at a premium or to sell gold to anyone at a discount. Presumably, however, members were at liberty to sell gold to nonmembers at a premium or—an unlikely possibility—to buy gold from nonmembers at a discount. Also, gold sold from official reserves or from other existing stocks of gold by a member in order to obtain the currency of another member first had to be offered for sale to the Fund unless there were benefits obtainable by a sale directly to the other member which a sale to the Fund

[8] The prescribed margins were small premiums or discounts representing the customary service charges on gold transactions.

would not provide. These benefits were interpreted to be such commercial advantages as a selling nation might obtain, not price advantages, which were naturally prohibited by Article IV. Members selling newly mined gold to other members did not have to offer it first to the Fund[9] but they, too, were restricted by the price regulations governing sales to other members and to nonmembers.

In addition to incorporating these provisions into the Articles of Agreement, the Bretton Woods conference also adopted for the Fund's official unit of account the par value in gold of the United States dollar—$35 an ounce.

In the summer of 1944, when the Bretton Woods conference was held, these specific commitments on gold and the general provisions of the Articles of Agreement on encouraging currency stability appeared sufficient to the members of the Fund to ensure that governments would buy and sell gold at the official par values, that par values would be changed only after mutual consultation in the Fund, and that governmental gold holdings and acquisitions would not be sources of supply for the private premium markets. At that time, it was not anticipated that postwar economic difficulties would be as great, nor that postwar political and social tensions would be as serious and persistent, as they in fact became. The relatively early restoration of political and economic stability was confidently expected, once wartime damage had been repaired, and it was believed that the wartime private premium market in gold would tend to disappear soon after the return of normal conditions.

By the spring of 1947 the Fund and its members had lost much of the optimism of 1944. After a temporary recovery in 1946, Western Europe was on the verge of economic and political collapse, from which the Marshall Plan helped to save it. Elsewhere, the Communist conquest of China was already imminent, and southern Asia seethed with nationalist and Communist unrest. The aggressive intentions of the Soviet Union had been demonstrated in Greece and Iran; the United Nations and the Council of Foreign Ministers were already deadlocked by fundamental divergencies between East and West; and the prospects for a united and peaceful world were fading fast. Rather than a decline, there was a boom in the private demand for gold for hoarding purposes, and premium gold prices were reaching new heights.[10]

Both the executive board and the staff of the Fund were aware of the postwar persistence of the private premium trade and of the probability that worldwide political tensions and economic instability would not lessen in the foreseeable future. The majority members of the board believed that these perverse trends necessitated a reaffirmation and elaboration of the Fund's gold policy. Accordingly, the staff prepared, and on June 18, 1947 the executive board approved and sent to all members, the following statement:

> The International Monetary Fund has given consideration to the international gold transactions at prices substantially above monetary parity which have been taking place in various areas of the world. Because of the importance of this matter the Fund has prepared this statement of its views.
>
> A primary purpose of the Fund is world exchange stability, and it is the considered opinion of the Fund that exchange stability may be undermined by continued and increasing external purchases and sales of gold at prices which directly or indirectly produce exchange transactions at depreciated rates. From information at its disposal, the Fund believes that unless discouraged this practice is likely to become extensive, which would fundamentally disturb the exchange relationships among the members of the Fund. Moreover, these transactions involve a loss to monetary reserves, since much of the gold goes into private hoards rather than into central holdings. For these reasons, the Fund strongly deprecates international transactions in gold at premium prices and recommends that all of its members take effective action to prevent such transactions in gold with other countries or with the nationals of other countries.
>
> It is realized that some of these transactions are being conducted by or through nonmember countries or their nationals. The Fund recommends that members make any representations which, in their judgment, are warranted by the circumstances to the

[9] This freedom to dispose of newly mined gold was incorporated into the Articles of Agreement at the strong insistence of the United Kingdom and the gold-producing members of the British Commonwealth in order not to impede the traditional movement of newly mined gold to London.

[10] See chart, page 60, showing the range of premium gold prices in various free markets.

governments of nonmember countries to join with them in eliminating this source of exchange instability.

The Fund has not overlooked the problems arising in connection with domestic transactions in gold at prices above parity. The conclusion was reached that the Fund would not object at this time to such transactions unless they have the effect of establishing new rates of exchange or undermining existing rates of other members, or unless they result in a significant weakening of the international financial position of a member which might affect its utilization of the Fund's resources.

The Fund has requested its members to take action as promptly as possible to put into effect the recommendations contained in this statement.

Compliance with the Fund's Gold Policy

Most of the Fund's members hastened to comply with the letter, if not with the spirit, of this policy statement. In its annual report for the year ending April 30, 1948, the Fund summarized the results of the policy statement in the following words:

> Some countries, including certain major gold producers, indicated that their practices were in accord with the Fund's policy. Others explained that their gold sales had been authorized before the Fund defined its policy but that they were ready to change their policy to conform to the Fund's views. Certain other countries revised their regulations in order to meet the Fund's policy.
>
> Mexico informed the Fund that in compliance with the Fund's policy it had discontinued external sales of gold at premium prices. Canada's Minister of Finance stated that the policy of his Government was to prohibit exports of gold to "free markets" and to refuse to permit exports at prices above parity. Immediately after the receipt of the Fund's letter, the United States National Advisory Council on International Monetary and Financial Problems [the NAC] announced it was in full accord with the Fund's views. After a public hearing, the United States Treasury Department announced that its Provisional Regulations under the Gold Reserve Act of 1934 would be amended, effective November 24, 1947, with a view to curbing international gold transactions at premium prices in accordance with the Fund's request. The Bank of England advised bullion dealers that the prohibition on transactions at premium prices was extended to cover dealings as agents for non-residents. Transactions by London bullion dealers as principals had never been allowed except at prices within 1 per cent of U.S. $35 per fine ounce.
>
> In spite of the encouraging reaction of members to the Fund's letter of June 18, 1947, there is ample room left for greater support of the Fund's policy. There should be more vigorous enforcement of the gold regulations in certain countries, especially importing countries. It has been noted that international transactions in fabricated gold articles or jewelry with a fine gold content just below the minimum legal fineness of monetary gold have assumed increasing importance. Some countries have no legal basis for the effective supervision of trans-shipped gold; in most cases trans-shipped or bonded goods attract certain conditions and privileges which include freedom from import or export licensing, especially where it can be shown that the commodity is foreign-owned. In other instances, where exchange controls place little or no restrictions on gold dealings or shipments, a revision of existing gold regulations may be necessary in order that gold may be treated as a part of the potential national monetary reserves, rather than as an article of trade. Furthermore, some gold transactions at premium prices are being conducted by or through non-member countries or their nationals.

On balance, then, the Fund had reasonable grounds for believing on April 30, 1948 that its policy statement of June 1947 had been effective. Most of the members who were important gold producers or gold purchasers had increased the stringency of their regulations and the vigilance of their officials. While certain loopholes in the network of regulations still existed, and the ingenuity of private traders in finding new ones was likely to persist, the Fund nevertheless felt that the problem was under control and that new difficulties arising in the future could be met by a further elaboration of direct control measures. The Fund's course of action had as yet provoked no important differences of opinion among the members and there seemed to be no reason to expect any concerted attack upon the Fund's gold policy.

The essence of the policy, as foreshadowed in the Articles of Agreement and elaborated in the policy statement of June 1947, was thus a firm belief in the efficacy of a comprehensive system of direct controls. It was implicitly assumed that increases in the volume of clandestine gold movements and in premium gold prices were the results of incompleteness in the network of controls and of laxness on the part of national government officials responsible for the enforcement of regulations. Once the control system was perfected and rigidly enforced, the Fund was confident that

the private gold market could be compressed to an insignificant minimum.

The Participants' Attitudes Toward the Fund's Gold Policy

The Fund's faith in the effectiveness of direct controls was consistent with the evolution of governmental policy in most of the member countries since the early years of the great depression. While many national governments had increasingly assumed conscious control over economic processes during the interwar and postwar periods in an effort to ease their internal and external economic problems, this development was by no means uniform in all major trading nations, nor in the 1940s was it universally approved or generally regarded as a permanent feature of the economic landscape. Consequently, although the Fund's gold policy was initially accepted by its members without serious question, it began to encounter growing criticism once the outbreak of the premium gold controversy made the basic issues clearer. It is important, therefore, to understand the attitudes of the participants toward the gold policy and the background of the positions which they took in the course of the controversy.

As the most influential members, the United States and the United Kingdom naturally played the major role in determining the organization's gold policy. What requires explanation, however, was the fact that both governments should have insisted upon the particular policy which the Fund adopted.

As explained in the preceding chapter, the United States government was not only the leading advocate in international economic affairs of freedom of trade, currency convertibility, and restoration of the influence of price incentives and free market forces, but had from the beginning conceived of the Fund as a major instrument for bringing these liberal conditions about. In general, the postwar foreign economic policy of the United States has been (except during the Korean conflict) to urge the earliest possible return to currency convertibility and the abolition of the wartime systems of direct governmental controls over international trade and payments. Yet, in the Fund, the United States appeared to be advocating a policy of direct controls over gold sales and movements.

This seeming contradiction was more apparent than real. United States policy with respect to gold was compounded both of historical elements and of the institutional patterns and prejudices of the financial agencies of the government. Traditionally, the United States government had always exercised a considerable measure of intervention and control over its currency and over dealings in gold. These practices, inherited from the past, were reinforced during the early years of the great depression of the 1930s, when the federal government acquired a legal monopoly over the purchase, sale, and ownership of monetary gold. Thus gold controls were a recognized and historically sanctioned technique of monetary policy in the United States.

In addition, the Fund's gold policy was fully consistent with the institutional convictions of the United States Treasury and of the Federal Reserve Board. In their view, an essential element in the restoration of public confidence in national currencies was the maintenance of exchange stability, that is, the establishment of a single par value and set of exchange rates for each currency at which all transactions, public and private, in that currency would take place. Naturally, the two United States agencies took the position that these official exchange rates had to be realistic—that is, reflect the real purchasing power of the currency—but once fixed they should be maintained without variation until such time as a government felt it imperative to make a change. The knowledge that such exchange rates were realistic and would not be changed for arbitrary or temporary reasons would make other governments and businessmen generally willing to use the currency in international transactions and to hold it for indefinite periods as part of their official reserves or private savings.

This conclusion was believed to be valid on the basis of the prewar experience with an alternative theory of monetary confidence. During the 1930s a number of countries had experimented with freely fluctuating exchange rates. Fluctuating rates were thought to have the advantage of allowing rapid adjustments of a country's exchange relationships to changes in its internal economic conditions or in its external economic environment. But, in practice, monetary experts generally believed that freely fluctuating exchange rates created uncertainty in the minds of businessmen

and officials of other governments and encouraged speculative and abnormal flows of trade. Consequently, regardless of its theoretical merits, the device of freely fluctuating exchange rates was rejected by most governments in the postwar period.

The conviction that monetary confidence required fixed and stable exchange rates was, therefore, an additional reason for the United States government's belief in the necessity for controlling gold transactions. Sales of gold at premium prices in effect lowered the par values of the national currencies exchanged for gold—that is, they directly or indirectly depreciated these currencies. Even in the case of a hard currency, such as the dollar, premium transactions in gold had the effect of depreciating its par value. In consequence, the United States was convinced that the Fund and its individual members had to take appropriate measures to suppress the premium gold market if currency stabilization was to be achieved.[11]

Certain countries felt that it was inconsistent of the United States to favor direct controls over gold and at the same time to disapprove of other types of currency and exchange controls, particularly those which enforced the inconvertibility of soft currencies. The validity of this reasoning was not, however, accepted by the United States government. It was prepared to concede that currency inconvertibility, and the exchange controls required to enforce it, might be necessary temporarily in emergency situations. But, if perpetuated for any length of time or allowed to congeal into permanent instruments of national economic policy, these devices would have highly injurious consequences both for the nation that used them and for the international economy as a whole. Gold controls, in contrast, were appropriate and customary techniques of national monetary policy and, by assisting in maintaining the stability of par values, they were thought to hasten a general return to currency convertibility and the restoration of monetary confidence. Thus the United States government believed that gold controls were in an entirely different category from other types of exchange controls and that its position on this question was wholly consistent.

The United States government also had practical reasons for opposing any change in the official par value of the dollar and, hence, in the Fund's official gold price of $35 an ounce. Under existing statutes, the par value of the dollar could only be changed by federal legislation. In the judgment of United States officials, both the difficulties of the United States political situation and the abstruseness of the economic issues involved would make highly unlikely an intelligent public discussion and a desirable outcome of any attempt to pass new legislation. Also, public awareness of the possibility of a change in the par value of the dollar would inevitably generate widespread rumors and speculation, which might have serious consequences not only in the United States but throughout the free world. At any reasonable cost, therefore, the United States Treasury was anxious to avoid discussion of possible changes in the par value of the dollar.

Furthermore, an increase in the official price of gold would increase the dollar cost to the Treasury of the gold exported to the United States by other countries in settlement of their trade and payments deficits with the United States. Although the increased cost of gold imports would be at least in part offset by a decline in dollar grants-in-aid to these countries, the Treasury was nevertheless fearful of the general inflationary effects on the United States economy of a higher gold price. Moreover, it was believed to be more desirable to increase the dollar resources of other countries by deliberate governmental action (that is, by providing aid to them) rather than haphazardly by raising the price of gold.

The United Kingdom Supports the Fund's Gold Policy

The British arrived at similar conclusions but for a different set of reasons. After the war, the United Kingdom viewed with increasing alarm the diversion of gold into private hoards via the premium markets. It was especially concerned about the possibility that South Africa's newly mined gold might be channeled to the same destinations. Traditionally, South Africa had sold

[11] However, the United States government was willing in certain situations—for example, Greece and Nationalist China—to provide gold for the maintenance of an official *internal* premium market for what were believed to be imperative political reasons.

most of its gold in London for sterling and had obtained such dollars and other currencies as it required by the conversion of sterling. During and after the war, however, sterling was not freely convertible into dollars, and South Africa sold more of its gold directly for hard currencies. The British were by no means anxious to encourage this trend, which they felt would be strengthened if South Africa were permitted to make lucrative premium gold sales for dollars.

More important, British Treasury officials were deeply concerned by the tendency after the war for many countries, particularly those in the Near and Middle East, to hold their monetary reserves in the form of dollars and gold rather than in the form of sterling, the major international currency prior to World War II. This movement on the part of governments and private individuals to shift their reserves and savings from sterling to gold and dollars was, of course, a primary reason for the existence of the premium gold market and of the black market in dollars. The extent to which both gold and dollars sold at premium prices was also the extent to which sterling, from which funds were being shifted, sold at a discount, that is, at less than its official par value in gold and its official exchange rate with the dollar—$4.03. It was believed that any increase in the number and magnitude of transactions in "discount" sterling would intensify the pressure against the pound and make it much more difficult for the British to maintain the official par value and dollar exchange rate and eventually to re-create worldwide confidence in sterling.

The British government then in office also had strong predilections for direct controls not only over gold but in other economic fields as well. The Labour Party's left-wing members seemed to favor direct controls per se. Even its less doctrinaire center and right wing were firmly committed to the objective of constant full employment and were consequently unwilling to sacrifice control techniques which appeared admirably designed to achieve that goal.

Moreover, many sectors of the British economy had been by the late 1940s under direct governmental control for almost a decade, and this elaborate system had operated in the United Kingdom more successfully than in any other Western nation during or after the war. Consequently, individual British civil servants and government agencies were habituated to the use of control techniques, and many felt uncertain of their ability to influence economic trends in desirable directions without the aid of such instruments. Although the Labour Party government had in fact abolished certain controls after the war, others were maintained on a stand-by basis in case they were needed in an emergency. Thus, not only the Labour Party government but many higher civil servants appeared to favor direct control techniques as appropriate instruments for executing national policy.

Minority Attitudes

The nations which made up the minority group in the Fund had no such compelling reasons or institutional pressures for supporting the Fund's gold policy. In theory, they should have favored direct controls since their currencies, with the exception of the Belgian franc, were even more precarious than sterling. But while they all maintained control systems, in some instances more rigorous than the British, the Latin members (that is, France and Italy) in particular recognized that their own economies were so weak and their governments so unstable as to make enforcement of these controls very difficult. Moreover, in most cases their monetary problem differed from the British in that they had to restore internal as well as external confidence in their currencies. To do this, they felt, required them to permit some freedom for domestic transactions in gold and even to allow some private hoarding of gold. France, for example, tolerated private dealings in gold coins and tried to maintain a minimum gold reserve to back its currency in an effort to restore internal confidence in the French franc.

Furthermore, the governments of most of these countries, hard pressed to balance their national budgets and international accounts, could no doubt benefit from the increase in the value of their gold reserves which would automatically result from a rise in the official price of gold. In addition, some continental European countries derived profits from the existence of the private premium gold market. As intimated in the Fund's annual report quoted above, their free ports and free port areas were transit points for clandestine gold movements and provided convenient places

where legally acquired gold could be fabricated into jewelry and objets d'art for export to countries in which there was a strong private demand for such gold objects for hoarding purposes.

Thus the minority members of the Fund had from the beginning mixed feelings about the Fund's gold policy. On the one hand, some of them could find immediate, practical incentives for opposing the Fund's flat condemnation of international premium gold transactions and for advocating instead an increase in the official gold price and a liberalization of the control systems. On the other hand, they also realized that the ultimate restoration of confidence in their own currencies was an essential objective and depended to a certain extent upon the stability of the pound sterling with which their currencies had traditionally been formally or informally linked. Accordingly, they agreed with the United States and British objective of currency stabilization and were prepared to co-operate in devising effective techniques for accomplishing it. The question in their minds was what constituted an effective technique.

No doubt the united stand in support of the Fund's policy of direct controls taken by the two leading members, the United States and the United Kingdom, acted as a deterrent to the early consolidation and strong expression of an opposition view on this question. It was only after South Africa informed the Fund of its contemplated premium sales and the subsequent researches of the staff revealed something of the magnitude and nature of the premium gold traffic, that a body of opinion against the Fund's gold policy crystallized and became fully articulate.

Thus, with respect at least to its substantive aspects, there was nothing especially novel about the premium gold controversy nor did it contribute any significant new insights into the economics of gold. Rather, it was a fairly typical example of the disagreements over economic ways and means so characteristic of the mid-twentieth century. But there was, nevertheless, one aspect of the controversy that was noteworthy. This was the extent to which the abstract theoretical issues seemed of real importance in influencing the positions taken by virtually all of the participants and were so clearly recognized by them as major considerations. This characteristic owed in part to the fact that all discussions of the economics of gold involved considerations of economic theory and in part to the fact that most of the executive directors and members of the staff were bankers and economists rather than politicians. It was made possible largely because most of the controversy was conducted in private, behind the closed doors of the Fund. The participants firmly believed in the economic theories which they defended and, except for the staff, clung to them to the end.

3. The Beginning of the Controversy

ALTHOUGH THE FUND's gold policy was fully formulated by the late spring of 1947, more than a year elapsed before any member openly proposed to enter the premium gold market. To understand why this did not happen sooner, it is necessary to examine in some detail the developments which eventually impelled the South African government to engage in premium gold transactions.

South Africa's Postwar Problems

The Union of South Africa had been the largest producer of gold (almost fifty percent of world output), and for many years gold had been its chief export.[12] Consequently, both the gold mining industry—the most influential business group within South Africa—and the South African government itself had always been deeply interested in world gold policy. In particular, the ratio between gold and national currencies was of vital concern to them. Costs of gold mining, including capital equipment as well as operating expenses and fixed charges, had to be paid in currency, and the profitability of gold mining depended directly upon the amount of currency which the

12 See the table at the end for world production of gold.

output of the mines could command. Similarly, the price of gold was a major factor in determining whether South Africa would earn enough foreign exchange to pay for its imports.

If the price of gold in national currencies rose, then gold mining would be more profitable, output would increase, South Africa's foreign exchange earnings would be augmented, and each unit of exported gold would buy a correspondingly larger quantity of imports, provided the prices of these imports had not risen to the same extent as the price of gold. The contrary situations occurred when the price of gold remained fixed while commodity prices rose, or when—an unlikely possibility—the price of gold fell faster than the prices of imported commodities. If the gold price was high relative to other commodity prices, South Africa's terms of trade were said to be favorable; if low relative to other prices, the terms of trade were unfavorable.

During the depression of the 1930s, the price of gold was raised in terms of currencies. The prices of commodities fell. In consequence, during the 1930s and early 1940s, gold mining was very profitable, output was high, and South Africa's terms of trade with the rest of the world were very favorable. It was not until the end of World War II that the upward movement of world commodity prices was sufficient to offset this former price advantage of gold and to turn the terms of trade against South Africa. The adverse effect on South Africa's balance of payments was enhanced by a decline in its gold production during the war owing to the scarcity of capital equipment, most of which was traditionally imported from the United Kingdom and the United States.

