and sale of gold and refused to adopt other measures to maintain the value of the U.S. dollar in exchange transactions. This action has resulted in the collapse of fixed relationships among all currencies based on gold, and the impossibility of asserting that the value of any currency provides a basic datum for calculations. The U.S. dollar is now like all other currencies because it too has no fixed link to gold by means of gold transactions and because it fluctuates in value in the exchange markets. Nevertheless, means must be found to apply existing legal provisions in the Articles and in numerous other instruments. The determination for monetary purposes of a value for gold in terms of currencies requires the acceptance of the legal fiction that there is such a value even when no member undertakes to deal in gold, when gold is not being used for monetary purposes, and when gold is subject to fluctuations in price because of demands for industrial and artistic needs and for speculative operations. The adoption of new legal provisions, or the modification of existing provisions, must take into account not only the situation that precedes the forthcoming amendment of the Articles of the Fund but also the elimination of gold as the common denominator of the international monetary system under the amended Articles, which will give effect to the agreement among members of the Fund that the role of gold as a reserve asset should be gradually reduced.[7] Satisfactory solutions must be found, not only for arrangements among official entities but also for arrangements between private parties or between official entities and private parties.

FLOATING CURRENCIES

The present Articles of the Fund, it has been seen, require each member to establish a par value for its currency in terms of gold as a common denominator. Alternatively, the par value may be expressed in terms of the U.S. dollar of the weight and fineness

[7] See *Report on Second Amendment*, Part II, Chap. I, secs. 1–4. See also press communiqué of the Interim Committee of the Board of Governors, August 31, 1975, par. 6, in *IMF Survey*, Vol. 4 (1975), p. 265; *Outline of Reform*, pars. 2(d) and 24, in *International Monetary Reform: Documents of the Committee of Twenty* (Washington, 1974), pp. 8 and 15. (Hereinafter referred to as *Documents of Committee of Twenty*.)

in effect on July 1, 1944,[8] the effect of which is simply to express the par value indirectly in terms of gold. Each member is required to adopt appropriate measures to ensure that spot exchange transactions involving its own currency and the currency of another member that take place within its territory are carried out at rates of exchange that are no more than 1 per cent below or above the parity between the two currencies.[9] In practice, many members performed this obligation by intervening in their exchange markets with U.S. dollars. As a consequence, the maximum margin available for exchange transactions between the U.S. dollar and the currency of another member that used the dollar for intervention might be no more than ½ of 1 per cent. If this narrower margin had not been observed, the margin of 1 per cent for exchange transactions involving the currencies of two members that used the U.S. dollar for intervention could have been exceeded because in these transactions the margin at any time would be the cumulation of the actual margin of each against the dollar. On July 24, 1959, however, the Fund adopted a decision that broadened the maximum margin for transactions involving the intervention currency to 1 per cent and the maximum cumulative margin to 2 per cent.

Provisions of the Articles on par values had the effect of establishing a pattern of fixed relationships among *all* currencies for which par values had been established, in which scope for the movement of exchange rates was limited to the margins. This system came to an end with the announcement of the official inconvertibility of the U.S. dollar on August 15, 1971. An effort was made, in the Smithsonian agreement of December 18, 1971, to create a similar system pending agreement on amendment of the Articles. The Smithsonian arrangements were more flexible because they involved, as extralegal expedients, the more informal concept of the "central rate" in place of the par value and margins wider than those that had been observed under the par value system. In March 1973 even these more flexible arrangements broke down, and thereafter the exchange practices in effect no longer

[8] Article IV, Section 1(*a*). The weight is 0.888 671 gram of fine gold.
[9] Article IV, Sections 3 and 4.

conformed to a general pattern of fixed relationships and defined margins.

The exchange practices in effect at present are sometimes described as the general floating of currencies. In that sense, floating means that the obligations of the Articles with respect to par values and margins are not being observed by any members. Sometimes, however, the word is applied only to the practice of floating independently against all other currencies because the issuer has not pegged (fixed) its currency, within fairly narrow margins, to another currency or to a composite of currencies.[10]

The exchange practices that were in operation in mid-1975 have been classified according to the following five categories: (i) independent floating; (ii) pegging to a single currency; (iii) pegging to a composite (or "basket") of currencies or to the special drawing right (SDR); (iv) pegging to a single currency, with frequent changes in the peg according to a predetermined formula; and (v) joint floating of two or more currencies under arrangements agreed by the issuers of the currencies.

