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HART-KALDOR-TINBERGEN PLAN

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OUTLINE OF A PLAN FOR REFORM

ANNEX TO THE DOCUMENT OF PROF.
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Report presented to the meeting of the group of experts responsible for the preparatory studies.

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ANNEX

OUTLINE OF A PLAN FOR REFORM 1/

TOWARDS AN IMF CURRENCY

1. It is proposed that, in line with the other plans for monetary reform, the IMF should introduce its own currency - let us call it the "bancor" - which after a "transitional" period would be convertible (a) into gold, (b) into a set of goods representing the thirty or so major commodities used in international trade which have the twofold quality of general consistency and relatively long stockability.

2. The issued IMF bancor would be fully covered by gold and other goods except for a certain amount of fiduciary currency to be decided upon, revisable by later negotiation.

3. Bancor transactions would be distinct from the present system of drawing rights on national currencies deposited with the IMF; such drawings would not lead to bancor issues.

4. The bancor would be solely a reserve currency and only the central banks of member countries would be entitled to hold bancor balances with the IMF. The bancor unit would be separate from all national monetary units and would be so defined in gold that its parity in regard to any national currency would be high, for instance \$100 or \$1,000. Member countries would undertake to accept the bancor in settlement of their debts in the same way as gold.

5. It is suggested (and the figures below are given as an example) that the IMF should start by issuing \$30 thousand million, made up as follows:

1/ Extract from SEDES Bulletin No. 885.

(i) \$5 thousand million as gold reserve counterpart;

(ii) \$20 thousand million as counterpart for various goods (see below);

(iii) \$5 thousand million as counterpart for member countries' liabilities (corresponding to the fiduciary issue).

COMPOSITION OF THE RANGE OF GOODS

6. The composition of the range should be decided upon at the outset on the basis of the following principles:

I. There should be as many commodities as possible, but all must have these four features:

a) A sufficient degree of consistency (i.e. a clear market price for a specified quantity, quality, delivery place and date;

b) A reasonable degree of stockability (commodities must keep for a certain length of time, say one year, without spoiling);

c) Equally reasonable warehousing costs (hence low unit cost commodities cannot be taken into consideration)(1);

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(1) This might mean that solid fuels, iron ore, etc. would have to be excluded.

d) Considerable freedom from the risks of price manipulation (2)

II. Since in any case the choice of commodities cannot be decided a priori - and some may have to be excluded later (under paragraphs 7 (II) and (I) below) - the IMF would be free to add commodities to the original list chosen from a longer list established under the prior agreement, on condition that this does not mean that the total reserves originally laid down are too greatly exceeded (i.e. by a given percentage). (It would appear reasonable that the IMF should be free to extend an original total of $20 thousand million as much as necessary, up to $5 thousand million limit.

III. The weight of each commodity in the "sample" should correspond approximately to the ratio of tonnage exported to tonnage traded in the last three years. To obviate excessive delay in constituting the necessary stock, the IMF would have a certain amount of freedom to modify the exact composition of the final "sample". The rules defining this power would be part of the initial agreement. It would be reasonable to ask the IMF to form its stock of each product so that it represents at least the equivalent of x percent of the annual trade in the commodity

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(2) Without laying down precise rules, it would be preferable to exclude commodities whose prices are more or less artificially fixed, such as petrol, because of the international cartels and to make limited use of commodities largely governed by special trade agreements (e.g. wheat). However, in general, the pricing and marketing arrangements resulting from agreements concluded under the Havana Charter and registered with the United Nations should not constitute a legal argument making the commodities in question ineligible for the Fund.

in question but <u>never more</u> than $\frac{3x}{2}$ per cent. (1) The value of x would be chosen so as to arrive at the amounts corresponding to the reserves laid down, once the agreement on the number of commodities constituting the initial reserves had been concluded.

IV. Where there are several varieties or "categories" of a given commodity, the initial agreement would have to specify the various classifications of any commodity recognized as eligible in terms of quality and origin and also lay down equivalences for each category in respect of the unit value of the standard quality. These equivalences would be based on the market prices of the different varieties recorded during the last three years. The IMF would have the right to buy one quality as a substitute for another as long as the market rate was lower than the theoretical rates specified as equivalent for the standard quality; and the specific obligations laid down in paragraph III regarding constitution of stocks would be considered as having been met when the stock of each commodity had reached a sufficient value in terms of standard equivalence, whatever the qualities or varieties composing the actual stocks. Nevertheless, in so far as the market price of the different varieties would correspond fairly closely to the theoretical equivalents laid down in the

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(1) Since the total value of world trade in primary commodities was \$66 thousand million in 1962, the value of x would be some 0.3 for a \$20-thousand million reserve if all the commodities listed in international trade statistics could be used. However, many of these commodities would not meet the conditions listed in paragraph (1) above - for instance it would be hard to justify including petrol in the light of several of those criteria - and the value of world trade in eligible commodities is probably not more than half the total, or perhaps considerably less. Having selected a set of 30 commodities (see end Table), world trade in which amounted to \$19 thousand million, we have worked out that it would be possible to have reserves of \$20.5 thousand million if every commodity were represented by a percentage of its exports ranging between 90 and 125%. It should of course be remembered that world trade represents only a fraction of the production and consumption of many commodities; annual world production of these 30 commodities may be estimated at \$80 thousand million, or four times their value in world trade.

basic agreement, the IMF should aim at constituting a stock containing all qualities while observing the proportions noted in international trade.