Although world commodity prices continued to rise after the war, and South Africa's terms of trade became increasingly unfavorable, the effects of these developments were not immediately felt, owing to South Africa's large wartime accumulation of gold and hard currencies. During the war, many customary imports were unobtainable, while such raw materials as South Africa produced in addition to gold—wool, nonferrous metals, industrial diamonds, hides and skins and the like—were exported to the United States and United Kingdom at rising prices and in growing volumes. In consequence, South Africa built up large holdings of dollars and of sterling which, during the immediate postwar years, furnished the means for financing a balance-of-payments deficit once imports became available again and the pent-up wartime demand for them could be satisfied. Also, large amounts of sterling were moved from the United Kingdom to South Africa by investors who wished to escape the actual or anticipated tax burdens of the British Labour Party's economic and social program. These capital funds served to augment the South African government's disposable foreign exchange assets but, at the same time, they further increased domestic purchasing power and the demand for commodity imports.

These large gold and foreign exchange holdings enabled the South African government to ignore for a time its balance-of-payments deficit and its increasingly unfavorable terms of trade. Also, the Nationalist Party—recently elected to office (May 1948) and anxious not to impair its popularity before its domestic political program was achieved—was reluctant to interfere with the import boom by adopting drastic measures to bring its international payments into balance with its current earnings. By the summer of 1948, however, the gold, dollar, and disposable sterling reserves were so seriously depleted that the government could no longer ignore the situation and was forced to take measures to correct it. Curbs were considered to check internal inflation; restrictions were placed on the import of commodities which could only be purchased with hard currencies; and attempts were made to stimulate exports capable of earning hard currencies.

As part of the effort to balance its international accounts, the South African government took a new interest in South Africa's unfavorable terms of trade, the chief element in which was the fixed price of its gold exports in relation to the rising prices of its imports. Here the interests of the government and of the private gold producers coincided. A higher price for gold in terms of national currencies would mean more South African pounds per unit of gold output to help the miners meet the rising costs of production and more hard currency earnings per unit of gold exported to help the South African government meet the rising cost of imports. Under pressure from the gold mining industry as well as on its own account, the South African government turned its attention to ways and means of realizing

a larger currency return for its gold production and exports.

At the Bretton Woods conference and during the early stages of the Fund's operations, the South African representatives had already taken the position that the official price of gold was unduly low in terms of world commodity price levels and should be raised considerably above $35 an ounce. However, there was little support for this view at the time, and, because of its then sizable hard currency and sterling reserves, the South African government had not pressed it vigorously. Most of the Fund's members felt that the validity of the existing official gold price could not be determined until the end of the postwar reconstruction and readjustment period, when commodity prices might once again become stabilized. With postwar inflation still continuing during the first half of 1948, the South African government recognized that it would probably be futile to attempt to induce the Fund to change the official price of gold. Since relief could not be obtained by raising the official gold price, it was only natural that the South African government should investigate the "unofficial" gold market, where the price was already higher.

South Africa Plans a Premium Transaction

Accordingly, during the summer of 1948, the South African government explored the possibilities of entering the premium gold market. It became interested in a proposition made to it by a leading British firm of private gold dealers, Mocatta & Goldsmid. Under this proposal, the South African Mint would sell for export a limited quantity of newly mined semi-processed[13] gold to Moccata & Goldsmid at prices well in excess of $35 an ounce. The gold would be paid for in dollars and would be in the form usually purchased by jewelers and others using gold for legitimate industrial and artistic purposes. Presumably Moccata & Goldsmid would be required to make some sort of commitment that the gold would be resold only for such nonmonetary end-uses.

This proposition was sufficiently attractive both to the gold producers and to the South African government to warrant serious consideration. Without doubt, one of the main questions about the proposed transaction in the minds of South African officials was the nature of the Fund's reaction to it. Since the gold was to be sold to a private dealer in London and was ostensibly to be resold by the purchaser only for legitimate nonmonetary uses, its sale at a premium price would not be an overt violation of South Africa's commitments under the Articles of Agreement or of the strict letter of the gold policy statement of June 1947. But, as their subsequent actions indicated, South African officials were aware that it might well be considered a violation of the intent of the gold policy and would undoubtedly arouse considerable hostility among certain leading members of the Fund.

The Fund's reaction to the proposed transaction was particularly important to the South African government in the summer of 1948, because South Africa was at the same time considering an application to the Fund for financial assistance. Although curbs against dollar imports were being imposed, South Africa's dollar reserves were by then so low that serious consequences might result unless South Africa could draw dollars from the Fund within the near future. Also, it was possible that the Fund might regard the restrictions against dollar imports as too discriminatory and, therefore, in violation of the Fund's Articles of Agreement and of the concessions made by South Africa under the General Agreement on Trade and Tariffs (GATT). This possibility alone might prejudice South Africa's chances of obtaining the necessary financial assistance.

In the circumstances, it was difficult for the South African government to define the proper course of action. If it disregarded the Fund in the matter of the proposed premium gold sale, it might be accused of lack of co-operation and might not obtain the aid it desired. If the South Africans asked the Fund's permission before signing the contract with Moccata & Goldsmid, they might be turned down, and, in any case, their action would be interpreted as a formal recognition of the Fund's jurisdiction over premium gold transactions of the type contemplated.

There were many possible ways in which this difficulty could be handled and only a few of the more obvious are suggested here. The South

[13] By semi-processed gold is meant refined gold in the form of bars, plate, strip, sheet, and wire.

African government could, for example, wait until after the Fund had approved its request for financial assistance before bringing up the subject of the premium gold transaction. But there was no telling how long the Fund's consideration of the aid application might take or what the outcome would be. Or, the South African government might sign the contract with Mocatta & Goldsmid and notify the Fund afterwards. This course of action was, however, likely to be interpreted by the Fund as presenting it with a *fait accompli.*

South Africa Proposes

In the end, what the South African government did was to notify the Fund that it was considering entering into a premium gold transaction and to request the Fund's comments on it. The South Africans did not specifically ask approval of the proposed transaction and thus avoided the danger of prejudicing their legal right to engage in premium gold sales.

This technique of requesting the Fund to express its views on the proposed transaction was buttressed in a number of ways designed to impress the Fund with South Africa's consideration for it but at the same time to preserve South Africa's legal rights and essential freedom of action. The forthcoming annual meeting of the Fund's board of governors, in September 1948, was believed to provide a suitable occasion for informing the organization of the premium gold proposal. South African representatives would be in Washington for the meeting, thus lending importance to their government's action in notifying the Fund while at the same time being present to defend the projected transaction in person. It was also thought desirable to give the Fund an opportunity to study the proposal in advance of the meeting, and a letter was drafted for transmittal to the Fund at the end of August. However, this document was not in the form of an official communication from the South African government to the Fund. Instead, it was a letter from the South African Ministry of Finance to the Governor of the Reserve Bank of South Africa, Dr. M. H. DeKock, who was the country's representative on the Fund's board of governors. As an internal document of the South African government, it conveyed the necessary information and tended to give the reader the impression that the South African government had nothing to hide; but, since it was not an official communication between a member government and the Fund, it did not commit South Africa to anything vis-à-vis the Fund.

As was intended, DeKock sent the letter to the Netherlands' executive director who at the time was also representing South Africa. Along with the letter he sent a request that the Netherlands' representative distribute copies of it to the other members of the executive board and to the staff of the Fund. This the executive director did at the beginning of September with a notification that DeKock would appear in person at the Fund to discuss the proposed transaction at the end of the month.

The letter of the South African Finance Ministry was worded with considerable care to avoid the opposite dangers of appearing to recognize the Fund's authority, on the one hand, and of disregarding the Fund's sensibilities on the other. In form, it was an instruction to DeKock to notify the Fund of the proposed premium sale and to request the Fund's views on the subject. Hence, it gave only the briefest account of the details of the proposed transaction—with which DeKock was presumably already familiar—but stressed the benefit to South Africa's dollar position which would result therefrom. At greater length, the letter pointed out the difficulties faced by South Africa, the world's largest gold producer, as a result of the fact that South Africa had hitherto sold all its newly mined gold at the official price of $35 an ounce, while other countries—admittedly most of them not members of the Fund—were enjoying the profits of premium sales. In all fairness to its own producers, the South African government felt that it could not continue to deprive them of like advantages unless it proved possible for the Fund to eliminate the existing disparity between the official gold price and the premium market. The letter concluded with a cautiously phrased reference to South Africa's desire to give the Fund an opportunity to express its views on the proposed transaction before final consideration was given to it by the South African government.

As an internal South African government document, the letter was naturally friendly and forthright. Nevertheless, it gave the impression that

the government believed that it was the Fund's failure to raise the official gold price and thereby to eliminate the premium market which was mainly responsible for forcing the government to accede to the demands of its gold producers. This line of argument appeared to put the Fund on the defensive and gave the impression that the South African government was merely yielding to great pressure from an influential private interest group rather than considering the proposed transaction on its own initiative. While the letter stressed South Africa's compliance with its obligations under the Articles of Agreement, it nowhere stated or implied any recognition of the Fund's right to review the proposed premium sale. Indeed, it carefully pointed out that transactions of this kind were outside the scope of the Articles of Agreement. While the letter explicitly recognized that the Fund had an interest in such transactions, it implied that its interest was an advisory one.

On the whole, it is fair to say that the method of approach to the Fund adopted by the South Africans made skillful use of the recognized tools and devices of contemporary diplomacy, with one possible exception. This was the extreme scantiness of the letter with respect to the details of the proposed premium gold transaction. It may be that South African officials hoped to avoid precipitating arguments with the Fund over details and to keep the discussion on the plane of general policy. Whatever the reason, this omission was remarked by members of the executive board and the staff of the Fund.

The Fund Tries to Dispose

Fund officials immediately recognized the South African letter as an important communication and handled it in accordance with the customary procedure for dealing with major policy questions. This involved the preparation of an analysis of the South African proposal by the legal and economic branches of the staff and the formulation by them of a suggested position which the executive board might take in any reply it chose to send. This procedure had advantages for the members of the executive board because it facilitated their work, but it also gave the staff an opportunity to set the tone of the subsequent debate and to determine, at least initially, the terms within which the problem would be discussed. The opportunity to make its views effective in this way was especially important to the staff, because it was customary for only the Managing Director—and occasionally the heads of the legal and economic branches of the staff—to speak at board meetings and to participate actively in the discussions of the executive directors.

As the staff members went about preparing their analyses and the position paper, they were convinced that they were rendering an impartial, professional judgment on the matter before the executive board. And so, in the main, they were. The professional competence of the members of the staff was high and their personal integrity beyond question. But they were also bound by the gold policy of the Fund as it had been developed over the preceding years and naturally judged the South African proposal in terms of its consistency with that policy. Furthermore, some of the senior staff members were American and British, in certain cases former officials of the financial agencies of their native countries. They were fully aware of the official positions and institutional prejudices of the two member countries which between them controlled almost a majority of the votes in the executive board. In the circumstances, therefore, it is not surprising that the staff's reasoning and conclusions were so close to those of the two major members. At the same time, the staff was concerned for the prestige and international character of the Fund; it desired to play a mediating role between the Fund and South Africa and to prevent, if possible, the outbreak of a serious disagreement. Thus, in undertaking its work, the staff had definite terms of reference, however implicit these may have been.

The staff was hampered in its analytical work by the fact that it knew nothing about the proposed premium gold transaction beyond the scanty information contained in the South African letter. Nevertheless, within a fortnight the staff produced and distributed to the executive directors a short memorandum which reviewed the relevant sections of the Articles of Agreement and the Fund's gold policy statement of June 1947; outlined the actions which the United States and the United Kingdom had subsequently taken to comply with the Fund's gold policy; and explained the position on the South African pro-

posal which the staff felt the Fund should adopt.

The staff concluded that the kind of transaction contemplated by South Africa was covered by the Articles of Agreement and was within the scope of the gold policy statement of June 1947. Its reasoning on this point was rather subtle. The staff agreed with the South African government that the Fund's policy did not apply to transactions in gold which was to be used for industrial, artistic, or professional purposes. But, it argued, the mere fact that gold was to be sold in a form customarily used for these purposes was not in itself sufficient assurance that the gold would not be resold for monetary purposes, that is, for private hoarding. On the contrary, the willingness of the purchaser to pay a premium price for the gold was prima facie evidence that the gold was intended for illegitimate monetary purposes, since anyone who could give the necessary assurances about legitimate end-use could buy gold at the United States and British treasuries at the lower official price. Therefore the staff concluded that the Fund's gold policy did apply to the proposed transaction and that the South African government was obligated to ensure that gold sold at premium prices would not be used for monetary purposes and would only be used for industrial, artistic, and professional purposes. It suggested that South Africa be requested to adopt restrictions on the sale of gold as stringent as those enforced by the United States and the United Kingdom, in order to prevent the diversion of gold to private hoarding.

The staff did not assert the Fund's right to approve or disapprove the proposed transaction, nor did it suggest that South Africa be requested to abandon its proposal. Rather, it attempted to achieve the same result by attaching conditions to the transaction which would, it was assumed, make South Africa unable to obtain a premium price for its gold. If South Africa exacted the same assurances about resale and end-use from a private purchaser as did the United States and the United Kingdom, there was no reason why a private purchaser should pay a premium for South African gold when he could obtain gold at the official price from the United States or the United Kingdom. The staff's recommendation, therefore, neatly sidestepped the thorniest issues of the Fund's jurisdiction and at the same time placed South Africa in the difficult position of appearing reluctant to implement an approved Fund policy designed to prevent the diversion of gold to private hoarding. The staff also made no mention of South Africa's implied contention that the Fund's gold policy was mainly responsible for the existence of the premium market.

The Executive Board's First Discussion

Shortly after the distribution of the staff's paper, the executive board decided to have a preliminary discussion of the South African proposal, even though DeKock had not yet arrived in Washington. It took up the question on September 24. The viewpoints expressed at this meeting foreshadowed the division of opinion which was to persist throughout the controversy. The United States and British executive directors, who were always the chief spokesmen of the majority view, outlined the positions they were to maintain without fundamental change for the next two years. Although the minority opinions were not yet fully crystallized and articulate, the continental European executive directors indicated by their questions and doubts the direction in which their thinking was already tending. This first meeting set the tone for the entire controversy.

The discussion was opened by the United States executive director, who warmly defended the Fund's gold policy and urged the adoption of the staff's recommendations as to the position which the Fund should take on South Africa's premium sale proposal. The most vigorous statement, however, was made by the British executive director. Although the South African letter contained no information on the amounts of gold to be sold at premium prices, the British representative said that he understood a substantial portion of South Africa's total gold production would be involved in the sale.[14] The large dollar profits of such a transaction would enable South Africa to ease its balance-of-payments difficulties in a manner which would impose no hardships on South Africa but would seriously threaten the stability of other members' currencies. In his view, the proper way

[14] Although before the controversy was over South Africa's premium gold sales did in fact grow to large proportions, at the time the British representative spoke, the South African government was apparently contemplating a premium sale of only 100,000 ounces out of a total annual production of over 11,500,000 ounces.

for South Africa to overcome its balance-of-payments deficit would be by imposing admittedly unpopular measures for suppressing internal inflation, dampening down import demand, and encouraging increases in commodity exports which would earn hard currencies. In conclusion, he served notice that if the Fund permitted South Africa to go ahead with its contemplated premium gold sale, the United Kingdom would have to reconsider its own gold policies and might have to relax its controls over gold sales.

While these views reflected the British executive director's economic opinions, they were by no means only a personal expression and they revealed what was the chief factor determining the United Kingdom's position throughout the controversy—a deep concern to protect the pound sterling. However, his mode of presenting these views deserves some comment. He gave the impression of having more information about the quantities of gold involved in the proposed premium transaction than either the Fund or any of its other members possessed. To Americans and others accustomed to dealing with British officials in the immediate postwar period, this indication of omniscience was familiar. More often than not, the British did know more about a particular economic development than anyone else because British commercial and financial intelligence was then still the best in the world. It would be difficult to assume, therefore, that the British executive director was unaware that his remark about the magnitude of South Africa's contemplated transaction would be viewed with alarm by other members of the executive board. It would also be difficult to assume that he was unaware that he was adding to this alarm by intimating that the United Kingdom would be forced to relax its own gold controls if South Africa were permitted to go through with its proposal. The possibility that the British government would in fact do so was highly unlikely in view of its firm conviction that a freer gold market would adversely affect the stability of sterling. However, the British director's statement did not necessarily commit the British government to take the action he implied. As a sovereign government it was always at liberty to reconsider its policy.

The British were in a difficult position with respect to the South African proposal. They were convinced that the stability of the pound sterling required the suppression of the premium gold market; yet they were by no means desirous of antagonizing the South Africans unnecessarily by leading the fight in the Fund against the proposal. South Africa was a fellow member of the Commonwealth of Nations but, under its new Nationalist government, was already far too deeply embroiled with the United Kingdom on many delicate and highly important political and economic problems for the British to add a new grievance to the existing issues. Consequently the British representatives at the Fund may have hoped that other members could be induced to lead the fight against South Africa despite the fact that they themselves probably had more at stake in the controversy than anyone else.

A number of continental European directors also spoke at the meeting, but they confined themselves largely to questioning some of the reasoning of the United States and British directors and as yet did not present a developed and consistent viewpoint of their own. A doubt was expressed as to whether, in such politically and economically unsettled times, controls could ever suppress the private hoarding of gold. One director queried whether it might not be better to allow free gold sales again in the hope that market factors might eventually bridge the disparity between the official par values and the existing premium price. Such a policy, he thought, might in the long run prove less apt to undermine the stability of national currencies than the maintenance of ineffective controls.

No attempt was made to reach conclusions at the September 24 meeting, whose chief purpose was to acquaint the executive directors with each others' views. National representatives could now communicate the opinions expressed by others to their own governments, which would have an opportunity to reconsider their own positions in the light of the discussion and to send new or revised instructions to their executive directors if they so desired. The major countries were, however, unlikely to make any fundamental changes in the positions which their representatives had already expressed at the meeting. Their views were largely institutional and, therefore, were not susceptible to modification at short notice nor apt to be much affected by the opinions of the smaller members of the Fund. Hence, although the meeting reached no conclusion, it was already

evident that there was at least a partial crystallization of national positions.

The Meeting with DeKock

The main discussion of the South African proposal by the executive board was scheduled for October 4. By that date, DeKock had arrived in Washington and was able to attend the meeting. He opened the discussion by presenting an outline of the reasons which had impelled the South African government to give serious consideration to the premium gold transaction proposed by Mocatta & Goldsmid. Undoubtedly having also in mind South Africa's forthcoming request for financial assistance from the Fund, he portrayed South Africa as the victim of adverse world economic developments beyond its control and, therefore, justified in taking such measures as it could to alleviate its situation. He laid particular stress on the difficulties created for South Africa by its increasingly unfavorable terms of trade, which resulted mainly from the fixed price of its chief export, gold, and the rising prices of its imports. DeKock may have read the staff memorandum, or at least have been aware of the staff recommendations regarding the position which the Fund should take on the South African proposal, for he concluded his remarks by assuring the Board (for the first time) that adequate safeguards were provided against abuses by virtue of the fact that the amount of gold involved was not large and that the parties to the transaction would be a responsible government agency, the South African Mint, and a very reputable London gold dealer long established in the business. Beyond this, however, he gave no details of the safeguards nor did he give any figures on the amount of gold which South Africa proposed to sell at a premium.

The United States executive director made a sharp retort to DeKock along the lines of the position recommended by the staff, which coincided with the American view. He felt that anyone who was willing to pay a premium price for gold obviously wanted it for illegitimate purposes, because a purchaser could obtain all he needed at the official price if he could give the proper assurances about legitimate end-use. The United States director asserted that the United States and the United Kingdom were already meeting all of the legitimate demand for nonmonetary gold at the official price and hence there was no need for premium sales for this purpose by South Africa.

In reply, DeKock questioned the United States director's definition of "legitimate" demand. He pointed out that both the United States and the United Kingdom based their allocations of gold for industrial, artistic, and professional purposes on the volume of sales in the prewar period. This, he maintained, was not a good guide to the size of the legitimate postwar demand for nonmonetary purposes since industrial activity was at a much higher level and consumer expenditures for jewelry, objets d'art, and dental services were greater than before the war. Furthermore, he objected, United States and British restrictions on nonmonetary sales of gold were now so severe and imposed such far-reaching legal obligations on the legitimate purchaser as to discourage him from buying at the official price and to make him willing to buy in the premium market despite the higher price. In DeKock's view, therefore, a purchaser was frequently willing to pay the premium not because he wanted gold for illegitimate purposes but because he was reluctant to assume the legal responsibilities entailed by purchases at the official price under existing United States and British regulations and because he was unable to obtain from official sources amounts larger than those he bought before the war.