The Annual Report of the Fund for 1975 sets forth some broad generalizations about the practices of members during the preceding two years, and the following table shows how many members fell into each of these five categories of exchange practices on June 30, 1975 and what proportion of the total trade of members each category accounted for.[11] Members with more diverse economies and less dependence on foreign trade fell into category (i) or (v). It will be seen from the table that these members account for the bulk of world trade, and their currencies predominate in international financial transactions. Smaller countries, with less diversified economies and relatively larger dependence on foreign trade, tended to peg their currencies in accordance with exchange practices that fell into one of the other categories. Some members

[10] See "Guidelines for the Management of Floating Exchange Rates" (memorandum attached to Decision No. 4232-(74/67), June 13, 1974), Commentary: General, par. (i), in *Selected Decisions of the International Monetary Fund and Selected Documents*, Seventh Issue (Washington, 1975), p. 26. (Hereinafter referred to as *Selected Decisions.*) Also in *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1974*, p. 114. (Hereinafter referred to as *Annual Report, 19—.*)

[11] *Annual Report, 1975*, pp. 23–31.

EXCHANGE RATE PRACTICES OF FUND MEMBERS ON JUNE 30, 1975[1]

	Number of Currencies	Percentage Share of Trade of Fund Members[2]
(i) Currencies that float independently	11	46.4
(ii) Currencies pegged to a single currency[3]	81	14.4
(a) Pegged to U.S. dollar	*54*	*12.4*
(b) Pegged to French franc	*13*	*0.4*
(c) Pegged to pound sterling	*10*	*1.6*
(d) Pegged to Spanish peseta	*1*	—
(e) Pegged to South African rand	*3*	—
(iii) Currencies pegged to a composite of other currencies	19	12.4
(a) SDR	*5*	*5.0*
(b) Other	*14*	*7.4*
(iv) Currencies pegged to others but for which the peg is changed frequently in light of some formula	4	2.0
(v) Currencies that are floating jointly	7	23.2
Total	122	98.4

Sources: The currency classifications are a Fund staff assessment; the trade shares are from *International Financial Statistics.*

[1] The numbers and percentages in the table should be regarded as approximate because not all practices fit precisely into the categories noted. The practices of four members (representing 1.6 per cent of world trade) are particularly difficult to classify, and they have been omitted from the table.

[2] Imports plus exports, 1974.

[3] Where one member uses the currency of another, the practice is classified as a peg to that currency.

have not maintained the same arrangements at all times and have moved from one category to another.

Most developing members maintained a fixed relationship between their currencies and the currency with which they intervened in their exchange markets. This practice was a simple and familiar one that avoided the constant surveillance and frequent decisions that are necessary with managed floating. Another advantage of the practice is that trade denominated in the intervention currency, which is frequently the currency of the major trading partner, is conducted at a stable exchange rate. Moreover, stable relationships are maintained among currencies that are pegged to the same intervention currency. Movements in the exchange rates between these currencies and currencies other than the intervention currency fluctuate with the changes in exchange rates between the intervention currency and the other currencies.

Fluctuations in exchange rates among the major currencies of members produce effects on the domestic economies of other members that cannot be avoided. In order to moderate these effects, practices have been developed by which the exchange rates for a currency are determined by reference to some average or composite of major currencies. Most frequently, these composites have been based on the pattern of trade of the issuer of the currency. A few members, however, have pegged their currencies to the SDR, which means, as will be seen from the discussion in the subsection entitled Valuation of the SDR, below, that they have pegged the rates for their currencies to the rates for 16 currencies according to a specified formula.[12] The SDR does not correspond to the pattern of trade of the issuer of any one of the currencies that have been pegged to it, but for most members the SDR conforms more closely to a composite weighted according to imports than does a peg to a single currency.

SOME LEGAL EFFECTS OF FLOATING

Certain legal effects of the general floating of currencies and of the difficulty of determining a monetary price for gold that are considered in this pamphlet can be assembled, although somewhat arbitrarily, under three headings: application of existing provisions; changes in existing provisions; and new provisions and practices.[13]

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[12] These members are Burma, Guinea, Iran, Jordan, Malawi, Qatar, and Saudi Arabia. See Andreas S. Gerakis, "Pegging to the SDR," *Finance and Development*, Vol. 13, March 1976, pp. 35–38.

[13] This article does not attempt to deal with the numerous changes in regulations and practices that have occurred as the result of floating. For example, Franz Aschinger, Economic Adviser to the Swiss Bank Corporation, in a speech before the Anglo-Swiss Society in London on October 9, 1975, described as follows the efforts of the Swiss monetary authorities to stop the appreciation of the floating Swiss franc and, if possible, to depreciate it: "Drastic restrictions on capital imports such as interest prohibition and negative interest rates on foreign deposits, a temporary investment stop for foreign owners, liberation of capital exports and an obligation of foreign borrowers to convert their Swiss francs into dollars with the Central Bank, controls of foreign exchange transactions of the banks by limiting the authorized total sum of forward sales of Swiss francs by the banks, the obligation of the banks to notify important foreign exchange transactions to the monetary authorities and the obligation by the banks to daily equalize their foreign currency positions, high minimum reserves on foreign deposits and finally official interventions at the foreign exchange market in order to support the dollar."