

73

**THE ROLE OF GOLD
IN THE INTERNATIONAL
MONETARY SYSTEM**

BY—

NASEEM M. SHAIKH

JULY 1968

THE ROLE OF GOLD IN THE INTERNATIONAL MONETARY SYSTEM

A Dissertation
Submitted to University of Poona
In Partial Fulfilment of the Requirement
For Master's Degree in Philosophy
With Specialization in Economics

By

Mrs. Naseem Muzaffar Shaikh

GOKHALE INSTITUTE OF POLITICS AND ECONOMICS

PUNE 411 004

JULY 1988

ACKNOWLEDGEMENTS

I am extremely obliged to Dr. B.G. Bapat for helping me in writing this dissertation. His encouragement and valuable guidance was of great help in determining the final shape of this work.

I am grateful to my family and friends whose encouragement has helped me a lot in pursuing this work.

My thanks are also due to the excellent library staff for helping me to locate the relevant books needed for my study.

Finally, my special thanks to Shri Moghe for neat and prompt typing of this dissertation.

Pune
July 1988

Naseem Shaikh

ACKNOWLEDGEMENTS

I am extremely obliged to Dr. B.G. Bapat for helping me in writing this dissertation. His encouragement and valuable guidance was of great help in determining the final shape of this work.

I am grateful to my family and friends whose encouragement has helped me a lot in pursuing this work.

My thanks are also due to the excellent library staff for helping me to locate the relevant books needed for my study.

Finally, my special thanks to Shri Moghe for neat and prompt typing of this dissertation.

Pune

Naseem Shaikh

July 1988

Contents

| | <u>Page</u> |
|------------------|-------------|
| Acknowledgements | (i) |
| List of Figures | (iv) |
| List of Tables | (v) |

CHAPTER

| | | |
|-----|--|----|
| I | Introduction | 1 |
| II | History of Money, Historical Background of Gold Standard | 5 |
| | 2.1 History of Money | 5 |
| | 2.2 Definition of Money | 5 |
| | 2.3 Why was gold used as money | 6 |
| | 2.4 Development of coinage | 6 |
| | 2.5 Historical background of the gold standard | 8 |
| III | Gold in the International Monetary System I : Gold Standard | 11 |
| | 3.1 Text Book version | 11 |
| | 3.2 Collapse of the Gold Standard | 18 |
| | 3.3 How did gold standard actually worked | 23 |
| IV | Gold in the International Monetary System II | 32 |
| | 4.1 International Monetary Fund | 32 |
| | 4.2 Articles of Agreement of the Fund related to gold | 33 |
| | 4.3 Role of gold in IMF | 35 |
| | 4.4 Arguments in favour of the gold standard and the IMF parallelism | 36 |

| <u>CHAPTER</u> | | <u>Page</u> |
|----------------|---|-------------|
| | 4.5 Keynes view - Parallelism between the gold standard and the IMF | 38 |
| | 4.6 Formation of Gold Pool | 39 |
| | 4.7 Two tier system | 44 |
| | 4.8 Review of the basic problems of Bretton Woods System | 46 |
| | 4.9 Revaluation of gold as a solution to the liquidity problem | 48 |
| | 4.10 Return to the Gold Standard | 54 |
| | 4.11 Birth of SDR | 55 |
| | 4.12 Collapse of Bretton Woods System and the role of gold | 57 |
| | 4.13 Changes in the role of gold in the International Monetary System | 60 |
| V | Gold : Demand, Supply, Uses, Price and as an Investment | 65 |
| | 5.1 Introduction | 65 |
| | 5.2 Demand for gold | 67 |
| | 5.3 Stockpiling of gold | 81 |
| | 5.4 Supply of gold | 88 |
| | 5.5 Gold price and gold as an investment | 101 |
| VI | Summary and Conclusion | 116 |
| | Bibliography | 125 |

List of Figures

| <u>Figure No.</u> | | <u>Page</u> |
|-----------------------|--|-------------|
| 3.1 | Balance of payment adjustment under the gold standard | 17 |
| 4.1 | Total reserves by components | 64 C |
| 5.1 | Factors affecting price of gold | 100 |
| 5.2 | World gold production and price of gold | 103 |
| 5.3 | Selected countries share of world gold production | 104 |
| 5.4 | Price of gold and percentage change in South African production | 106 |
| 5.5 | World gold reserve | 107 |
| 5.6 | World gold price in real terms | 110 |
| 5.7 | Trends of gold price | 112 |

List of Tables

| <u>Table No.</u> | <u>Title</u> | <u>Page</u> |
|----------------------|--|-------------|
| 2.1 | Dates of the adoption of the gold standard by selected countries | 10 |
| 4.1 | Gold production in Metric Tonnes | 42 |
| 4.2 | Total Reserves by Components | 64 A |
| 5.1 | The components of the supply and demand for gold | 65 |
| 5.2 | World supply and demand for gold 1978, 1982 | 66 |
| 5.3 | The present legal standards for gold in Britain | 70 |
| 5.4 | The U.S.S.R. gold sales | 95-96 |
| 5.5 | The U.S.A. Treasury gold sales held in 1979 | 97 |
| 5.6 | IMF gold sales | 99 A |
| 5.7 | Risk indices for selected international assets | 115 |