After answering a number of minor questions from other executive directors, DeKock left the meeting, and the subsequent discussion was limited to regular members of the board. The Dutch executive director now assumed the defense of South Africa's case, since he was responsible for representing South Africa on the executive board.

The subsequent discussion turned principally on two questions: the disputed definition of legitimate nonmonetary demand for gold and the probable effects of the proposed premium sales on the stability of national currencies. On the first point, the Dutch executive director and a number of other European directors argued that any definition of legitimate demand was open to question and there was, consequently, a good deal of merit to the South African contention that the definition should be broadened and the controls over end-use made more general. As it was, the controls were so detailed and specific and the pressure on them so great that the entire system threatened to break down. This would do far more harm to

the stability of currencies than would approval by the Fund of the South African proposal. In essence, these directors were arguing that a detailed system of specific controls was in present circumstances unenforceable and should, therefore, be partially relaxed to allow for some measure of regulation by price incentives and other market forces.

The majority, led by the United States and British executive directors, vigorously rejected this argument. The United States representative reiterated his conviction that the gold to be sold by South Africa would eventually find its way into private hoards and that South Africa must, therefore, be asked to adopt the same controls over its end-use as were enforced by the United States and British governments. Personally, he favored disapproval by the Fund of the whole proposal.

On the second point—the effects of premium sales on currency stability—the strongest position was taken by the British alternate executive director. He argued that approval of the South African proposal would not only make a serious "hole in the dike" of the Fund's gold policy but would also undermine the Fund's exchange stabilization policy. If large amounts of gold were made available by South Africa directly or indirectly for private hoarding, there was bound to be a flight from certain currencies, as well as a serious distortion of trade patterns which would further weaken national currencies. Some of the European directors were skeptical that such dire consequences would ensue from the proposed premium sale. One of them expressed the view that, by discouraging gold production, the fixed official price for gold was probably more injurious to the stability of currencies than was the premium market.

In response to a question, the staff member in charge of the legal branch urged the board not to base the Fund's position on the legal issues involved. According to his interpretation, it would be difficult to prove that the South African proposal would violate the Articles of Agreement before actual sales took place and the ultimate use of the gold could be determined. Since South Africa intended to sell the gold for nonmonetary purposes, it was, strictly speaking, within its rights in doing so until there was clear evidence that the gold was actually being used for other purposes. Consequently, at this stage, the Fund would be in a stronger position if it insisted upon the adoption of adequate safeguards by South Africa rather than upon the legal issues involved.

No formal vote was taken, but it was apparent to everyone present where the consensus lay. Because of the weighted voting, the United States and the United Kingdom together with only a few of the smaller countries had sufficient votes to constitute a majority of the executive board. Throughout the discussion, enough smaller country representatives had sided with the United States and British executive directors to ensure a sizable majority for their viewpoint. It was customary in the executive board when a situation of this kind arose not to undertake the formality of voting unless a member demanded it for the record. Accordingly, the staff was instructed to prepare for the next meeting of the board a draft reply to South Africa which would represent the viewpoint of the majority.

The Fund's Reply

Next day, October 5, the board met again to consider the draft letter to South Africa prepared by the staff. The staff's draft letter was in effect a restatement of the position it had recommended in its original memorandum. Aside from reiterating that the type of premium transaction contemplated by South Africa was within the scope of the Fund's gold policy statement of June 1947, the draft letter avoided legal issues entirely. Nor did it openly address itself to the question of whether the Fund approved or disapproved of the proposed sale. Instead, it expressed the Fund's fear that, if the transaction were on a sufficiently large scale, the inevitable consequence would be an increase in the diversion of gold to private hoarding. It went on to urge South Africa, if it decided to engage in the proposed transaction, to take effective measures to ensure that gold sold in this way would not be diverted to illegitimate purposes and, in that connection, merely called attention to the kind of measures taken by the United States and the United Kingdom to prevent such a result.

The draft letter was as mild in tone and content as it could be and still conform with the views of the majority. In drafting the letter, the staff faced various problems and tried to satisfy

certain conflicting objectives. As to the substance of the position expressed in the letter, not only did the staff agree with the majority but it was in any case bound by the majority's views. But with respect to the tone of the letter and the tactics to be employed vis-à-vis the South Africans, the staff tried to carry out a mediatory role. In consequence, the staff's draft could be called a "minimum" reply to the South African government, for it expressed the Fund's misgivings about the proposed premium transaction but imposed no conditions on the South Africans. In effect, it merely put the Fund on record as warning against possible adverse consequences of the transaction and left South Africa complete freedom to take preventive measures or not as it deemed fit. If South Africa of its own accord adopted safeguards like those of the United States and the United Kingdom, well and good. The Fund, if it wished, could take credit for having given South Africa good advice. If, on the contrary, South Africa did not institute effective control measures and the adverse consequences actually ensued, then there would be clear evidence of a violation of the Fund's gold policy and the matter could be reopened with South Africa with the Fund being on much stronger ground. Either way, the Fund at this stage would not appear to be dictating conditions to South Africa nor to be interfering with the South African government's freedom of action. Such a politic reply would also leave the Fund complete freedom of action for the future because it would not commit the Fund to any specific line of action towards South Africa prior to the actual premium transaction.

This approach was not satisfactory to the United States and British directors, who felt it was an expression of weakness and a shirking of the Fund's responsibilities. They recognized the inadvisability of flatly disapproving the South African proposal in view of the legal uncertainty of the Fund's right to do so, the lack of unanimity in the executive board, and the possibility that South Africa might defy the Fund's decision. But they felt that the Fund must at least state clearly and positively the conditions under which it would not object to the proposed premium sale, and that it must put the South African government on notice of the Fund's expectation that South Africa would continue to support its gold and currency stabilization policies. They therefore inserted several new sentences which, in addition to calling the South Africans' attention to the control measures enforced by the United States and the United Kingdom, stated that the Fund trusted that South Africa would adopt similar measures, would continue to support the Fund's gold policy, and would collaborate with the Fund's efforts to promote currency stability. These new sentences for the first time inserted some teeth into the letter.

The revised letter was a good deal less satisfactory to the minority directors than the staff's draft, and they attempted to delay its transmission to South Africa by proposing that the staff make a thorough study of the premium gold market and that the Fund have a thorough review of its gold policy before any reply was sent. This proposal was unacceptable to the majority. In consequence, the letter was signed by the Managing Director as chairman of the board and dispatched to South Africa on the same day as the meeting.

The minority directors made it clear that they preferred the staff's draft, for they apparently shared the staff's reluctance to expose the Fund to the possibility of an open conflict with South Africa which in the long run might be far more harmful to the organization's prestige than a weak reply. More important, however, they were beginning to have genuine doubts about the wisdom of the Fund's gold policy, and their proposal that a thorough study be made before a reply was sent represented a desire for information and not a mere delaying tactic.

4. South Africa Challenges the Fund

THE FUND'S REPLY to the South African government was dispatched on October 5, 1948, and during the next four months nothing further was heard from South Africa on the subject of premium gold transactions. Meantime, the South African government presented its request to the Fund for financial assistance. This request was finally granted by the executive board, but not before a number of directors had criticized what they regarded as a failure on the part of the South African government adequately to suppress domestic inflation and cut down import demand. Also, the executive board discussed on several occasions the question of whether South Africa's new import and exchange controls were unduly discriminatory and, therefore, in violation of the Articles of Agreement and of the GATT. Though South Africa was criticized on this account as well, the executive board eventually decided not to object to these restrictions. Thus, during the winter of 1948-49, South Africa was able to settle two other important issues with the Fund to its own satisfaction, and relations between the Fund and the South African government were, on the whole, normally friendly.

The Issue Is Joined

The Fund's letter of October 5, 1948 had neither required nor invited further correspondence, nor had it requested information on the details of the proposed premium transaction. These omissions may very well have been an oversight. The letter had been drafted in some haste by the staff, revised at the meeting by the executive board, and dispatched immediately after the conclusion of the session. But the omissions may also have represented a deliberate attempt to convey the impression to the South Africans that the Fund considered the matter closed. The majority and the staff may have expected the South Africans to abandon all thought of entering the premium market, in view of the restrictive conditions attached by the Fund to the contemplated transaction or to consult the Fund further before signing the contract. Support for this interpretation is provided by the considerable shock and surprise with which, on Saturday morning, February 5, 1949, the executive board and staff learned (in a communication from the South African Embassy in Washington to the Managing Director of the Fund) that the South African government had signed a premium sales contract with Mocatta & Goldsmid, the details of which would be publicly announced on the following Monday morning in South Africa. According to the Embassy's letter, the South African government had contracted to sell a total of 100,000 fine ounces of gold over a period of eight weeks at $38.20 per fine ounce, payable in United States dollars. Similar sales were contemplated in the future but each would require a separate negotiation and contract. It was understood between the contracting parties that the gold was to be used for customary industrial, artistic, and professional purposes.[15]

In the light of South Africa's total gold production—over 11,500,000 fine ounces in 1948—the 100,000 ounces to be exported at premium prices under this contract seemed infinitesimal. But compared with the amounts exported by the United States for permitted nonmonetary purposes—only 1,500 ounces per month during 1948—the premium transaction of 50,000 ounces per month for two months was huge. One of the reasons why both the executive board and the staff were so shocked at South Africa's action was that they immediately made the latter rather than the former comparison. More importantly, however,

[15] Evidently, Mocatta & Goldsmid intended to hold and to resell the gold in ways and places which would not bring it under the legal control of the United Kingdom authorities. This was intimated by the British executive director, who complained, in response to a question at the subsequent board meeting, that the British government had no legal power to prevent the purchaser from signing the contract, even though Mocatta & Goldsmid was a British firm.

their shock and surprise arose from the fact that, after having said nothing to them about the contemplated premium transaction for four months, the South African government chose to sign the contract before informing the Fund and to announce the details publicly before the Fund had an opportunity to ascertain whether the contract conformed to the conditions laid down in its letter of October 5, 1948.

Why South Africa informed the Fund of the contract when it did, or why in fact the South Africans chose to notify the Fund at all, is hard to explain. In the subsequent executive board discussions of South Africa's action, it was brought out by the Australian executive director (who had obtained South Africa's votes at the board election the previous fall) that the South Africans believed they were under no obligation to consult the Fund again. Far from having ignored the Fund, as other directors maintained, he asserted that the South Africans had shown good faith and consideration by notifying the Fund so promptly of the signing of the contract. Whatever interpretation may rightfully be put upon South Africa's action, however, it is clear from their subsequent behavior that the majority of the executive board and the staff viewed this latest development in a highly unfavorable light.

For a variety of reasons, it proved impossible to convene the executive board before Thursday morning, February 10. Thus almost a week elapsed between the receipt of the news from South Africa and the board meeting. During this period there was much private discussion among directors and members of the staff, mainly of an indignant nature. So aroused were the British by South Africa's *fait accompli* that—contrary to their usual practice—they circulated a strongly worded paper to the effect that, unless South Africa immediately incorporated the necessary safeguards in the contract, the United Kingdom would have to consider throwing open the London market to unlimited gold sales. The Australian executive director transmitted this British paper to South Africa and, before the meeting on February 10, he had an answer from the South African government. In reply to the British paper, the South Africans stated their belief that arrangements for the sale included proper safeguards because the purchaser was a reputable London dealer, the sales were for dollars, and an understanding had been reached between the parties to the contract over the end-use of the gold. The South African government concluded its reply by serving notice that it would abolish all restrictions on gold sales and exports if the United Kingdom opened the London gold market to unlimited trading. In this battle of diplomatic threats, the British undoubtedly had the most to lose and, since by then nobody seriously believed that the British would in fact abolish their restrictions on private trading in gold, their "ultimatum" (as it was called by some executive directors) was generally disregarded.

The staff, too, was sufficiently indignant to circulate a strongly worded memorandum prior to the board meeting, although the draft reply to South Africa appended to it was conciliatory. The staff memorandum called attention to the disparity between the amounts of gold to be exported at a premium by South Africa and the amounts normally exported for permitted nonmonetary purposes by the United States and the United Kingdom. It reiterated the view that the willingness of the purchaser to pay a premium was prima facie evidence that most, if not all, of the gold would eventually find its way into private hoards. Finally, it implied that, according to the information supplied by South Africa, the contract did not contain the kind of safeguards required by the Fund's October 5 letter. The staff urged the executive board to recommend to all members that they refuse to export gold unless the government of the country of destination specifically certified that its gold imports would be used for customary industrial, artistic, and professional purposes.

The draft letter to South Africa attached to the staff memorandum did not, however, mention this recommendation, which, if adopted, would apply to all members and would be sent to all of them in a general circular letter like the June 1947 gold policy statement. The draft reply merely stated the Fund's belief that the safeguards which appeared to be provided in the South African contract would prove insufficient to prevent abuses; it asked the South African government to consult with the Fund before additional sales were made. Unlike the October 5 letter, this draft reply did ask South Africa to

consult with the Fund again but, like its predecessor, it made no request for additional information on the details of the premium gold transaction.

The Fund Considers Action

When it assembled on Thursday morning, February 10, the executive board had four documents before it: South Africa's original letter notifying the Fund of the signing of the contract, the British paper, the South African reply to it, and the staff's memorandum including a draft answer to South Africa. Two representatives from the South African Embassy in Washington attended the meeting as observers. Camille Gutt, the Managing Director of the Fund, opened the session with an account of the events of the preceding week in which he called attention to the South African government's "lack of consideration" for the Fund. He complained that South Africa had notified the Fund of its action on Saturday, a nonbusiness day, and had hastened to make a public announcement of its own position as quickly as possible.

The United Kingdom's alternate executive director then commented on the British paper which had been distributed earlier in the week. He denied that the British government had intended to issue an ultimatum when it threatened to reopen the London market to unlimited gold transactions, and he explained that the only purpose of the British paper was to make the position of his government unmistakably clear. He then strongly attacked South Africa's action and urged the board to take steps to have the contract canceled.

The defense of South Africa's action fell to the Australian director, because the two representatives from the South African Embassy were present at the board meeting only in the status of observers. The Australian repeated the substance of the South African government's reply to the British paper and emphasized that the contract had already been signed in good faith by both contracting parties. Under its interpretation of the Fund's October 5 letter, the South African government was convinced that it had complied with the conditions specified by the Fund and that it was within its rights in signing the contract without further consultation with the Fund. Consequently, the South African government's letter of the previous week was a gesture of good will intended to notify the Fund of its action and not to initiate new consultations with the Fund.

The United States alternate executive director refused to accept the South African government's justification of its actions. While he recognized South Africa's right to participate in legitimate gold sales, he did not believe the sale covered by the contract was legitimate, since it did not appear to provide adequate safeguards against abuses. He repeated at some length the now familiar majority and staff view that the willingness of a purchaser to pay a premium was prima facie evidence that the gold would be diverted to illegitimate purposes. In this, he was strongly supported by the Canadian alternate executive director.

The minority view was outlined by the French executive director. He expressed considerable skepticism that the United States and the United Kingdom could give any convincing proof that they were now supplying all the legitimate nonmonetary demand for gold at the official price. On the contrary, he felt that beyond the narrowly restricted trade allowed by United States and British regulations there was an area of legitimate demand for nonmonetary gold which had hitherto not been satisfied by these sources. Another minority director ventured the opinion that this unsatisfied legitimate demand probably came in large part from new firms not recognized by the United States and British regulations, which were based on prewar trade patterns and volumes.

After a long and inconclusive discussion of alternative definitions of legitimate demand, the South African representatives were asked to leave the meeting and the Board began consideration of possible courses of action. The United States and British directors felt strongly that South Africa must be asked to cancel the contract with Mocatta & Goldsmid. This possibility had not even been suggested in the staff memorandum, much less in its draft reply to South Africa, and it was vigorously opposed by the Australian director. In his view, South Africa had acted in good faith, was justified in believing that it had complied with the conditions in the Fund's October 5 letter, and had made a legally binding contract with a foreign firm which it could not rightfully repudiate or postpone. Nor did he feel that the Fund had the right to request South Africa to cancel the contract. All that the Fund could do was to request South Africa to consult before additional

contracts were made and meanwhile to ensure that the stated intentions of the contracting parties to prevent abuses were faithfully carried out.

Several minority directors supported this view, and the staff, too, appeared reluctant to have the Fund take as extreme a position as the majority desired. At length the majority agreed to an important concession. Instead of requesting cancellation of the contract, the letter, which the staff was now instructed to revise, would merely ask South Africa to suspend deliveries under the contract, if its terms so permitted, and not to sign any additional contracts until further consultations with the Fund on proper safeguards. In the event that deliveries could not legally be suspended, the South African government was to be asked to institute unilaterally such additional safeguards as were necessary to carry out the spirit of the Fund's October 5 letter and of the Fund's gold policy statement of June 1947. In addition to revising the draft reply to South Africa, the staff was also instructed to prepare a draft press release explaining the Fund's position on the premium sales contract.

A Draft Reply Is Approved

The executive board reconvened on the afternoon of the same day (February 10) to give final consideration to the two new drafts which the staff had prepared during the intervening hours. The revised letter to the South African government expressed the Fund's regret that it had not been afforded the opportunity to communicate its views to the South Africans prior to the public announcement of the signing of the contract. It reiterated the Fund's concern that the safeguards adopted by South Africa would prove inadequate and, in consequence, requested the South African government to suspend the execution of the contract, if its terms so permitted, until further consultations could be held on the problem of additional safeguards. If the contract could not legally be suspended, the Fund urged the South African government on its own account to adopt the additional safeguards which the Fund thought necessary and to refrain from signing new contracts until after consultation with the Fund.

The staff's revised draft was satisfactory to the majority members and received their approval after only minor editorial changes and the addition of a paragraph which—for the first time—requested the South African government to provide the Fund with a copy of the premium sales contract and with full information on the details of the transaction. Having already won an important concession at the morning meeting on the question of cancellation versus suspension of the contract, the minority did not feel strong enough to press its views further and raised no objections to the letter. However, South Africa's representative on the executive board could not appear to sanction the letter and so asked that his objection to it be made a matter of record.

The draft press release encountered considerably more opposition but was eventually approved, also after minor editorial changes. As issued to the press after the board adjourned, it read as follows:

> Following certain news reports about a gold sale at premium prices made by South Africa, the International Monetary Fund wishes to make it clear that it has never approved any specific gold sales at a premium price. The Fund was consulted four months ago by the South African government with regard to a proposed plan to sell semi-processed gold at premium prices for industrial, professional, or artistic purposes. The Fund advised the South African government that it was "disturbed by the fear that the trade in semi-processed gold which is contemplated by the South African government would involve considerable sales of gold at premium prices for other than legitimate industrial, professional or artistic purposes." It felt that this would almost certainly be the consequence if the proposed transactions are to be on a scale sufficient to ensure an appreciable profit to gold producers.
>
> "In these circumstances," the Fund added, "the Fund believes that South Africa should not engage in the proposed plan unless it is satisfied that it can take effective measures to ensure that gold sold under the plan will in fact be used for bona fide and customary industrial, professional, or artistic purposes." [Oct. 5 letter.]
>
> The South African government informed the Fund over this past weekend that it had agreed to sell a quantity of semi-processed gold at a premium price. In the light of the information submitted to the Fund by South Africa, including that on the prices and quantities involved, the Fund has found it necessary to get in touch with the South African government with a view, particularly, to determining whether the safeguards adopted are, in the Fund's opinion, adequate to ensure that any gold sold will, in fact, be used for bona fide and customary industrial, professional, and artistic purposes.

On the whole, the press release was dispassionate in tone and contained no explicit criticism of South Africa. But neither did it contain the diplomatic compliments and expressions of confidence in the good faith and co-operativeness of the South African government which are customary in public announcements of correspondence between national governments or between international organizations and their members. Because of this type of omission, the Fund's displeasure with the South African government was apparent.

The Australian representative recorded his formal objection to the issuance of the press release, and the French executive director, on behalf of the minority, urged that it be held up until after the South African government had had an opportunity to comment on it. While the majority agreed in deploring the practice of issuing a press release affecting a member before the latter had been given a chance to comment on it, these directors nevertheless felt that in this instance the South African government had left them no choice. The misconceptions in the press of the Fund's position and South Africa's own failure to consult the Fund before issuing its public announcement of the premium gold contract made it imperative, they believed, that the Fund's role be publicly clarified without delay. In consequence, the letter was dispatched, and the press release was issued before the close of business on February 10.

The two meetings of February 10 are an example of the process by which a position is "bargained out" in an international organization. The majority clearly would have liked the Fund to take a considerably stronger stand against the South African transaction than the one ultimately expressed in the February 10 letter. Yet it appeared to believe that, as a matter of practical necessity, the stronger and more uncompromising the position which the Fund might take, the more nearly unanimous that position would have to be in order to command respect outside the executive board. It is a matter of opinion whether the majority was right in consenting to water down its original demand for outright cancellation to a request that the execution of the contract be postponed if its terms permitted. Though this concession left a loophole for the South African government to reply that the terms of the contract did not legally permit of postponement, it nevertheless overcame the minority's main objections and converted its opposition at least into neutrality toward—though not into positive support of—the letter to South Africa. Only the Australian executive director formally recorded his disapproval; the other members of the minority abstained from voting, thereby enabling both the letter and the press release to appear to the outside world to be nearly unanimous actions of the executive board. The majority obviously judged the latter objective to be more important than sending the strongest possible reply to South Africa.

The mediating role of the staff was also clearly apparent in these events. As demonstrated by its memorandum to the executive board, the staff's disapproval both of the nature and of the manner of South Africa's action was as great as the majority's. But the conciliatory character of the staff's initial draft reply to South Africa clearly indicated that it had other considerations in mind as well. The staff may have feared that the Fund might prove incapable of enforcing a cancellation or even a suspension of South Africa's premium gold contract if the latter chose to defy the Fund and the matter came to a showdown. Or it may have felt that, even if the Fund were successful in inducing South Africa to abide by its wishes, a conflict with one of its members might nevertheless damage the unity and prestige of the organization. The staff had a natural inclination to avoid situations which might be crucial tests of the Fund's authority and might thereby endanger the smooth operation and institutional growth of the Fund. Moreover, it was difficult to decide at any particular time which was the best course of action: to smooth over a disagreement of this type, or to face it squarely and try to settle the issue. Such a decision depended more upon immediate and often intangible circumstances than upon any general principles of strategy.

The Crisis

The next move was up to the South African government, and the executive board and the staff eagerly waited for indications of what that move was likely to be. For more than a fortnight their curiosity was titillated but unsatisfied. On

February 18 they learned in a letter to Gutt from the South African Embassy that a formal communication to the Fund had been airmailed two days before from South Africa and that Nicolaas Christiaan Havenga, the Minister of Finance, would make a public statement on the premium gold sale in the South African Parliament before it recessed the following week. The South African letter had not arrived in Washington by February 20 (four days after it was supposed to have been sent), and Gutt became alarmed that Havenga might make his public statement before the Fund had an opportunity to examine the reply. Consequently, he cabled the South African government that the letter had not yet arrived in Washington and expressed his hope that the Fund would receive it prior to Havenga's speech. The South African government cabled its regrets at the delay, and Havenga agreed to postpone his speech until February 24, which was the last possible date before a parliamentary recess.

Next day (February 21) an examination of airplane schedules revealed that no further planes could arrive from South Africa before February 24, and, as the letter had not yet been received, Gutt sent another cable to the South African government requesting that the text of the letter be cabled to him at the Fund's expense. This was done, and on February 23, only one day before Havenga's scheduled speech, the Fund finally learned the contents of South Africa's reply to its February 10 letter.

The South African reply regretted the government's inability legally to comply with the Fund's request that the contract be suspended. It set forth at considerable length South Africa's contention that the premium sale was consistent with the Fund's gold policy statement of June 1947 and that the contract contained safeguards which were, if anything, more than adequate to satisfy the requirements of the Fund's letter of October 5. It called attention again to the high reputation of Mocatta & Goldsmid and explained for the first time that the contract required them to fabricate the gold (presumably into articles of jewelry) before resale or to obtain a similar undertaking from any subsequent purchasers, who had to be reputable firms doing a regular business in gold for legitimate nonmonetary purposes. In addition, the South African government had reserved the legal right to suspend deliveries under the contract if at any time it found evidence that these conditions were being violated. It invited the Fund to supply it with evidence of violations and promised to give such complaints every consideration. For these reasons, the South African government felt it could claim that its safeguards were, if anything, superior to those enforced by the United States and the United Kingdom.

The reply then went on to rebut the Fund's contention that the willingness of the purchaser to pay a premium was prima facie evidence that the gold would be misused. The South African government maintained that the private purchase and sale of gold jewelry and objets d'art had always been considered legitimate and were even officially sanctioned under United States Treasury regulations, provided that not more than eighty percent of the value was represented by the gold content. Far from providing prima facie evidence of intent to misuse the gold, the willingness of the purchaser to pay a premium for gold to be manufactured into jewelry proved rather that the United States and the United Kingdom were not now satisfying all of the demand for this legitimate purpose at the official price because of their overly restrictive regulations. Hitherto South Africa had, in deference to the Fund's scruples, refrained from supplying this unsatisfied legitimate demand. But, as the world's largest source of gold, South Africa could no longer continue to deny its producers the price advantages of such legitimate sales, especially in view of the Fund's failure to stamp out the illegitimate private trade in gold for monetary purposes which was so profitable to the producers of certain other countries. In this connection, a supplementary cable from South Africa cited recent press reports to the effect that the United States Treasury had approved private trading in natural gold (for example, gold dust, gold ore, and the like) at premium prices, clearly intended for private hoarding.

The reply concluded with a detailed account and justification of a new premium transaction now under consideration by the South African government. This proposal involved the establishment in South Africa by a reputable British firm of a factory for the production of fully fabricated gold articles for export. The factory would be allowed to produce gold articles with not more

than eighty percent of their value represented by their gold content, and would be subject to continuous police inspection by the South African government to prevent diversion of the gold to illicit purposes. A total of 250,000 fine ounces of gold would be sold to this factory before the end of 1950 at approximately $38.50 per fine ounce. In conclusion, the South African government pledged itself to give serious consideration to any additional safeguards which the Fund might wish to propose regarding South Africa's current and prospective premium transactions.

While portions of the reply may perhaps have seemed too argumentative to the members of the executive board, its tone was on the whole cooperative and respectful, and the South African government had certainly given a full and frank account of the details of its previous actions and prospective plans. It is possible that it had not done so earlier because it sincerely wished to avoid an argument over details and to concentrate the discussion on the basic policy questions. But whatever the reason for South Africa's decision, there can be little doubt that its failure to provide full information at an earlier stage had created suspicion and antagonism in the minds of the executive directors. True, the Fund had failed to request such information until its most recent communication to the South African government, and its reasons for this omission were also not clear. It is possible that, had the Fund's October 5 letter requested full details of the proposed transaction and asked the South African government to postpone its decision until the Fund studied the information obtained in this way, the course of events might have been different. Even now, South Africa's belated clarification gave the Fund another opportunity for a real choice between alternative courses of action.

The Fund Chooses its Tactics

On the one hand, the Fund could abandon its basic opposition to South Africa's premium transactions but could, if it wished, continue its efforts to induce the South Africans to improve the effectiveness of their controls. The Fund could undoubtedly take this course of action without serious loss of prestige, because the safeguards already imposed by the South African government were demonstrably more adequate than the Fund had hitherto imagined and, indeed, compared very favorably with the United States and British regulations, which the Fund was using as a standard. Furthermore, the new information just supplied by the South African government would furnish a plausible excuse for a reversal of the Fund's policy, and the whole controversy could be made to appear the result of a misunderstanding due to South Africa's earlier reticence about the details of its premium transaction.

On the other hand, the leaders of the majority could persist in their determination to induce South Africa to cease premium gold sales of any kind. But this course of action was fraught with grave tactical and policy consequences. In view of the South African government's conciliatory attitude and the unexpectedly stringent safeguards which it had already imposed on its premium transactions, the Fund would find considerable difficulty in continuing the oblique strategy hitherto employed, that is, not asking South Africa directly to abandon its premium sales, but attempting to achieve the same objective indirectly by imposing highly restrictive conditions on such sales. This tactical difficulty might inevitably drive the Fund into open opposition on principle to all types of premium transactions. Once this point was reached, there was grave danger that the Fund's entire gold policy would become the real question at issue and not South Africa's specific premium sales.

On substantive grounds, United States and British officials believed it was highly desirable to avoid this possibility. In all of the major member countries, it might expose to the dubious outcome of public debate and legislative investigation the abstruse—and, therefore, not readily defensible—precepts of contemporary gold theory and policy—for example, the national (though not the international) demonetization of gold, the suppression of the private gold market, the comprehensive systems of direct controls, and the fixed official par values of national currencies in gold. Worse still, it might generate a flood of rumors about imminent changes in the Fund's gold policy—particularly in the official gold price—which could easily result in an intensification of premium transactions and of currency speculation, with serious consequences for the stability of many national currencies, especially sterling. It might also mean serious conflict with South Africa and

a more or less open defiance of the Fund by the South African government which might gravely impair the prestige of the organization. Or, alternatively, the South Africans might take the Fund's public position at face value and, by adopting safeguards similar to those of the United States and United Kingdom, might put the Fund's oblique strategy to the objective test of whether such stringent regulations would actually prevent all types of premium transactions if administered by authorities not opposed to them on principle.

The majority members of the executive board determined to take the second course of action, that is, to try to induce South Africa to stop its premium sales completely. Some of the considerations which influenced this decision may be noted. The positions of the national governments comprising the majority were by now too firmly crystallized to be rapidly modified; national bureaucracies were already too solidly fixed in their courses to be quickly or readily deflected. Within the United States government, the machinery of interagency consultation through the National Advisory Council (NAC) had ground out an "agreed position" on the controversy: premium gold sales must be suppressed and the integrity of the Fund's gold policy maintained. The British were more fearful than ever that all premium gold sales, whether directly for hoarding purposes or for the fabrication of jewelry and other gold articles, seriously threatened the stability of the pound sterling. Canada, the free world's second largest source of gold, was afraid it would be forced to extend to its own gold producers the price advantages which South Africa was granting to its mining companies. Nor should the minor irritants be overlooked: South Africa's earlier reluctance to disclose the details of its premium contract; its public announcement of the premium contract before the Fund had a chance to comment on it; and the exasperating delay in the transmission of South Africa's latest communication to the Fund. These were still too fresh in the minds of the majority directors to be overcome by South Africa's willingness to supply the information that the Fund had requested or by the conciliatory tone of South Africa's latest reply.

As usual, it was the staff which strove the hardest to disregard the compulsions of the immediate situation and to take a longer and more objective view. And, as usual, it was only partially successful. Immediately after the receipt of the latest South African communication, the staff had hastily prepared a draft reply for the executive board meeting scheduled for that day (February 23). This draft merely noted the contents of the new communication; in response to a South African query, it explained at somewhat greater length than hitherto the main outlines of the kind of safeguards the Fund had in mind; and it observed that the premium gold transactions which the South Africans claimed were sanctioned by the United States Treasury were purely domestic in character and were not permitted when they involved export of the gold so purchased. The tone was neutral, and the obvious implication of the draft was that the Fund intended to take no further action to deter the South Africans from consummating their current or prospective premium transactions.

While the majority members accepted this draft as a working basis, the changes and additions which they made in it drastically altered its tone and import. The final text of the Fund's reply noted with regret that the South African government was unable to suspend the contract with Mocatta & Goldsmid. It emphasized the Fund's continued fear that the transaction was not in conformity with the conditions specified in the Fund's letter of October 5 or with the spirit of the Fund's gold policy statement of June 1947. It expressed the Fund's expectation that South Africa would consult before undertaking any new negotiations for additional premium transactions. It stated flatly the Fund's conclusion that the safeguards already adopted by South Africa were insufficient to ensure that the gold would not be diverted to illegitimate purposes. Partisan and slightly irascible in tone, it gave the impression that the Fund had not yielded an inch of its original objections.

The minority directors expressed little opposition to this transformation of the staff's draft by the majority. Undoubtedly the shortness of time between the receipt of the latest South African communication and the executive board meeting prevented many of them from informing their governments of the latest developments and obtaining new or confirming instructions. Consequently, they may have been uncertain of how far their own governments were willing to have

them go and were perhaps somewhat disconcerted by the unity and vehemence of the majority and the apparent inexorability of events. The Australian executive director summarized in a most conciliatory fashion the main points made in the South African reply. The French executive director defended the safeguards already instituted by South Africa and compared them favorably with United States and British regulations. But to no avail. While the majority reluctantly agreed that the South African restrictions would probably ensure that most of the gold would be manufactured into jewelry and objets d'art, it nevertheless insisted that such fully fabricated gold articles would themselves become objects of private hoarding, rather than of personal adornment or aesthetic pleasure, and would hence be used for illegitimate monetary purposes.

In taking this position, the majority in effect shifted its definitions of what constituted monetary and nonmonetary gold. Hitherto, the distinction had traditionally been based upon the objective test of the specific form of the gold: natural gold and semifabricated refined gold (that is, bars, plate, sheet, wire, strip, and minted gold) were usually considered to be monetary gold; and fully fabricated gold (for example, jewelry, objets d'art, and the like), in which the gold content represented no more than eighty percent of the value, was considered nonmonetary gold. But now the majority's distinction seemed to rest upon the subjective intent of the owner, a psychological consideration difficult to determine by any objective test. This change in definition had not been planned in advance, nor did the majority seem to be fully aware that it had happened in the course of the debate.

The change in definition was, however, a logical consequence of the British contention that the deleterious effects of premium gold transactions on the stability of national currencies resulted mainly from the frequency of such transactions rather than from the specific end-use of the gold or the magnitude of the premium price. Hence, any premium transaction in gold, whatever its purpose, contributed to the instability of national currencies because it directly or indirectly depreciated them.

Regardless of its validity, this reasoning threatened to involve the Fund in a dilemma which it had hitherto been able to avoid. Under the Articles of Agreement, the Fund's members assumed obligations only with respect to transactions in gold for monetary purposes. At the Bretton Woods conference members had been specifically exempted from price restrictions on gold sold for legitimate nonmonetary purposes. Consequently, the Fund had no legal right to insist that South Africa refrain from all premium transactions, even though the other members of the majority agreed with the British view that premium sales even for industrial and artistic end-uses were objectionable. The only escape from the dilemma was to shift the definition of legitimate nonmonetary uses of gold from one based on the form of the gold to one based on the psychological intent of the owner. If the buyer wished to wear the jewelry, a premium sale was legitimate; if he wished to hoard it, the sale was illegitimate. Thus the necessity of recognizing South Africa's legal right to make premium sales for nonmonetary purposes while at the same time achieving the effect of preventing all premium transactions, even for artistic purposes, provides the key to understanding the specific changes made in the staff's draft by the majority.

The change in definition was not, of course, mentioned in the letter, and the Fund's stated objection to South Africa's premium transactions was still based on the inadequacy of the safeguards. At the end of the meeting, the staff was instructed to cable the revised reply immediately to South Africa in order that it might arrive before Havenga made his scheduled speech to the South African Parliament. In addition a supplementary cable was sent, requesting the South African government to transmit an advance copy of the Finance Minister's speech so that it would be available in Washington in case the Fund had to answer questions from the press about it.

South Africa Counters

This time, the majority did not have long to wait to learn the nature of the South African response to the Fund's latest communication. Next day (February 24), even before the South African Embassy had sent over the "advance" text of Havenga's remarks, every financial news ticker in Washington carried the relevant passages from the Finance Minister's speech. Most of the speech consisted of a fairly detailed and relatively dis-

passionate report of the chief events in the controversy, including careful summaries of the various communications between the Fund and the South African government. The Fund's cable of the previous day had evidently been studied by Havenga and his advisers, for he specifically referred to it in the course of his statement. In general, the Finance Minister outlined the Fund's position and arguments with exemplary fairness, although on occasion he did not restrain a note of sarcasm. While affirming South Africa's continued devotion to the principles and objectives of the Fund, Havenga nevertheless made clear the intention of the South African government to proceed with its premium sales regardless of the Fund's objections.

However, a few short paragraphs at the very end contained the sensational part of what would otherwise have been a fairly routine report by a finance minister to his national parliament. Havenga said:

> The present position of fundamental disequilibrium between gold and national currencies is breeding a crop of evils. As far as we are concerned, it has been the principal factor making import control necessary. This will no doubt not influence other countries very strongly. The misfortunes of others are easy to bear. But it has also caused a growing distortion in international trade relations, an artificial diversion of trade into unexpected channels. . . . This serves no economic purpose. It merely exploits for individual profit the failure of the international system of controlled currencies to take account of the facts.
>
> It is becoming increasingly clear, Mr. Speaker, that the elaborate attempt to keep up behind tremendous facades of exchange controls, the fiction that gold is worth only $35 an ounce, cannot endure much longer. This is an international problem and will soon be the touchstone of the success or failure of the International Monetary Fund.

To those initiated in the mysteries of international monetary theory and accustomed to the circumlocutions of diplomatic usage, these observations seemed in essence to amount to a public attack on two of the most sacred arcana of the Fund's gold policy and of the policy of its leading members, the United States and the United Kingdom. Havenga proclaimed that, in the official view of the South African government, the "under-valuation" of gold in terms of national currencies (that is, the official par value of $35 an ounce) and the elaborate mechanism of direct controls necessary to maintain it were the causes not only of South Africa's current balance-of-payments difficulties but also of the international black market in gold, currencies, and commodities and of the resulting distortions in world trade patterns and payments relationships. Further, he predicted an early change in the official price of gold and the collapse of the exchange control system, and he implied that the Fund would fail as an organization if it refused to abandon its gold policy.

For such remarks to be made by minority directors within the seclusion of the executive board was one thing. But it was quite another thing when views of this nature were publicly proclaimed by the responsible government minister of the country which produced almost as much gold as the rest of the world combined. This was important news in every financial circle, private or governmental, large or small. Central banks and national treasuries, commercial banks and investment houses, international traders and black marketeers—all would be vitally affected by any change in the ratio between gold and national currencies or by any dismantling of "the tremendous facades of exchange control." Inevitably, questions and rumors would run through the commercial and money markets of the world: Was the official gold price about to be increased? Would there be a general devaluation of national currencies? Were exchange controls to be relaxed? Denials by the Fund and by the United States and British governments might very well be unconvincing—after all, national authorities habitually did not admit even the possibility of such changes prior to their occurrence. Would not the safest course be to hedge against such an eventuality; to buy gold cheaply now and sell it dear later on; to hold one's liquid assets in the form of commodities rather than money until one was sure of what would happen?

Such conjectures and speculations were more to be feared by the sorely-tried defenders of precarious national currencies than were the relatively modest premium gold transactions contemplated by the South African government. For the former could lead to a widespread flight from national currencies (particularly from the pound sterling), one form of which would be a vast multiplication of premium gold transactions, legitimate as well as illegitimate, and a steep rise in the premium price. Already, in fact, the early

symptoms were evident of that growing weakness of sterling and of other European currencies which would lead in less than eight months to the drastic currency devaluations of September 1949. Though these symptoms resulted from economic developments far more fundamental than rumors of a change in the official gold price, the anticipations generated by Havenga's remarks were undoubtedly a contributing factor. During the intervening months such rumors became more frequent and ultimately proved correct with respect at least to those currencies whose official par values in gold were changed by their devaluations in September 1949.

5. Gutt Negotiates a Compromise

IT WAS with mingled feelings of alarm and indignation that the majority members of the executive board assembled on the morning of the day after Havenga's speech (February 25). Now that the battle had been publicly joined, the Fund obviously had no choice but to defend its position. If any thoughts of the possibility of an immediate compromise or settlement with South Africa crossed the minds of the minority directors, they carefully refrained from mentioning them at the meeting. The session was confined almost exclusively to the subject of the Fund's public reply to Havenga's statement.

The Impasse

On Gutt's instructions the staff had drafted a rather lengthy press release in response to Havenga's remarks. This document was considerably stronger in tone than any previously drafted by the staff either for public release or for transmission to the South Africans. It summarized the Fund's version of the chief events in the controversy, outlined the position taken by the Fund in its February 23 cable to South Africa, and reiterated the Fund's determination to prevent the diversion of gold to illegitimate monetary purposes. The first draft of this press release contained no reference to Havenga's attack on the Fund's gold policy except for a very indirect condemnation of private speculation in gold and currencies. But, on the morning before the executive board meeting, the staff realized that the majority would undoubtedly demand a specific rejoinder to the concluding paragraphs of Havenga's speech, and so an additional section was hastily drafted. This vigorously defended the official gold price of $35 per ounce, accused Havenga of claiming that the United States dollar was overvalued in terms of gold, quoted the determination both of the Fund and of the United States Treasury not to alter the gold price, and deplored Havenga's remarks on the subject as detrimental to the stability of national currencies.

The minority directors at once questioned the necessity and advisability of replying specifically to Havenga's attack on the official gold price and maintained that only the original part of the draft press release should be issued. In their view, Havenga's remarks had really been directed against the United States Treasury, and it was consequently the responsibility of the United States government to defend publicly the $35 price for gold. Furthermore, as a matter of principle, they felt that the Fund should not hasten to make public statements on issues as fundamental as the price of gold without adequate study of the major considerations involved. Only the first part of the press release should be issued that day; the second part should at least be held up until after a fuller investigation and discussion of the basic issues.

This advice was emphatically rejected by the majority directors. The United States alternate executive director professed himself shocked to hear that some directors believed the Fund should not make a public reply to a public attack on its gold policy. The $35 price for gold was as much a part of the Fund's gold policy as it was of the United States Treasury's, in view of the fact that the official ratios between members' currencies and gold had been accepted by all members and written into the Articles of Agreement. If any member felt that a change in these par values was

UNIV. BIBL. KÖLN

necessary or desirable, it was obligated first to consult the Fund according to an orderly and agreed procedure before making any public statements. And, until the Fund authorized a change, the current price of $35 an ounce was the official Fund price which all members were bound to respect publicly as well as privately. The United States alternate executive director also questioned the South African contention that the disequilibrium between gold and national currencies (that is, South Africa's adverse terms of trade) was the chief reason for South Africa's current balance-of-payments difficulties. These, he was convinced, were mainly caused by South Africa's own inflationary policies, which the government had done little to correct.

Other majority directors supported the United States alternate's position. The British in particular were very much concerned that grave danger would follow if Havenga's attack remain unanswered. Other majority directors insisted that, before calling the value of another member's currency into question, the South African government should at least have made certain that the par value of its own currency was beyond criticism. They urged that the Fund immediately make its position clear to the world financial community and to the public generally. Many more majority directors actively participated in the discussion than was customary.

In the face of such opposition, there was little that the minority could accomplish by prolonging the debate, and the meeting was adjourned until after lunch. Meanwhile, the staff was instructed to shorten the proposed press release drastically and to make changes in wording desired by the board.

A new version of the press release was ready by the time the board assembled for its afternoon session. After some additional deletions and changes, largely of an editorial nature, the majority approved the document and ordered its immediate release. The Australian and French executive directors formally recorded their disapproval of the second part of the press release and asked that they be considered as dissociating themselves from the document as a whole. Recognizing the validity of the minority's contention that the Fund should not continue to issue public statements on questions as vital as gold policy without adequate study, the majority consented to instruct the staff to undertake a study of the basic issues involved in the Fund's gold policy and agreed that the board should discuss such a document at an early date.

The Fund's Public Defense

As finally approved, the press release of February 25 was a concise and outspoken reply by the Fund to Havenga's speech of the preceding day. It stated:

> The Fund has been in touch with South Africa in connection with its recently-announced proposal to sell at premium prices abroad, as an experiment, 100,000 ounces of semi-processed gold for industrial and similar purposes, and has noted the statement made yesterday by Mr. Havenga, Minister of Finance of South Africa. This statement involved two main points: first, an explanation of the South African position on sales of semi-processed gold, and second, comments on the $35 an ounce price for gold. The Fund wishes to make its position clear on both these points.
>
> The Fund's policy on such external sales has been that they are allowable only if adequate safeguards exist to ensure that the gold is, in fact, used for bona fide and customary artistic, industrial or professional purposes and not for speculation and hoarding, and that it is imported in accordance with the gold or exchange laws of the countries concerned.
>
> From the communications received from South Africa and the statement made yesterday by Mr. Havenga, the Fund is not satisfied that adequate safeguards would exist in the recently-initiated transactions. Accordingly, the Fund is continuing its conversations with South Africa regarding the establishment of adequate safeguards. South Africa has also been advised that it will be expected to consult the Fund prior to entering into any negotiation for similar transactions in the future, and the Fund notes in this connection Mr. Havenga's statement that South Africa will continue to honor its obligations to the Fund in full.
>
> The Fund re-emphasizes that there has been no approval of this specific transaction nor has there been any change in its policy with regard to external sales of gold at premium prices as announced in June 1947. It will be recalled that in its Statement of June, 1947, the Fund called attention to the fact that external sales at premium prices "involve a loss to monetary reserves, since much of the gold goes into private hoards rather than into central holdings." The Fund's main concern in this matter has been to see that its point of view is observed in any external transactions in gold.
>
> In this connection the Fund would again point out

the distinction to be drawn between the gold sales at premium prices taking place within a member country, on the one hand, and, on the other, the type of sale represented by the current South African transaction which involves gold movements across national boundaries. Internal sales of gold have not been objected to by the Fund.

The Fund advised South Africa in October 1948 of the desirability of adopting safeguards on external sales of gold along the lines of those in effect in the United States and the United Kingdom. In order to minimize the likelihood of exports of semi-processed gold finding their way into undesirable channels, the U.S. regulations require that the exporter furnish various categories of information concerning the bona fide character of the use and disposition of the gold, and that the proposed importation and payment therefor is authorized or licensed under the laws of the country or countries of import.

Mr. Havenga has stressed that dealings in semi-processed or fully fabricated gold are replacing dealings in the form of coin or bar gold intended to constitute gold hoards. It is precisely such exports for hoarding of gold that the Fund wanted to prevent when it asked South Africa to ensure that such gold was in fact used for *bona fide and customary* artistic, industrial or professional purposes.

As stated previously, it is the opinion of the Fund that the existence of markets which are prepared to satisfy all verifiably genuine international demands for nonmonetary gold at approximately $35 per fine ounce is strong evidence that the ultimate disposition of gold purchased at a substantial premium would not be for bona fide and customary industrial, professional or artistic uses.

The Fund strongly objects to the statements of Mr. Havenga with reference to the present price of gold.

The Fund regrets that the Minister of Finance of South Africa has chosen to make public declarations which can only tend to undermine the exchange policies which all members of the Fund have undertaken to support.

This was strong language for an international organization to use toward one of its sovereign members and was without precedent in the Fund's history. The purposes of this statement were to put South Africa in the wrong in the eyes of the world; if possible, to mobilize public opinion behind the Fund's position; and to scotch any suspicion that a change in the official gold price was contemplated, by treating with scornful condemnation Havenga's remarks on the subject. In the circumstances, these objectives were difficult to accomplish. The subject of the controversy was too esoteric to be of interest to the general public; the self-interest of much of the international financial and trading community inclined it to the side of South Africa; and some of the Fund's smaller members became concerned that they, too, might be treated with a like severity should they ever transgress one of the Fund's policies. It is doubtful, however, whether at this stage of the controversy the Fund could have chosen any other course in view of the possibly serious consequences of the rumors generated by Havenga's attack.

South Africa's Riposte

The South African government did not let the Fund's public statement remain unanswered. On March 2, the South Africans released a public statement of their own in the form of the verbatim text of a telegram of protest which they simultaneously sent to Gutt as chairman of the Fund. Signed by Dr. J. E. Holloway, the South African Secretary for Finance, it read:

I have been directed to reply in the following terms to your telegram containing the text of a press statement released by the Fund on the 25th February.

Three issues have been raised in the correspondence which has taken place between the Union Government and the Fund, viz.

(A) The sale of 100,000 ounces of processed gold as an experiment in the sale of gold for customary industrial, professional or artistic purposes.

(B) The manufacture for export of gold articles under strict supervision of the Union Government.

(C) The monetary price of gold.

As regards the sale of processed gold I am to repeat that this has been undertaken as an experiment. The Government's future action will be influenced by the results of this experiment. The Union Government is satisfied that the guarantee which it has received fully justified it in undertaking the experiment. It is, however, obtaining replies to the further queries which the Fund has directed to it—queries which are based on the practice of the U.S.A. This information will be forwarded as soon as it has been collated. In doing so, it wants to make it clear, however, that its action must not be construed as an admission that the requirements of the United States or of any other country are binding on other members of the Fund.

As your letter of October 5th pointed out, it is the Union Government which must satisfy itself that the gold is used for customary industrial, professional or artistic purposes. To this end, the Union Government has purposely taken up the matter on an experimental basis. It is giving the Fund every opportunity of

bringing evidence to its notice of the gold not being so used. If in the course of this experiment, which is on a small scale compared with the Union's gold production, any evidence should be brought or obtained which casts doubts on the *bona fides* of the transaction, the Union Government would not want to proceed with it. For this purpose, however, it wants evidence and not the vague fears hitherto expressed by the Board, the most substantial of which the Union Government has already advanced tangible facts to disprove.

The Union is, of course, willing at all times to consult with the Fund as it has done on this occasion on matters of mutual interest. It will, therefore, give the Fund full opportunity for expressing its views on any proposed further transaction in processed gold should offers be made to it which it regards as falling within the limitations necessary to ensure that such gold will be used for customary industrial, professional or artistic purposes. The final decision on the adequacy of the guarantees, however, rests not with the Fund but with the Government which will give due weight to any tangible evidence submitted by the Fund.

On the second question, viz., the export of fully fabricated gold, the safeguards requested in your letter of October 5th, 1948, will be fully complied with inasmuch as the gold will be completely manufactured under Government supervision before it leaves the Union. If the Board so desires, it may appoint its own observer to assure itself that the safeguards are complied with. Beyond this, the matter falls outside the scope of the Articles of Agreement of the Fund.

On the concluding portion of your statement, animadverting on the Minister's remarks about the present price of gold, Mr. Havenga has directed me to draw your attention to the fact that the maintenance of the price of gold at thirty-five dollars is not, as you state, one of the "exchange policies which all members of the Fund have undertaken to support." That price is only the present figure fixed in 1944, with express provision of a method for changing it. Since that price was fixed, all other prices have skyrocketed and this has made the Fund's currency price of gold "unrealistic." The resulting increasing distortions in the pattern of international trade show the growing danger of the Fund attempting to maintain this disequilibrium. This is the real danger to "the exchange policies which all members of the Fund have undertaken to support." It is also a threat to all gold producing countries. The Minister's statement, therefore, did not undermine exchange policies. It is the Fund's efforts to bolster up the unrealistic price which are actually undermining exchange stability.

As regards the Fund's objection to his making the statement, the Minister has directed me to state categorically:

A. That no member has abdicated its right to criticize the Fund—a right which is inherent in all sound democratic institutions; and

B. That, if a Minister serving a free Parliament is to be inhibited from discussing frankly with Parliament matters of grave national importance for fear of criticizing the attitude of the Board of Directors of the Fund, this can only tend to undermine confidence in the Fund itself.

In conclusion, I have been directed to draw your attention to two remarks in your press statement which have no doubt quite unintentionally created the impression among the public that the Fund possesses powers which have no foundation in the Articles of Agreement.

Firstly, your press statement says; "The Fund reemphasizes that there has been no approval of the specific transaction." The statement, however, does not mention the fact that a member is not required to obtain the approval of the Fund for such transactions.

Secondly, your statement says that "South Africa has also been advised that it will be expected to consult the Fund prior to entering into any negotiations for similar transactions in the future." Nowhere do the Articles of Agreement require a member to consult with the Fund before entering into negotiations. A member is only required to take the action outlined in terms of paragraph 5 above.

In the interests of all members, it is desirable that this misapprehension, however unintentionally created, should be removed.

One immediate result of these rival press releases was that relations between the Fund and the South African government were at an impasse. South Africa had made unmistakably clear its intention to proceed with its premium sales regardless of the Fund's attitude. For its part, the Fund had made equally clear its determination to oppose such transactions. Neither side could now make the first move to break the deadlock without some loss of prestige, and the reference in the Fund's press release to "continuing conversations with South Africa regarding the establishment of adequate safeguards" was decidedly euphemistic. Everyone hoped that eventually a compromise or an accommodation would somehow be reached, but feelings remained too strong for some days on both sides for anyone to give thought to possible ways and means of bringing this about.

Gutt's Mission to South Africa

The staff of the Fund was the guardian of the international character of the Fund and the impartial servant of its collective members. As such and because of its own interest in the organization's survival and well-being, the staff had both the duty and the incentive to assume the role of arbiter and peacemaker. The views of the staff still coincided with those of the majority on the substantive issues involved, but it nevertheless was unhappy at the deadlock to which recent events had led, and it was convinced that such a state of affairs must not be allowed to continue for very long if the Fund was to survive as an effective institution. Accordingly, while the professional members of the staff embarked upon the study of basic gold policy ordered by the executive board, the senior staff officials turned their attention to ways of overcoming the existing impasse between South Africa and the Fund.

On March 7, 1949 Gutt circulated to the members of the executive board a short memorandum in which he suggested that, subject to the board's approval, he might send a personal letter to Havenga proposing a meeting between himself and the appropriate South African officials to find some mutually acceptable way out of the present difficulties. A draft letter to Havenga was attached. In his memorandum, Gutt pointed out that a personal approach by him to Havenga would not commit the Fund officially, and that personal conferences between himself and South African officials would be more likely to lead to fruitful results than would impersonal cables and letters.

The executive board seized this opportunity for resuming contact with the South African government. No substantive changes in Gutt's letter were suggested, and on March 9 the following communication from Gutt to Havenga was dispatched by cable from the South African Embassy to the Finance Minister:

> Dear Mr. Havenga: I am writing you a personal and direct letter. I write to you, as you made the public declarations involving the Fund and its policies. I am informing Dr. Holloway at the same time that this letter is being sent.
>
> For the past weeks South Africa and the Fund have been corresponding mostly by way of communiques across the oceans. I may tell you that neither the Directors on the Fund's Executive Board nor myself like it. We are not Homeric heroes, shouting at each other in front of the armies. We are people entrusted with an important financial job, dealing with people entrusted, like you, with an important financial job. For that reason we should understand each other.
>
> You and Dr. Holloway have raised a number of technical points on the question of gold sales. But the main issue here is not one of technical detail. The essential issue is one of international co-operation—of collaboration between nations on international monetary problems as intended in the Fund Agreement. The aim of the Fund has been to work out policies which promote and reconcile the interests of all its members, to encourage practices which foster the interests of each nation to the maximum degree without jeopardizing the welfare of the community of nations. Now, this is a difficult task. And it can never be accomplished unless there is full mutual understanding among the members, unless each member recognizes the interests of all members which are affected by its actions and is prepared to work out problems through the prescribed channels to the best advantage of all. Once there is that mutual understanding and willingness to consult, technical aspects can be agreed upon. Until it is achieved, however, we can go on debating endlessly the meaning of words and phrases.
>
> We do not underestimate the difficulties which face your country or your own position of Finance Minister. The job of a Finance Minister never was an easy one. I have been Finance Minister in my country for nine years and I would not say that I enjoyed every moment of it. We know the part the gold question plays in your present situation. We know, too, the importance of the role of gold as an international monetary medium. We stand ready to discuss with you, to co-operate with you, to help you all that we can within the framework of the Fund Agreement.
>
> Now what is the state of the Fund's relations with South Africa? As I said, there have been exchanges of words, but so far apparently there has been little meeting of the minds, and it is a meeting of the minds which I think is essential. But I believe the best way to obtain a meeting of the minds is by direct conference at the earliest possible time. Face-to-face talks may well succeed where letters and cables could not. If you believe it would be helpful for top representatives of the Fund to come to South Africa to discuss our mutual problems, this can be arranged. Or, if you prefer, the discussions could be here. What we seek, by any procedure for discussion which you wish, is to achieve a full consideration of all points and a policy for the Fund and for South Africa which is completely harmonious. I earnestly hope this can be done.

On March 14 the South African Embassy sent Gutt the following reply from Havenga:

> I have received your letter through our Ambassador at Washington and for despatch I am availing myself of the facilities provided by the same channel of communication.
>
> I wish to assure you that I appreciate the spirit which has prompted your direct approach to me, and I am very anxious to reciprocate in the same spirit of seeking for mutual understanding of the common problem and the way in which solutions for individual difficulties can be reconciled with our common purpose.
>
> I can assure you that I would welcome a direct conference at the earliest possible time. I trust that you will personally be able to visit South Africa and I have much pleasure in extending to you an invitation to be the guest of the Government during your stay. If, unfortunately, it should not be possible for you to come in person, I wish to extend the same invitation to the top representatives whom you might select to represent the Fund.
>
> I reciprocate your hope that these discussions will lead to a mutually satisfactory solution of the problems before us.

Havenga's invitation for Gutt to visit South Africa was immediately accepted and, after further discussions, it was agreed that Gutt and a number of staff members should journey to South Africa at the end of April. These arrangements were approved by the executive board on April 6, and on April 19 Gutt announced to the board that he would be accompanied by three members of the legal and economic branches of the Fund.

The Staff Studies

Gutt's forthcoming trip lent new importance to the study of the Fund's basic gold policy which the executive board had instructed the staff to make at the February 25 meeting. Undoubtedly, Gutt's talks with South African officials would cover not only the narrower problem of premium gold sales, but also the more fundamental issues of the Fund's gold policy, since these had already been raised by Havenga. It was important, therefore, that the Fund re-examine these basic issues and either revise or reaffirm its gold policy before Gutt's departure so that he might be in a position to speak authoritatively on the subject and to know exactly what concessions, if any, the Fund would be willing to make to the South Africans. Consequently, the staff hurried its investigations and by the middle of April was able to distribute to the executive board three related documents covering: the Fund's gold policy, the official gold price, and premium gold transactions.

The three staff studies comprised an objective analysis of the pros and cons of the Fund's position, but their conclusions amounted to a defense of the Fund's gold policy. On premium gold transactions, considerably more factual detail was presented on the operation and extent of the private premium markets than had ever before been amassed, and on that basis, the study implied that the Fund was correct in opposing such practices. With respect to the official gold price, the staff warned that an increase in the price would have most serious inflationary effects throughout the international economy which were highly undesirable in a period of postwar dislocation and readjustments. Granted these two conclusions, it inevitably followed that other features of the Fund's gold policy had to be maintained, as there appeared no practicable alternative for suppressing premium transactions except direct controls.

Meantime, the South Africans had not been idle in following up Havenga's attack on the official gold price. They prepared a written justification of Havenga's position which was distributed to the executive board. This document argued the case for an increase in the official price largely in terms of South Africa's own economic difficulties. Unless gold mining could be made more profitable by increasing the price of gold, marginal mines would be forced out of production, gold output would drop, and South Africa's balance-of-payments problem would become even more severe. The $35 price had been instituted during the early years of the great depression when the level of world commodity prices was a great deal lower and appeared likely to remain lower for the indefinite future. At the Bretton Woods conference, the $35 price had been accepted provisionally until a clearer idea could be obtained of the probable course of world commodity prices in the postwar period. Now, however, it was apparent that commodity prices would certainly not decline to anything like their prewar level and would undoubtedly be stabilized at about current levels, if stabilized at all. Consequently, it was essential that the official gold price be increased to bring it into proper relationship with world commodity prices in the new

period which the international economy had now entered. South Africa had originally accepted the $35 price on the understanding that the official par values would be readjusted to a more realistic level when it was possible to determine what that level should be. Now was the time for the Fund to do so.

After the distribution of the staff's studies, the French executive director also prepared a paper on the official gold price which he circulated to the members of the executive board. This lengthy document attempted to refute the major contentions in the staff's studies with respect to the $35 price of gold. The French official reasoned that, because of the enormous wartime and postwar increase in the monetary circulations of the member countries, the official value of their gold reserves (calculated at $35 an ounce) was now greatly out of line with the value of the money in circulation. Consequently, an increase in the official price of gold would increase the value of monetary reserves and would bring them into a better relationship with monetary circulations. This, in turn, would restore greater confidence in the stability of national currencies, would make possible some relaxation of exchange controls, and would improve the freedom of international trade. He also rejected the staff's conclusion that an increase in the official gold price would be unduly inflationary. The most serious inflationary consequences of an increase in the value of gold reserves could be prevented if national governments undertook to allocate to debt retirement the profits of an upward revaluation of their gold holdings. This would reduce the fiduciary base of most national currencies and would bring about a corresponding contraction of credit. In conclusion, he warned that the failure to allow gold prices to rise after World War I was one of the prime causes of the great depression of the 1930s, and he urged the Fund to profit from this lesson.

The French executive director's paper and his subsequent elaboration of it at the executive board meeting marked the first attempt of a minority director to present a carefully reasoned and comprehensive *alternative* gold policy for the Fund. While accepting the main objective of the Fund's current gold policy—the stability of national currencies—and explicitly rejecting on that ground the device of freely fluctuating exchange rates, he advanced in effect an alternative method of achieving that result. As he argued later at the meeting, an increase in the official gold price would enhance the value of national gold reserves and, by increasing the profitability of gold production, would raise the output of new gold. Rising gold reserves resulting from these two developments would strengthen public confidence in national currencies and would place greater negotiable resources in the hands of national governments for meeting balance-of-payments problems. In turn, these improvements would enable national governments to relax import and exchange restrictions and to restore a much larger measure of freedom and nondiscrimination in international trade. While initially the relaxation of exchange controls might produce some increase in private gold hoarding and in black market currency dealings, inevitably the revival of public confidence in national currencies, the easing of balance-of-payments difficulties, the re-establishment of more normal trade patterns, and the increase in the official gold price itself would remove most of the incentives for premium gold transactions and for black market dealings in national currencies. In this way, the Fund's objective of currency stability could be more effectively achieved by a greater measure of economic freedom than by increasing the severity of direct controls.

The Board Instructs Gutt

Thus, when the executive board assembled on April 12 to discuss the Fund's gold policy, it had a variety of papers before it. The board turned its attention first to a consideration of the French executive director's views. After the Frenchman had spoken along the foregoing lines, his remarks were vigorously rebutted by the United States executive director. He explained that during the intervening weeks the United States government had, through the machinery of the NAC, made another thorough review of its gold policy and had concluded that no changes in it were either necessary or desirable. He maintained that the French executive director exaggerated the beneficial effects on confidence in national currencies and on balance-of-payments problems which were likely to result from a change in the official par values. As to the official gold price, he felt that

$35 an ounce was realistic, that the gold mining industry had handsomely benefited from the "overvaluation" of gold during the 1930s and the early 1940s, and that gold producers were not entitled to any special privileges not granted to the producers of other commodities now that world commodity price levels had finally caught up with the gold price. In conclusion, he warned that the United States could change the official par value of the dollar only by act of Congress and, by implication, he allowed his listeners to draw their own conclusions about the difficulty and danger of attempting to obtain such legislation.

The United States executive director was supported by the head of the economic branch of the Fund's staff. He maintained that the distribution of gold among countries, rather than the price of gold, was the more important factor in the current weakness of national currencies; the former would not necessarily be corrected by a change in the latter. The French representative's general position was defended by the Australian executive director, who outlined the specific arguments against the $35 price contained in the South African paper.

As chairman of the executive board, Gutt summed up the results of the discussion of the official gold price. Since no formal proposal had been made under Article IV, Section 7, of the Articles of Agreement to change the official par values, Gutt concluded that no decision of the executive board on the problem would be necessary. However, he promised to bear in mind all of the views expressed by members of the executive board in his forthcoming talks with the South Africans.

The board then turned its attention to the question of premium gold transactions and the best method of eliminating them. One minority director ventured to question the implicit assumption of both the majority and minority that the private hoarding of gold was necessarily evil. Gold had been a store of value for as many centuries as it had been used as a medium of exchange, and it was unreasonable to declare the first function illegal while continuing to approve the second. He felt that a good case could be made out for the legitimacy of private hoarding. The Fund's opposition, he said, should be directed against the premium price paid for gold and not against the purpose for which the gold was bought. Although not presented by the French executive director, this argument lent support to his own position, for if private gold hoarding were to be made legitimate and the official price of gold were to be increased, then the premium would be smaller and premium sales would tend to disappear.

The staff objected to this conclusion and explained its view that the demand for gold for hoarding purposes would be greater if the premium price were lower because, as the premium fell, more and more buyers would be willing to give up national currencies in exchange for gold. Consequently, if private purchases of gold for hoarding were permitted and if the premium were in effect lowered by raising the official gold price, the private demand for gold would increase and the diversion of gold from official reserves would be greater, thereby further impairing the stability of national currencies and intensifying balance-of-payments difficulties. It should be noted that members of the staff spoke more frequently at this board meeting than on previous occasions because they were explaining and defending a staff study.

The debate continued along these lines for some time, principally between the staff and members of the minority, and eventually the meeting had to be adjourned until the next day, April 22. When it resumed, the French executive director offered several examples of instances where a larger supply of gold to a premium market (for example, Tangiers) had driven down the premium, which, in turn, had strengthened the French franc in Morocco and other nearby areas then still under French control. The United States executive director at length conceded that a larger supply of gold to the private market might in certain cases bring the premium down to the official price and thereby strengthen national currencies. However, he still thought it was preferable to achieve the same result by channeling gold into official reserves and inspiring public confidence in national currencies by increasing their gold backing.

At the conclusion of the second day's session, Gutt summed up the sense of the meeting. As the majority was obviously opposed to any change in the Fund's gold policy and in its position on premium gold transactions, no formal vote on the

subject was taken. Gutt announced that he would be guided in his discussions with the South African authorities by the Fund's evident desire neither to stiffen nor relax its gold policy in any way nor to abandon the stand it had already taken on premium transactions.

Shortly thereafter, Gutt and his associates departed by plane for South Africa. On the surface, the prospects for the success of his mission did not look good. The Fund had formally re-examined its gold policy and had concluded not to make any changes. If the South Africans proved equally obdurate about their premium gold sales, Gutt might very well be in the position of trying to reconcile an immovable obstacle and an irresistible force. But Gutt was an experienced national politician, as well as a former finance minister. As such, he knew the value of a personal approach, understood the ways by which ingenuity could usually find an avenue of graceful retreat from almost any extreme position, and trusted to his own experience as a harmonizer of apparently irreconcilable contentions to find a practicable way out of the current impasse.

The Compromise

Gutt arrived in South Africa at the beginning of May and immediately began discussions with Havenga and top officials of the Ministry of Finance and of the South African Reserve Bank on three topics: premium gold transactions, South Africa's balance-of-payments difficulties, and its exchange control policy. The conversations were conducted in an atmosphere of great cordiality and mutual friendliness, and after three days Gutt felt that he had obtained sufficient concessions from the South African government to warrant submitting them for the executive board's approval. Accordingly, on May 5, Gutt cabled the details of the proposed compromise.

Next day (May 6) the executive board met to consider Gutt's cable. The major concession offered by the South African government was the adoption of additional safeguards over premium transactions along the lines of those specified in the Fund's press release of February 25, that is, detailed reports from dealers and manufacturers on the amounts of gold processed and sold, the names of purchasers, and the purposes for which the purchase was made; and formal affidavits certifying that the importation and resale of South African gold was in conformity with the laws of the importing country. Such additional safeguards would make the South African regulations more nearly equivalent to those of the United States and the United Kingdom. Gutt's cable stressed the good faith of the South African government, its evident desire to co-operate with the Fund, and its promise to suspend premium transactions if evidence could be found that the safeguards were being violated. Finally, he mentioned additional premium transactions now being contemplated by South Africa which would, however, be in conformity with the new South African regulations.

Gutt's cable did not explicitly note any of the concessions which the Fund would be called upon to make in return, but these were obvious to the executive board. If the majority directors accepted the South African proposal, the Fund would in effect be abandoning its covert objective of preventing all types of premium transactions. Publicly, the Fund had all along been insisting that South Africa should not engage in premium transactions unless it adopted safeguards similar to those of the United States and the United Kingdom. Privately, however, the majority hoped that these conditions would be so restrictive as to force South Africa out of the premium market. Now that the South African government was willing to institute such safeguards, the Fund could not very well continue publicly to oppose South Africa's gold sales unless it was also prepared openly to announce its unqualified disapproval of all types of premium transactions. But it could not do this under the Articles of Agreement, which gave it no authority over premium sales for nonmonetary purposes. In effect, South Africa's latest concession meant that the majority's oblique strategy for preventing all premium sales would now cease to be a negotiating tactic and would be put to an objective test: that is, would the tighter regulations in fact make premium gold sales so difficult or unprofitable as to deter South Africa from engaging in them? In view of its public statements, the Fund could not shrink from this test.

The result of Gutt's negotiation was not what the majority directors would have preferred, but they recognized that the Fund's position was legally weak because the Articles of Agreement

exempted gold sales for specified nonmonetary purposes from the Fund's control. That this weakness was recognized by the majority from the beginning of the controversy is evidenced by the Fund's failure at any time publicly to question South Africa's right to dispose of its gold for industrial, artistic, and professional purposes. Also, this limitation of the Fund's authority had produced the dilemma from which the majority tried to escape at the board's February 23 meeting by redefining legitimate uses of gold in terms of the psychological intent of the buyer. However, while on the larger issue of gold policy in general the Fund was in a worse position as a result of Havenga's public attack, it was in a better position now than on February 23 on the question of premium transactions. The safeguards South Africa was willing to impose in May were considerably stronger than those it had instituted in February and, indeed, substantially met the requirements which the Fund had publicly specified. Since the Fund's objective of preventing all premium transactions had never been explicitly or publicly stated, it could tacitly abandon this objective by accepting the South African concession without overt loss of face.

Logical as well as political considerations, therefore, impelled the majority to make peace with South Africa on these terms. This view was urged with great vigor by the staff at the May 6 meeting. The staff had, of course, the duty of defending the arrangements worked out by its absent Managing Director, but it was also genuinely convinced that South Africa had at last met the requirements publicly announced by the Fund. Further opposition by the Fund would appear unreasonable. It might force the controversy into the highly debatable area of the Fund's legal powers under the Articles of Agreement and might provoke new attacks on the official gold price and on the Fund's gold policy by the South Africans. Consequently, in presenting Gutt's cable to the board, the staff strongly urged the executive directors to approve the results of his negotiations.

It was, nevertheless, only with the greatest reluctance that the majority acceded to these arguments and gave its grudging consent to the arrangements between Gutt and the South African government. The United States executive director and the British alternate executive director made speeches indicating their complete lack of enthusiasm for the compromise but agreed not to raise any objections to it. Canada's alternate director refused, however, to abandon his opposition to premium sales. Warning that the Fund's sanction of premium transactions might make it impossible for other members to resist the pressure from their own gold producers for similar privileges, he urged the Fund not to give positive approval to South Africa's premium sales but merely to refrain from raising further objections to them and to give even this concession as little publicity as possible. The United States executive director and other majority directors sympathized with the Canadian representative's views, and in the end the executive board phrased its acceptance of the South African compromise in very much the terms suggested by the Canadian alternate.

That evening, a reply was cabled to Gutt authorizing him to accept the South African concessions. He was to express the continued misgivings of many of the executive directors about South Africa's premium transactions and once again to urge the South African government to abandon them. If, however, the South African government persisted in its premium sales arrangements, Gutt was to state that the Fund would raise no further objections to them provided South Africa adopted the additional safeguards proposed and faithfully enforced them. He was also to ask the South African government not to state or imply that the Fund approved of premium sales in any public announcement which it might make and to be extremely circumspect in its public statements, so as not to create difficulties for other Fund members.

Peace Is Announced

Gutt conveyed the executive board's views to the South African government, which found them generally acceptable, but Gutt himself recognized the difficulty of complying with the board's stipulations on publicity. He warned the Fund by cable that the South African government would have to make some public announcement on the results of his visit and promised to do his best to ensure that it would conform with the board's wishes. In the end, Gutt decided that the best way to do this would be to issue a press

release of his own in South Africa, at the same time that Havenga reported to the South African Parliament. On May 11 he made the following statement to the press:

> I came to Capetown at the invitation of the South African Government primarily to discuss questions relating to the sale of semi-processed gold. As has been made clear on previous occasions, the policy of the I.M.F. is to prevent sales of gold in this form from becoming a means of feeding the demand for gold for hoarding purposes and thus diminishing the amount of newly mined gold which finds its way into monetary reserves. The Fund is also concerned about the fact that an increasing amount of gold in premium markets aggravates the difficulties of countries who are trying to prevent the illicit import of gold into their territories.
>
> Our discussions have taken place in a very cordial atmosphere and I have been impressed by the evident desire of the South African Government to reach an agreement with the Fund on the methods of achieving the policy referred to, while at the same time permitting the South African gold mining industry to have a share in the legitimate business in semi-fabricated gold.
>
> As a result of our discussions certain safeguards will be adopted to secure that semi-fabricated gold is sold only to manufacturers for purposes of genuine manufacture and that the importer of the gold has the prior permission of his own authorities to make the purchase for this purpose. Moreover, the South African Government will keep a careful watch on the business and will reserve the right to decline permission for export in any case in which they are not satisfied that the demand is for the purpose of genuine manufacture.
>
> Certain safeguards will also be adopted in the case of the manufacture in South Africa of gold articles for export in order to avoid such articles becoming a device solely for feeding the markets which the Fund desires to limit.
>
> The Fund will of course continue to keep this whole matter of premium gold sales under review with all its members.

The other two subjects of Gutt's conversations with the South Africans—South Africa's balance-of-payments difficulties and its exchange controls—were issues recently considered by the Fund, but, since these had already been settled to the mutual satisfaction of both parties, there was no need to reach formal agreements concerning them. For this reason, Gutt did not touch upon them in his public statement. However, Havenga was under obligation to make a full report of the discussions to the South African Parliament and accordingly covered these problems as well as the agreement on premium transactions in his remarks to Parliament on May 11. He said in part:

> Mr. Speaker:
>
> With the leave of the House I would like to make a statement on the discussions which have taken place between the Treasury and the Mission from the International Monetary Fund headed by the Managing Director, Mr. Camille Gutt.
>
> The discussions dealt with the question of the sale of gold at premium prices for industrial, artistic, and professional purposes. As the House is aware, all decisions in regard to the general monetary price of gold are reserved by the Articles of Agreement for the full Board of Governors. The monetary price of gold therefore fell outside the scope of the present negotiations.
>
> The non-monetary sales of gold may be considered under two heads.
>
> There is first the sale of fully fabricated gold. The representatives of the Fund readily admitted that South Africa has a right to a fair share in this important market. As long as the Government exercises proper care that the gold is fully fabricated for export the Fund can raise no objections to our participating in this trade.
>
> The position is more difficult to regulate when it comes to the second category, the sale of semi-processed gold for export since such gold admits of conversion into monetary gold at very little cost.
>
> Owing to the difficulty of tracing transactions in such gold right through to the manufacturing stage it has been agreed that where in future the Union sells semi-processed gold the transaction will only take place direct with the manufacturer and subject to certain other conditions. While for the sake of convenience the sale may take place through a dealer the latter will only be an intermediary and the manufacturer must be the principal.
>
> The further conditions are as follows:—
>
> (a) The manufacturer must submit an affidavit stating that the gold will only be used by him for manufacture
>
> (b) the order must be accompanied by an import license from the manufacturer's country made out in the name of the manufacturer indicating that the gold is imported for the purpose of fabrication.
>
> I would observe in this connection that the Treasury will exercise special care in regard to the sale of semi-processed gold destined for countries which require no import license and that generally the Treasury would prefer not to authorize transactions if there is reason to doubt that the safeguards to ensure

that the gold will be used for bona fide industrial, artistic, or professional purposes are adequate. . . .

There is one further point to which I should allude. The experimental sales to Messrs. Mocatta and Goldsmid have been concluded. They have served a very useful purpose in clearing the ground and preparing the way for the measures which I have outlined to the House. As we shall in future be dealing direct with manufacturers abroad it follows that no further sales will be made to dealers except in so far as they act as intermediaries for manufacturing principals.

Mr. Speaker, in dealing with this question the Union Government has been guided by the desire not only to fulfill its obligations under the Fund Agreement but also to take full advantage of permissible transactions which will assist our hard pressed gold mining industry. It is aware that there is a big free market for gold at high premium prices. If the biggest gold producer were to enter this market it would not only be acting in conflict with the obligations which it has assumed as member of the Fund; it would also render the aim of the Fund to maintain exchange stability very difficult of accomplishment.

Mr. Speaker, I have purposely confined my remarks to the matters discussed. I do not think that this is the time to enter into the wider question of the general monetary price of gold. This is a question which has much wider repercussions and on which I am convinced we shall hear a great deal more in view of the existing exchange situation throughout the world.

In conclusion I have much pleasure in stating that the discussions have been carried on throughout in a very friendly atmosphere and to record that a very helpful exchange of views took place on the wider economic issues in which we are deeply concerned.

Havenga's statement was exemplary, even from the Fund's point of view. Having taken in his previous remarks to Parliament a public position on the question of the official price of gold, he could not avoid some reference to this subject now. But what he said was fairly harmless, and the one sentence to which the Fund might have taken umbrage was by the spring of 1949 demonstrably self-evident. With respect to the price of gold, Havenga was merely making a factual observation when he said, "This is a question which has much wider repercussions and on which I am convinced we shall hear a great deal more in view of the existing exchange situation throughout the world." A great deal more was, indeed, to be heard on the exchange rate situation during the coming months, and the Fund could not object to this reference to a problem which was fast becoming a more important concern to it than premium gold transactions.

6. Events Save the Fund's Gold Policy

DURING THE SPRING and summer of 1949, increasingly alarming economic developments threatened the stability of many national currencies, particularly the pound sterling. These developments were the result both of short- and long-term trends in the international economy which combined during the first half of 1949 to produce what in September of that year came to be called "the devaluation crisis." The following section explains in summary fashion the main elements of the developing crisis and their effects upon the premium gold controversy.

The Devaluation Crisis of 1949

By the late winter of 1948-49, the Marshall Plan had achieved its initial success of restoring West European industrial production almost to prewar levels, and these countries now had growing volumes of goods available for export. Production in other parts of the world had also increased, and the period of postwar commodity shortages seemed virtually at an end. At the same time, the pent-up consumer demand of the wartime and immediate postwar years was being increasingly satisfied, and in many lines of industry, supplies were becoming ample enough to permit the accumulation of normal working inventories. This meant, in effect, that the easy postwar sellers' market was disappearing and that world trading conditions were becoming more competitive. Prices were leveling off, buyers were becoming more and more critical of the cost and quality of merchandise, and goods were no longer

selling themselves without effort on the part of the producers.

These developments coincided with a decline in industrial activity in the United States during the spring of 1949 which had important consequences for the rest of the world. First, a decline in industrial activity in the United States resulted in a smaller American demand for imported raw materials which, along with the decline in raw material prices, caused a decrease in the amount of dollars made available by the United States through normal commercial purchases to the rest of the world, particularly to the Sterling Area. Second, the decline in demand made United States manufacturers much more diligent about pushing their sales both in the domestic United States market and in foreign markets, particularly in Canada and Latin America. Because the mass production sectors of United States industry were then by and large more efficient and more flexible than the corresponding branches of European industry, United States manufacturers were able, as competition became more severe, to cut their costs and prices, improve their quality, and accelerate their delivery dates more successfully than the Europeans. The greater competitive ability of United States industry at that time was largely a consequence of lags in European productivity growth during the inter-war period of economic stagnation and the war period. It was the longer-term factor underlying the European crisis of the spring of 1949 when the sellers' market ended.

The competitive disadvantage of European producers was enhanced by the overvaluation of European currencies in terms of non-European currencies resulting from the greater degree of internal inflation experienced by European countries during and immediately after World War II. In other words, the prices of European exports expressed in sterling, francs, or lire worked out at the official exchange rates to more in terms of non-European currencies than did the prices of similar goods produced in the United States and quoted in dollars.

The net result of these short- and long-term trends was a new balance-of-payments crisis for the United Kingdom and, to a lesser degree, for some of the leading continental European countries. British imports had to be maintained at a high level in order to sustain the standard of living and support a rising rate of industrial production. But Britain's earnings from exports, particularly its dollar earnings, began to decline sharply early in 1949. The major portion of Britain's dollar earnings were obtained indirectly through the sale of Sterling Area raw materials to the United States, and income from this source dropped precipitously with the decline in raw material prices and the volume of American import demand. Also, Britain's smaller direct dollar earnings from the sale of British manufactures in the United States, Canada, and other Western Hemisphere markets began to fall, owing to the decline in American import demand and to the increased competition of lower-priced American goods. In consequence, British dollar earnings—even with the addition of substantial amounts of United States dollar aid under the Marshall Plan—were insufficient to pay for Britain's dollar imports, and the resulting deficit could only be made up by drawing upon Britain's already slender gold and dollar reserves. Capital flight also added to the drain on Britain's reserves. The United Kingdom's gold and dollar reserves declined markedly throughout the spring of 1949 and by the end of June had fallen to a lower level than at any previous time, the war years not excepted. Other European countries experienced the same difficulties although to a much lesser degree.

Despite its inconvertibility during the postwar years, the pound sterling continued to be, for a variety of reasons, the most important world trading currency after the United States dollar, and it has been estimated that between one-third and one-half of world trade was conducted in sterling in the spring of 1949. In addition, many countries, both inside and outside the Sterling Area, held large balances in sterling which had been accumulated mainly during the wartime years in payment for their exports to the United Kingdom. Hence, any weakening of the pound sterling was of vital concern not only to private banks, insurance companies, shipping firms, commercial and financial concerns, and individual traders throughout the world, but to other governments as well. As the alarming news of the fall in the British gold and hard currency reserve spread through commercial, financial, and government circles during the spring of 1949, the conviction also spread that the British government would have to devaluate sterling in terms of gold

and dollars in the near future if the adverse trend of British exports was to be reversed. For currency devaluation was the only way in which the prices of sterling exports could quickly be made competitive with those of dollar exports, however temporary such relief might be. Devaluation of sterling would automatically compel other soft currency countries to devaluate their own currencies in order to protect their export markets. Thus a widespread fear of imminent currency devaluation was generated throughout the world economy during the first half of 1949.

The belief that a currency devaluation is imminent usually makes devaluation a certainty, because the actions which people take to protect themselves against the adverse effects of a possible devaluation are in themselves important causes of devaluation. Devaluation would simultaneously lower the prices of British exports and raise the prices of British imports. Therefore, foreign buyers had an incentive to postpone their purchases of British exports until after devaluation, when export prices would fall, and British importers had a converse incentive to accelerate their purchases of foreign goods, whose prices would rise after devaluation. In consequence, during the late spring and summer of 1949, British export earnings fell even more sharply than was warranted by the state of the export markets, and British payments for imports rose more rapidly than was strictly required to meet Britain's import needs. In addition, people in other countries who had to make payments to British firms withheld such payments until after devaluation, when they could buy the necessary sterling more cheaply, while people in the United Kingdom who owed money abroad hastened to make such payments in advance of their due dates because, after devaluation, they would have to give more pounds than formerly to obtain the required amounts of foreign currency. The net effect of these actions taken in anticipation of a devaluation of sterling was to magnify the United Kingdom's dollar deficit and to accelerate the loss of gold and dollars from the British reserve, thereby hastening the crisis which would make devaluation unavoidable.

The effect of the growing weakness of sterling on the premium gold market was immediate and far reaching and became itself an important cause of the subsequent devaluation. For, as the rumors of devaluation spread, the holders of sterling in other countries were forced to protect themselves against the loss in the purchasing power of their sterling assets which would result from devaluation. Consequently, they sought to transform their sterling holdings into gold, or hard currencies not likely to be devaluated, or commodities which they could buy with "discount" sterling. The effect was identical to that induced by rumors of an increase in the official price of gold, for the devaluation of sterling would in fact increase the official price of gold in terms of sterling, although not of course in dollars. Thus, during the late spring and summer of 1949, whatever flight from sterling may already have been produced by Havenga's earlier remarks about an increase in the official price of gold was very greatly intensified by the actions taken in anticipation of sterling devaluation. Premium prices rose steadily, and the volume of premium gold transactions mounted rapidly. As the British had feared all along, the growth in the premium market made the devaluation of sterling more certain than ever.

South Africa's New Attack on the Fund's Gold Policy

Having reached an agreement with the Fund early in May on the continuation of premium gold sales under certain safeguards, South Africa was in an excellent position to take full advantage of the rapidly growing demand for gold as a hedge against devaluation. Accordingly, sales of South African gold at premium prices increased substantially during the late spring and summer of 1949. Any lingering hope which the Fund might have had that the safeguards would prove so restrictive as to make premium sales unattractive was soon swept away by the effects of the developing crisis, which irresistibly increased both the incentive for, and the profitability of, premium gold transactions. Recognizing perhaps the virtual impossibility of withstanding the pressure of events and fully occupied with other and more important aspects of the crisis, the Fund made no effort to reopen the premium gold issue with the South African government or even to remonstrate at the growing volume of premium transactions.

It was, indeed, the South African government

which made the first move to reopen the controversy. With the general economic environment so favorable for premium gold transactions, the South Africans were convinced by the late summer of 1949 that the time had now come for a fundamental revision of the Fund's gold policy which would once and for all regularize premium sales by an explicit endorsement. Accordingly, they planned to introduce a resolution to this effect at the forthcoming annual meeting of the Fund's board of governors in mid-September 1949. In order to make the presentation of this resolution as effective as possible, the South African government appointed Havenga as its representative at the governors' meeting.

The board of governors assembled in Washington for its annual meeting at the very height of the devaluation crisis. By mid-September the United Kingdom's gold and hard currency reserve had sunk so low that everyone at the Fund realized that drastic remedial action must be taken in a matter of weeks, if not days. The financial experts were less clear as to the exact nature of that action. The most obvious possibility was a devaluation of the pound sterling vis-à-vis gold and hard currencies, with the other soft currencies following suit shortly after. But another and more far-reaching possibility was a general devaluation of all currencies in terms of gold, with the soft currencies experiencing a proportionately greater devaluation than the hard currencies. In effect, this would raise the official price of gold in terms of all currencies and would at the same time devaluate the soft currencies in terms of the hard currencies.

While this latter possibility was economically feasible and widely believed to be desirable, it presented immense practical difficulties. To accomplish a simultaneous devaluation of all currencies in terms of gold on a sliding scale would require a degree of conscious and rapid international planning and co-ordination quite beyond the capacity of the existing national and international decision-making machinery. Furthermore, adequate incentives were lacking for inducing the hard currency countries to devaluate in terms of gold. Throughout the postwar period, the United States and most other hard currency countries were net buyers of gold and consequently were not desirous of increasing the cost of their gold purchases. In addition, any change in the official par value of the dollar would require congressional action—a slow, uncertain, and politically disagreeable prospect. For these reasons, the possibility of a general devaluation of all currencies in terms of gold had little chance of practical accomplishment, despite its theoretical merits.

The South Africans were nevertheless influenced by this possibility and undoubtedly hoped that the resolution they planned to introduce on premium gold sales would pave the way for its ultimate accomplishment. In any event, the atmosphere of crisis at the governors' meeting would itself be favorable to the adoption of drastic proposals of any sort, and the South Africans had much to gain from winning the Fund's open approval of premium gold transactions, even if the larger objective of an increase in the official gold price could not be accomplished. Accordingly, Havenga introduced the following resolution early in the session:

> WHEREAS, it is the desire of all members of the International Monetary Fund to persevere in their endeavour to secure international co-operation in monetary and foreign exchange matters on the basis accepted by the Bretton Woods Conference, and
>
> WHEREAS, it would be unreasonable to attempt to secure such co-operation on the basis of disproportionate sacrifice by members producing gold, and
>
> WHEREAS, the price for gold used for monetary purposes in terms of Article IV, Sec. 1, of the Articles of Agreement of the International Monetary Fund has remained unchanged since the inception of the Fund, and
>
> WHEREAS, the prices of other commodities have in the meantime increased by substantial margins, and
>
> WHEREAS, the maintenance of stable exchange rates is the reason for fixing the price of gold at the same figure over considerable periods of time, and
>
> WHEREAS, the maintenance of the price at present fixed in terms of the Fund Agreement has, in the face of substantial increase in the price-level of other commodities, only been secured at heavy, disproportionate and unjustifiable cost to countries producing gold, and
>
> WHEREAS, it is permissible in terms of the Fund Agreement to sell newly-mined gold in any market,
>
> SO THEREFORE, it is Now Resolved by the Governors of the International Monetary Fund that nothing in the Articles of Agreement of the Fund shall be interpreted to prevent the sale, by the Government of any member, of newly-mined gold in any market at such premium prices as may be ruling in that market provided the said member sells to the Fund or to one or

> more members of the Fund, or transfers to its own monetary reserves at least fifty per cent of its newly-mined gold at the price from time to time current in terms of the Articles of Agreement of the Fund.

The adoption of this resolution would mean that one-half of the gold annually produced by the Fund's members could be sold at premium prices with the official endorsement of the organization. The official price of gold would continue to govern only the sales of the remaining half of the newly mined gold plus the sale of old gold. This explicit approval of premium sales by the Fund and the resulting drastic curtailment of the area of effectiveness of the official $35 price would sooner or later make inevitable an increase in the price to something nearer the average height of gold premiums. South Africa would thereby achieve its major objective of increasing its earnings from gold exports.

The majority members of the Fund recognized the full implications of the South African resolution. They were convinced that a sliding scale devaluation of all currencies in terms of gold was impractical and, therefore, they could not approve Havenga's proposal, since it was clearly an opening move in that direction. Furthermore the United States and British members of the board of governors, and possibly some others, already knew that within a few days the Fund would be called upon to approve the unilateral devaluation of sterling, which the British government was about to propose. In their view, this would constitute effective remedial action more acceptable than a general devaluation of all currencies in terms of gold. Consequently they had little difficulty in side-tracking the South African resolution. On the grounds that "the considerations which are raised are so complex and important as to require extensive study," the board of governors voted "to refer the said resolution to the Executive Directors of the Fund for study of all relevant considerations and report to the Board of Governors" at the next annual meeting.

Two days later the United Kingdom obtained the Fund's approval of the devaluation of sterling by over thirty percent, and during the ensuing week most of the other European currencies and many non-European currencies, including the South African pound, followed suit. Not only was this drastic reduction in the value of soft currencies sufficient to halt the loss of Britain's gold and dollar reserve but, in conjunction with a general change in more fundamental economic trends, it eventually saved the Fund's gold policy and brought South Africa's premium gold sales to a temporary end.

The Staff's Report

The governors' request that the executive board study the South African resolution was in turn referred to the staff for a preliminary report. The staff was mindful of the strategy obviously being followed by the majority, which was to delay formal consideration of the South African resolution on the very good chance that the after-effects of devaluation would remove most of the incentives for premium sales. Consequently the staff was not pressed for time and was able to make a more thorough investigation than ever before of the whole complex of problems involved in the Fund's gold policy.

It was not until the early part of February 1950 that a preliminary draft of the staff's report was ready for distribution to the executive directors. This document, including the technical and statistical appendices, ran well over a hundred single-spaced pages and was an authoritative account of the size, organization, and economic consequences of the postwar trade in premium gold. Only an organization like the Fund, enjoying an unrivaled access to financial and monetary information, could have produced so thorough a study of a normally clandestine activity.

The staff's report traced in detail the growth and organization of the postwar premium gold market and analyzed its economic consequences. It thoroughly examined the pros and cons of each of the changes which could conceivably be made in the Fund's gold policy and in the Fund's position on premium gold sales, and it analyzed the validity of the arguments offered for and against such changes. The staff concluded, though not without a great many qualifications and exceptions, that on balance it would probably be desirable to allow gold exporting countries substantial freedom of action to dispose of their gold as they wished, subject only to the general obligation under the Articles of Agreement to cooperate in maintaining currency stability and to the specific obligation under Article IV, Section 2, prohibiting the sale of gold under the official

price and the purchase of gold over the official price by member governments.

The reasoning which led the staff to conclude that a significant modification of the Fund's gold policy was desirable is difficult to disentangle from the cautions, qualifications, and exceptions simultaneously presented. In the main, however, the staff appeared to have recognized both the equity of South Africa's claim that the fixed official price imposed an unfair burden on gold producing countries and the validity of the minority's argument that the Fund's objectives could be more easily attained through a policy of greater economic freedom. For the staff admitted in effect that the system of comprehensive direct controls had not only failed to suppress the private premium gold market but had kept the premium high by increasing the difficulty of obtaining gold. The staff predicted that a more liberal policy toward premium gold transactions would virtually eliminate the problem of enforcement as far as the Fund was concerned and would probably result in the elimination of premium prices, although it would of course not eliminate the private hoarding of gold. For these reasons the staff very tentatively suggested that the executive board consider the possibility of relaxing the Fund's gold policy to allow the gold exporting countries substantial freedom of action. In effect the staff had now abandoned the majority position and sided with the minority.

The Fund's Gold Policy Is Reaffirmed

Although the staff's report was distributed at the beginning of February, it was not until April 11, 1950 that the executive board finally began its discussion of the report. Between April 11 and April 25, the board devoted a total of nine sessions to the staff's report and to the South African resolution. Most of these meetings were attended by South African representatives, who came to Washington especially for the purpose and were permitted unusual freedom to participate in the debate. By the time this series of meetings was finished, the board had thoroughly re-examined virtually every aspect of the Fund's gold policy and of its position on premium gold sales.

Nevertheless, these discussions added little that was new to the substantive arguments presented at one time or another during the previous year and a half by the various participants. Nor did any change in the basic division of opinion among the executive directors result from these meetings. To the already familiar arguments derived from South Africa's adverse terms of trade, the South African representatives added only the novel contention that the Fund was wrong in considering the official hoarding of gold beneficial and the private hoarding of gold harmful. In their view, official hoarding was perforce unnecessarily authoritarian in its methods and inflationary in its results, while private hoarding was sanctioned by immemorial custom and was a recognized form of private savings. Furthermore, the figures given in the staff's report proved that leakage from official reserves, not newly mined gold, was the chief source of supply for private hoarding. Therefore, the Fund could permit the sale of much more newly mined gold at premium prices without significantly increasing the amount going into private hoards. If the Fund's objective was to channel newly mined gold into official reserves, the best way to do so would be to allow official buyers to pay a higher price for gold than private hoarders were prepared to give.

The majority was unimpressed by these new arguments and adhered steadfastly to the position it had taken from the beginning of the controversy. Indeed, possibly for tactical reasons, the United States and British executive directors expressed the view that, if anything, the Fund's policy should be strengthened rather than weakened. The loopholes in the existing network of controls should be closed and the whole system should be more rigidly and conscientiously enforced by all members. The British were especially opposed to any suggestion that the Fund's gold policy be relaxed. Having safely weathered the devaluation crisis of the previous year, the United Kingdom could not afford to risk a new flight from sterling which the British government feared would occur if the volume of premium sales were permitted to increase or if new rumors began to circulate of a possible rise in the official gold price. Both the Canadian and the Indian executive directors spoke strongly against the South African resolution and against the staff's suggestion that the Fund adopt a more liberal gold policy.

The minority position was again ably defended by the French executive director with considerable help from the Belgian, Dutch, and Australian executive directors. They argued principally for acceptance of the staff's suggestion rather than the South African resolution, although they did not oppose the latter in the formal votes. The minority members were as convinced as ever that the Fund's policy of direct controls was self-defeating and urged once again that greater freedom for the operation of price incentives and normal market forces was the best way to achieve the Fund's objective of currency stability. Although on this occasion it had the active support of the staff, the minority was no more successful than hitherto in persuading the majority to change its position.

Only two formal votes were taken: one on the South African resolution and the other on the staff's recommendation. Although the latter received more support than the former, both propositions were defeated by the majority. The staff was instructed to revise its report, omitting all reference to its suggestion for a more liberal policy and the arguments which might support it. Instead of publishing the lengthy staff report even in revised form, the board decided to issue only a brief statement of the considerations which had led it to reaffirm the Fund's gold policy and position on premium sales. At the insistence of the minority, however, the majority agreed that the public statement should include a reference to the minority's position. This was not sufficient to satisfy the French executive director, who formally reserved the right publicly to explain his own views more fully than would be possible in the board's brief statement.

Accordingly, at the end of April 1950, the executive board published its report on premium gold transactions, the relevant portions of which read as follows:

> The Executive Board has given thorough consideration to the South African resolution and has reviewed the Fund's policy as expressed in the statement of June 18, 1947, on external transactions in gold at premium prices. The staff of the Fund studied at length the various problems involved and the Executive Board carefully considered the findings of the staff and the arguments for and against a change in the present policy. After full discussion the Executive Board concluded that a change in the present policy is not desirable.
>
> In considering all economic aspects of the present policy, the Executive Board noted that comparatively large quantities of gold have continued to go into private hoards. The Executive Board also took note of arguments that a relaxation of the Fund's gold policy would increase only to a small degree, if at all, the flow of gold now going into private hoards, and would have the beneficial effect of eliminating the premium on gold in terms of dollars and of reducing to some extent the premium in terms of inconvertible currencies.
>
> The Executive Board took the view, however, that in present circumstances the freer international movement of gold into private hoards in certain countries in the Middle East, the Far East and other regions, could absorb substantially more of the current foreign exchange receipts of these countries and further impair their monetary reserves. At a time when many countries have large deficits in their international payments which must be met by inter-governmental grants and credits, and when severe exchange and import restrictions are maintained to avoid a breakdown in international payments, large external transactions in gold at premium prices must increase the difficulty of restoring international balance and the severity of the exchange and import restrictions that are maintained.
>
> Furthermore, it is inevitable that external transactions in gold at premium prices will directly or indirectly give rise to exchange transactions at depreciated rates. These exchange transactions are often in violation of the laws of the countries concerned and, in any case, encourage evasion of the requirements that export proceeds be sold at the official exchange rate. Such exchange transactions at a discount from official rates may affect adversely and unfairly the trade of other countries.
>
> In the nearly three years since the Fund's policy was announced members have endeavored to conform to it as closely as practicable. The Fund has been in active consultation with them to minimize the flow of gold into premium markets. Although a sizeable quantity of gold has continued to flow into these markets, the amount has been less than it would have been if Fund members and some non-members had not been concerned to make the Fund's policy effective.
>
> The South African proposal to modify the present policy to allow half of the newly mined gold to go to premium markets would result in an increase in the flow of gold to premium markets and add to the loss of current exchange receipts and reserves by gold absorbing countries. Moreover, this proposal would

> destroy the basic distinction between the supply of gold for monetary purposes and the supply of gold for non-monetary purposes. It should be noted that since the South African resolution was proposed, the change in exchange rates in a large part of the world has materially improved the position of many gold producing countries.
>
> The Executive Board has also studied, together with many other relevant factors, the question of whether there should be a uniform change in the par values of all currencies. In its view there is no economic justification for recommending such a change to the Board of Governors.
>
> The Executive Board, therefore, recommends that the Board of Governors do not adopt the resolution of the Governor for South Africa. It has also decided that there is no reason to change the policy expressed in the Fund's Statement on External Gold Transactions at Premium Prices on June 18, 1947. They trust that members will continue to collaborate with the Fund in giving effect to the policy outlined in the Fund's Statement.

The South Africans did not accept the defeat of their resolution without a public reply. On May 5, Havenga addressed the South African Parliament on the subject of the executive board's report. "This," said he, "is the report we have been waiting for during the last six months. I would point out at once that the report avoids the main points which I raised in my statement to the Board of Governors. As an objective report on the merits of the important issues affecting the very existence of the Fund, the Board has failed to meet my challenge. In spite of six month's work, we are no further in this regard than we were last September."

Havenga concluded his remarks with a warning. "The devaluations of last year have given us some breathing space. We will watch very closely the future course of the Fund's largely discredited gold policy, now reaffirmed by the Executive Board. . . . As most members have adjusted their own attitudes with regard to the Fund's gold policy with an eye to their interests rather than international objectives of the Fund, the Union [of South Africa] must reserve the right to do the same. . . . We will watch the course of events very closely bearing in mind that the Union cannot in the long run carry the greater part of the burden of maintaining the Fund's policy of exchange stability."

The Temporary Disappearance of the Premium Market

The references both in the executive board's statement and in Havenga's remarks to the beneficial effects of devaluation on the position of the gold producing countries are the real clue to the salvation of the Fund's gold policy. For, during the eight months between the devaluation of the soft currencies and the publication of the executive board's report, a remarkable change had taken place in the international economic landscape.

The devaluations immediately benefited the gold producers by increasing the monetary price of gold in terms of soft currencies. South Africa, as a member of the Sterling Area, devaluated its own pound at the same time as the United Kingdom. This meant that South African gold producers received a higher price in South African pounds for each unit of gold sold. Further, gold exported to other countries which had also devaluated their currencies now commanded a higher price. While gold exported to the hard currency countries still sold for the same amounts of foreign exchange, in this instance, too, the South African gold mining industry received a larger amount of South African pounds than formerly in return for the same amount of dollars and other hard currencies which it earned and was required to turn over to the South African Treasury. Consequently, the pressure from the gold mining industry on the South African government was considerably relaxed as a result of the devaluation of the soft currencies.

Although devaluation had not automatically increased South Africa's earnings of dollars and other hard currencies, this problem tended to lessen, too, during the first half of 1950. The United States recession of the previous year was over, industrial activity once again rose in the United States, and import demand for both raw materials and manufactured goods increased. Devaluation made the prices of British and other European exports more competitive with those of United States goods both in the United States and elsewhere in the Western Hemisphere. In consequence, dollar earnings and other hard currency earnings recovered most of the ground lost in the previous year and, by the spring of 1950, promised soon to reach a new postwar high level.

These favorable developments were enhanced by certain automatic consequences of the devaluation of soft currencies. Purchases of British exports and payments from abroad due to British firms, which had been postponed in anticipation of devaluation, were now made, thereby increasing the flow of foreign exchange into the British Treasury. Conversely, the abnormally large imports of goods into Britain and the payment of British external debts prior to their due dates now ceased, thereby reducing the out-payments of foreign exchange by the British Treasury. This was the reversal of the process which had taken place in the previous year in anticipation of devaluation, and the United Kingdom's gold and dollar reserve rapidly made up all of the losses incurred before devaluation.

The increased competitive ability of soft currency exports in the world market, the recovery of United States import demand, the rise in British and other European gold and dollar reserves, and the consequent liberalization of many trade and exchange restrictions in various parts of the world all combined to produce a revival of confidence in national currencies and in the world economic outlook during the first half of 1950. In turn, this marked improvement in public and business confidence wiped out much of the private demand for gold for hoarding purposes, as it now appeared safer to invest capital in productive enterprises. Rather than continue to hold their assets in the unremunerative form of gold, many private hoarders began to sell their gold in exchange for currencies, thereby increasing the supply of gold to the premium markets precisely at a time when the demand was dropping.[16]

Premium prices began to fall at the beginning of 1950, and by May and early June of that year the premium was insignificant. To all intents and purposes, the private premium market for gold was rapidly disappearing in the late spring of 1950.

Having lost most of the incentive for, as well as the opportunity to engage in, premium gold sales, the South Africans reduced this practice to small proportions during the spring of 1950. In fact, by the time the executive board finally gave its attention to the South African resolution, the question of premium gold transactions was becoming an academic one. Not so, of course, the issue of the official gold price, for the South African government would still have benefited from an increase in the price of gold in terms of hard currencies, a development which would have been foreshadowed by adoption of the South African resolution. It was mainly for this reason, as Havenga admitted in his last speech on the subject, that the South Africans continued to press their resolution so vigorously in the spring of 1950 despite the fact that by that time the private premium market was disappearing.

These events vindicated the strategic choice made by the majority members in September 1949, when they had postponed immediate consideration of the South African resolution and encouraged the staff to take as much time as needed in the preparation of its report. By mid-April of 1950, when it finally consented to discuss the subject, the majority had little difficulty in proving that South Africa's balance-of-payments position was not nearly as bad as it had previously been and that the South African gold producers were not suffering from an inability to obtain a fair price for their product in terms of their own currency. This strategic delay in the consideration of the problem by the executive board allowed time for the favorable course of international economic developments to save the Fund's gold policy.

So, by the beginning of June 1950, the Fund could congratulate itself on having apparently brought the premium gold controversy to a satisfactory conclusion without impairment of its basic gold policy and with only minor loss of prestige, already nearly forgotten. The premium gold transactions seemed no more than temporary dislocations, inevitable in a period of postwar readjustment and now permanently disappearing

[16] During the last half of 1949 and the first quarter of 1950, the supply of gold to premium markets was also increased by the great out-flow of previously hoarded gold from China. Refugees from the Communists cashed in their gold hoards in order to obtain currencies for living expenses and investment outside of China, while the Chinese Communists forced many hoarders remaining in China to disgorge under threat of confiscation or death. Just as the Chinese demand for gold prior to the Communist conquest was one of the major factors which kept the gold premium high, so after the Communist conquest the reflux of previously hoarded gold from China forced the premium down.

with the return of "normal" economic conditions. The Fund's gold policy appeared more unshakeable than ever before. Though the minority might with reason urge that, at bottom, it was the greater economic freedom of the post-devaluation period which was bringing the premium market to an end, the majority could feel that the position which it had steadfastly maintained with so much difficulty for the past two years had finally been vindicated and would be unassailable in the future.

The Later Phase of the Controversy

On this note of triumph for the Fund, the detailed account of the premium gold controversy can be brought to an end. Unfortunately for the Fund, however, the happy expectations of early June 1950 proved unfounded as a result of events quite unforeseen by its members or staff. At the end of June 1950 the North Koreans invaded South Korea, and limited war broke out between the United Nations and the Communist bloc. The resulting political insecurity and the renewed inflation produced by intensive rearmament efforts rapidly revived the private demand for gold. During the second half of 1950 and most of 1951, premium gold sales occurred in considerably larger volume than previously in the postwar period, though premium prices did not rise as high as in 1949.

These developments inevitably reopened the controversy between the Fund and the Union of South Africa. This second phase of the controversy was—if anything—even more bitter than the first phase described in the preceding chapters. But a detailed review of it would add no new insights either into the substantive economic issues at stake or into the decision-making process in international organizations like the Fund. The interests and arguments of the participants were the same; the tactical considerations were similar; and the possible courses of action open to the Fund were identical.

However, the outcome of the second phase of the controversy was considerably different from that of the first. In effect, the majority directors were finally compelled by events to recognize the validity of the view expressed by the minority directors almost from the beginning of the controversy and tentatively recommended by the staff in its still unpublished report of February 1950—that the best way to help bring premium gold sales to an end was through greater economic freedom, rather than through stronger and more comprehensive economic controls. In September 1951, the majority reluctantly agreed to an important modification of the Fund's gold policy. Behind the euphemistic phraseology of the following sentences—designed to save face for the majority by making the September 1951 policy statement appear to be fully consistent with that of June 1947—the final triumph of the minority view could be discerned:

> Despite the improvement in the payments positions of many members, sound gold and exchange policy of members continues to require that, to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. . . .
>
> However, the Fund's continuous study of the situation in gold-producing and consuming countries shows that their positions vary so widely as to make it impracticable to expect all members to take uniform measures in order to achieve the objectives of the premium gold statement [of June 1947]. Accordingly, while the Fund reaffirms its belief in the economic principles involved and urges the members to support them, the Fund leaves to its members the practical operating decisions involved in their implementation.

By the last sentence, the Fund abandoned its attempt to induce its members to enforce uniformly stringent measures designed directly to prohibit premium gold sales. Instead, each member could decide for itself how best to foster the general objective of strengthening and stabilizing national currencies.

It was a foregone conclusion that most of the gold producing member countries would now follow South Africa's example and provide gold to the premium markets on a substantial scale. Just as the large amounts of South African gold flowing into the premium market between July 1950 and September 1951 helped to prevent premium prices from rising as high as during the first phase of the controversy, so the additional influx of gold after the September 1951 modification of the Fund's gold policy helped to force the price still lower during 1952. Finally, with the improvement in world political and economic conditions in the mid-1950s, the private demand for gold for hoarding purposes shrank to minor proportions.

* * *

By the end of 1953 the premium gold problem was once again as unimportant as it had seemed at the beginning of June 1950. In retrospect, the majority members—particularly the United States—could console themselves that throughout both stages of the controversy they had managed to preserve inviolate the official gold price of $35 an ounce. The minority could congratulate itself on the ultimate vindication of its faith in economic liberalism. The Managing Director and staff could take great satisfaction in the final settlement of a controversy so threatening to the prestige and effectiveness of the organization which they served. And the Fund as a whole could again return to contemplating with undivided attention what it had always considered the most important item on its agenda—the eventual restoration of a worldwide system of convertible currencies and nondiscriminatory multilateral trade.

WORLD GOLD PRODUCTION

Countries	1929	1940	1946	1947	1948	1949	1950	1953
	Weight, in thousands of fine ounces							
Union of South Africa	10,412	14,038	11,918	11,198	11,575	11,708	11,659	11,940
Canada	1,928	5,333	2,833	3,070	3,542	4,124	4,441	4,069
United States	2,059	4,870	1,625	2,321	2,099	1,996	2,375	1,990
Australia	426	1,644	824	937	891	893	861	1,074
British West Africa	208	939	590	563	675	677	689	731
Southern Rhodesia	562	833	552	523	514	528	511	501
Philippines	163	1,121	1	64	209	288	334	480
Mexico	652	883	421	465	368	406	408	479
Colombia	137	632	437	383	335	359	379	436
Belgian Congo	173	559	331	301	300	334	339	370
Nicaragua[a]	12	163	203	213	223	216	225	261
India	364	289	131	172	181	164	197	212
Japan	335	864	43	69	69	84	135	225*
Chile	26	343	231	169	164	179	186	140*
Brazil[b]	107	150	140	136	130	119	132	115
Peru	121	281	158	116	111	138	148	140*
New Guinea	36	295	n.a.	n.a.	87	93	80	120*
Fiji	n.a.	111	n.a.	n.a.	93	104	103	95*
Sweden	35	209	92	76	72	80	79	70*
New Zealand	120	186	119	112	94	85	77	60*
Total listed	17,876	33,743	20,649	20,888	21,732	22,575	23,358	23,508
Other countries[c]	624	3,257	1,251	1,412	1,068	1,225	1,142	1,092
Estimated world total[c]	18,500	37,000	21,900	22,300	22,800	23,800	24,500	24,600
	Value, in millions of U. S. dollars							
Value of estimated world total, at $35 per fine ounce	$648	$1,295	$766	$780	$798	$833	$858	$860

[a]Exports, representing about 90 percent of total.
[b]Excluding alluvial gold production, which is small.
[c]Estimates, excluding U.S.S.R.
*Estimated or provisional figure.

SOURCE: *Annual Reports*, Bank for International Settlements (Basle, Switzerland).

Brief Chronology

1947

June: Fund issues gold policy statement.

1948

August: South Africa considers premium gold transactions.

September: South Africa notifies Fund of proposed premium gold sale.

September 24: Preliminary discussion of South African proposal by executive board.

October 4: Main discussion of South African proposal by executive board.

October 5: Fund sends letter to South African government.

1949

February 5: South Africa notifies Fund of signing of premium gold contract.

February 7: South African government makes public announcement of premium gold sale.

February 10: Executive board discusses South Africa's action; Fund sends letter to South African government and issues first press release on premium gold sale.

February 23: Fund finally receives South African government's reply to its letter; executive board prepares and cables answer to South Africa.

February 24: Havenga attacks Fund's gold policy in speech before South African Parliament.

February 25: Fund issues second release replying to Havenga's attack.

March 2: South Africa makes public reply to Fund's second press release.

March 7: Gutt proposes personal approach to South African government.

March 9: Executive board approves Gutt's letter to Havenga.

March 14: Havenga invites Gutt to visit South Africa.

April 6: Executive board approves Gutt's trip to South Africa.

April 21-22: Executive board reviews Fund's gold policy.

May: Gutt makes trip to South Africa.

May 5: Gutt cables terms of proposed compromise to executive board.

May 6: Executive board approves proposed compromise.

May 11: Gutt and Havenga make public announcement of compromise in South Africa.

May-September: Devaluation crisis.

September: New Havenga attack on Fund's gold policy at board of governors' annual meeting.

September 16: Board of governors refers Havenga's proposal to executive board for study and report.

September 18-21: Fund approves devaluation of sterling and other soft currencies.

1950

February: Staff distributes its report and recommendations on Fund's gold policy to executive board.

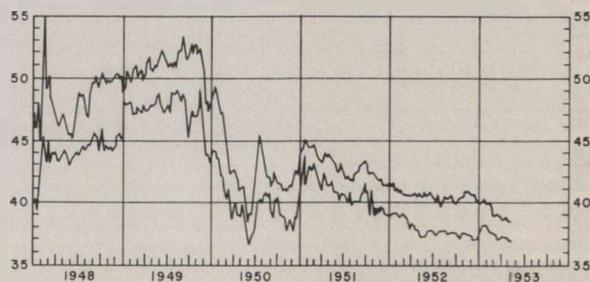
April 11-21: Executive board discusses staff report and recommendations and South African proposal.

May 3: Executive board publishes its report recommending no changes in Fund's gold policy.

May 5: Havenga addresses South African Parliament on executive board's report.

PRICE RANGE OF GOLD BARS IN FREE MARKETS

Price given at the dollar rate for bank-notes, in United States dollars per fine ounce



Source: *Twenty-third Annual Report; April 1, 1952-March 31, 1953,* Bank for International Settlements (Basle: June 8, 1953), p. 150.

Inter-University Case Program

CPAC CASE STUDIES, 1948-1951

*Air Search and Rescue Program, The. 1950. W. Scott Payne. $1.25.
*Attack on the Cost of Living Index, The. 1951. Kathryn Smul Arnow. $1.35.
*Cambridge City Manager, The. 1951. Frank C. Abbot. $1.50.
Consumers' Counsel, The. 1949, revised 1950. Kathryn Smul Arnow. $1.75.
*Defense Plant Corporation, The. 1950. Clifford J. Durr. $.75.
*Disposal of the Aluminum Plants, The. 1948, revised 1952. Harold Stein. $.75.
*FBI Retirement Bill, The. 1949. Joseph F. Marsh, Jr. $.50.
Feasibility Dispute, The. 1950. John Brigante. $1.75.
*Foreign Service Act of 1946, The. 1949, revised 1952. Harold Stein. $1.75.
*Gotham in the Air Age. 1950, revised 1952. Herbert Kaufman. $1.00.
*Indonesian Assignment. 1950. Charles Wolf, Jr. $.20.
*Kings River Project, The. 1949, revised 1950. Arthur A. Maass. $.70.
Latin American Proceeding, The. 1949. W. Scott Payne. $1.75.
*Natural Cement Issue, The. 1950. Paul N. Ylvisaker. $1.00.
*National Labor Relations Board Field Examiner, The. 1951. William H. Riker. $.50.
*Office of Education Library, The. 1950. Corinne Silverman. $.40.
*Reconversion Controversy, The. 1950. Jack W. Peltason, $1.75.
*Sale of the Tankers, The. 1950, revised 1952. Louis W. Koenig. $1.75.
*Self-Insurance in the Treasury. 1949, revised 1952. Kathryn Smul Arnow. $.25.
Smith and the OPA. 1950. Robert L. Gold. $.75.
*Transfer of the Children's Bureau, The. 1949, revised 1952. E. Drexel Godfrey, Jr. $.45.
*TVA Ammonia Plant, The. 1950. Ellen St. Sure. $.75.

ICP CASE SERIES, 1951—

1. Firing of Pat Jackson, The. 1951. William H. Riker. $.25.
*2. Cancellation of the Ration Stamps. 1952. Martin Kriesberg. $.20.
*3. Emergency Rubber Project, The. 1952. Martin Kreisberg. $.25.
*4. Glavis-Ballinger Dispute, The. 1952. Winifred McCulloch. $.20.
*5. Regional Director and the Press, The. 1952. $.20.
*6. Production Planning in the Patent Office. 1952. Arch Dotson. $.20.
*7. Rural Electrification Administration Personnel Report, The. 1952. Winifred McCulloch. $.20.
*8. Veterans' Gas Ration, The. 1952. William H. Riker. $.20.
9. New York City Health Centers, The. Rev. ed. 1959. Herbert Kaufman. $.50.
10. Displaced Career Employee Program, The. 1952. James E. Drury. $.65.
11. UN Publications Board, The. 1952. Herbert Kaufman. $.75.
12. New York Farm Labor Camps, The. 1953. Ronald M. Stout. $1.40.
13. Wilderness Sanctuary. 1953. Rev. ed. 1954. Russell P. Andrews. $.25.
14. Reorganizing the Massachusetts Department of Conservation. 1953. Thomas H. Eliot. $.70.
15. Gainesville School Problem, The. 1953. Frank T. Adams, Jr. $.30.
16. Three Cases in Field Administration. 1953. P. B. Crooks, H. D. Lakin, F. J. Pratt. $.50.
17. Whittier Narrows Dam, The. 1953. Donald E. Pearson. $.60.
18. Taxing the Southern Railway in Alabama. 1953. Rev. ed. 1960. Valerie A. and Chester B. Earle. $.75.
19. Regional Information Officer, The. 1953. Martin Kriesberg. $.20
20. Promotion of Lem Merrill, The. 1954. Rev. ed. 1960. Valerie A. and Chester B. Earle. $.90.
21. Department of Commerce Field Service, The. 1954. Kathryn Smul Arnow. $.50.
22. Van Waters Case, The. 1954. Rev. ed. 1960. Thomas H. Eliot. $.60.
23. Michigan State Director of Elections, The. 1954. Glendon A. Schubert, Jr. $.70.
24. Army Flies the Mails, The. 1954. Paul D. Tillett. $1.40.
25. Battle of Blue Earth County, The. Rev. ed. 1955. Paul N. Ylvisaker. $.50.
26. Defending "The Hill" Against Metal Houses. 1955. Rev. ed. 1960. William K. Muir, Jr. $.50.
27. Closing of Newark Airport, The. 1955. Paul Tillett and Myron Weiner. $1.00.
28. Impounding of Funds by the Bureau of the Budget, The. 1955. J. D. Williams. $.50.
29. Michigan Athletic Awards Rule, The. 1955. Glendon A. Schubert, Jr., Helenan Sonnenburg, George Kantrowitz. $.35.
30. Public Advisory Board and the Tariff Study, The. 1956. David S. Brown. $.50.
31. Transfer of the Kansas State Civil Service Department, The. 1956. Peter Bart and Milton Cummings, Jr. $.35.
32. Reorganization of the California State Personnel Board, The. 1956. F. C. Mosher. $.90.
33. Coterminous Boundaries Dispute, The. 1956. Edwin A. Read. $.20.
34. (Resources Case) From Forest to Front Page. 1956. Roscoe C. Martin. $1.25.
35. General Accounting Office: Two Glimpses, The. 1956. Gerald G. Schulsinger. $1.00.
36. Appointed by the Mayor. 1956. William N. Kinnard, Jr. $.30.
37. Flagstaff Federal Sustained Yield Unit, The. 1957. Paul W. Bedard and Paul N. Ylvisaker. $.35.
38. New Bedford Manpower Incident, The. 1957. Kathryn Smul Arnow. $.85.
39. 'Lonesome Train' in Levittown, The. 1958. Joseph F. Maloney. $.35.
40. Decentralization of Business Services in the Agricultural Research Service, The. 1958. Lynn W. Eley. $.50.
41. Little Rock Story, The. 1958. Rev. ed. 1959. Corinne Silverman. $.50.
42. Commuters vs. the Black Ball Line. 1959. William J. Gore and Evelyn Shipman. $.80.
43. Mayor and the Fire Chief, The. 1959. Frank P. Sherwood and Beatrice Markey. $.60.
44. Personnel Problems in Converting to Automation. 1959. James R. Bell and Lynwood B. Steedman. $.45.
45. Moses on the Green. 1959. John B. Keeley. $.25.
46. (Resources Case) Echo Park Controversy, The. 1959. Owen Stratton and Phillip Sirotkin. $1.85.
47. Reorganization of Philadelphia General Hospital, The. 1959. Marianna Robinson and Corinne Silverman. $.75.
48. President's Economic Advisers, The. 1959. Corinne Silverman. $.35.
49. Seattle Seeks a Tax. 1959. Robert L. Peabody. $.45.
50. Trenton Milk Contract, The. 1959. Robert Golembiewski. $.45.
51. Hanover Builds a High School. 1959. Louis Menand III. $.45
52. Steel Seizure of 1952, The. 1960. Grant McConnell. $1.00.
53. Martial Law in East Texas. 1960. Warner E. Mills, Jr. $.40.
54. Shredded Wheat Property, The. 1960. Howard F. Miller. $.50.
55. (Resources Case) Upstream-Downstream Controversy in the Arkansas-White-Red Basins Survey, The. 1960. Irving K. Fox and Isabel Picken. $1.00.
56. General Passenger Fare Investigation, The. 1960. Emmette S. Redford. $1.50.
57. Grazing Fee Dilemma, The. 1960. Phillip O. Foss. $.30.
58. Florida Flood Control District, The. 1960. John DeGrove. $.50.
59. Defense Appropriations Rider, The. 1960. Edith T. Carper. $.55.
60. Governor Freeman and the Minnesota Budget. 1961. Thomas Flinn. $.75.
61. County Buys Dunwoodie Golf Course, The. 1961. Robert T. Daland. $.40.
62. Congress Passes the Federal Aviation Act of 1958. 1961. Emmette S. Redford. $.50.
63. Premium Gold Controversy in the International Monetary Fund, The. 1961. Theodore Geiger. $1.50.

These ICP cases emphasize government, but they impinge on such fields as agriculture, aviation, business administration, conservation, economics, education, engineering, international affairs, labor relations, law, personnel, journalism, public health, public relations, social service, sociology and anthropology, and planning. Write University of Alabama Press, Drawer 2877, University, Alabama, for a descriptive catalog. Discounts are allowed on quantity orders. Titles marked with an asterisk were also published in a case book, ***Public Administration and Policy Development,*** edited by Harold Stein, published by Harcourt, Brace and Company, Inc.