V. Where reliable delivery contracts are available, these might be substituted for actual delivery of goods whenever current stocks were relatively low and forward prices would be considerably lower than cash prices.

THE INITIAL STAGE OF CONSTITUTING STOCKS

7. To provide a transitional period:

I. Member countries would agree to accept bancor balances up to some $2 thousand million in exchange for their gold deposits with the IMF; in addition they would deposit a further $3 thousand million in gold, also in exchange for bancor balances. Each country's contribution would be proportionate to its present official gold holdings.

II. The IMF would undertake to buy goods up to the quantities required on the basis of the afore-mentioned principles:

(a) at "declared" or lower prices on the market (see below);

(b) from the governments of member countries officially holding stocks

(1) at "declared prices" for commodities stocks of which were lower than the equivalent of six months' exports;

(2) at 10% below those prices for commodities with larger stocks;

(3) at 20% below when the value of stocks exceeds the equivalent of 12 months' exports.

(c) The "declared price" for a given commodity would be the highest half-yearly average for the standard quality noted in world prices during the two years preceding entry into force of the plan of reform. These declared prices would be revised upwards at six-monthly intervals if the minimum stock required was not constituted three years after the initial declaration, but such revisions could not exceed the average prices recorded during the six months preceding the declaration to be revised.

(d) If the market price of a commodity reached 50% or more of its "declared price" for more than two consecutive months, the IMF would have the right to sell if it could find takers at such prices. (In the case of contracts for forward delivery it would have the right to change its position or to sell on the delivery dates quantities that were acceptable to the market at those prices.) Later purchases would then be made in accordance with the rules suggested in paragraph (c) above.[1]

III. If two or more governments have stocks of a given item and their offers to sell to the IMF on the terms set out in paragraph (b) exceed the amounts required, the allotment of purchases to the governments in question shall be made on the basis of the amounts offered by each of them respectively. (2)

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(1) Para 2. This provision (which applies only to the transitional phase) is in accordance with paragraph 13 below which is similarly drafted.

(2) Para 3. Since at the moment large stocks of primary commodities are being held under stabilization policies or for strategic reasons, many commodities could be bought exclusively from governments and these purchases could probably cover two-thirds or three-quarters of the requirements initially established. (see section III below).

USES OF THE BANCOR AND RELATIONSHIP WITH KEY CURRENCIES

8. (I) Governments given bancor balances in exchange for commodity sales would undertake to use them to reimburse their short-term debts to other governments if the latter so desired (this would not apply to debts contracted with international institutions).

(II) The bancor fiduciary issue should be made firstly for the benefit of countries providing a reserve currency for others, on condition that their short-term debts are larger than the bancor shares acquired through sale of official commodity stocks and that they undertake to use the bancor currency so acquired to repay their official debts if their creditors so desire.

(III) If the creditor countries wish the short-term debts of the key-currency countries to be converted into bancor deposits for their benefit, and if the desired conversions exceed the bancor amounts acquired by debtor countries (either by their liquidation of stocks or by the fiduciary issue), the reserve currency countries must then undertake to use any later gold or bancor profit resulting from commercial transactions or capital movements to reimburse their short-term debts. (2)

IV. Governments holding dollar or sterling balances in their official reserves should be encouraged to convert into bancor deposits any reserves exceeding the minimum desirable for settlements. If they decided not to do so, the bancor assets of the

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(2) Since the official debts of the two major reserve currency countries (United States and United Kingdom) amount to some \$20 thousand million, a \$30-thousand million issue ought to suffice to change the official reserves at present held in dollars and sterling into "bancor" reserves, even though the two countries' initial acquisition of bancor - corresponding to commodity sales or part of the fiduciary issue - may be lower than their short-term liabilities to other countries.

key-currency countries would increase more than bancor currency acquired against gold deposits, and the key-currency countries would then have to undertake to freeze such supplementary reserves until they had 100 per cent cover for their official debts, and they would also have to undertake to co-operate with the IMF to encourage conversion of such balances by lowering the short-term interest rate, or possibly by asking official balance-holders to keep them as non-interest bearing deposits. (1)

STORAGE EXPENSES AND PAYMENT OF INTEREST

9. When the IMF acquired a commodity it would become responsible for its storing and conservation. The Fund would be entitled to collect an annual contribution from member countries in accordance with the total amount of their monetary reserves (including bancor balances) to meet expenses not covered by profits from transactions during and after the transitional period. (2)

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(1) On the assumption that the bancor assets in the hands of the key-currency countries could be so "frozen" until transferred to their "official" creditors, the net increase of world reserves resulting from a \$30-thousand million bancor issue would not exceed \$5 - \$10 thousand million.

(2) Such profits might arise in this way:

(a) a considerable part of the stock might be bought at prices lower than the "declared prices";

(b) later purchases, as will be explained below, would be made at a small rebate in relation to theoretical parities and later sales would be made slightly above parities;

(c) in the case of goods in inadequate supply, forward delivery contracts might be used instead of actual goods;

(d) a profit might also be made from changes in the range of commodities (see paragraph 19 below).

Suitable storage for these commodities would have to be provided, taking into account costs, climatic factors and adequate supervision of conservation. Warehouses rented by IMF should be extra-territorial.

10. Every member country would receive interest on its first 100 million bancor deposits.(1)

FINAL OPERATION OF THE PLAN

11. If during the first five years after the beginning of the operation, the initially established reserve target is reached, in accordance with the principles set out in paragraphs 6 and 7, the IMF would then:

I. cease to acquire goods;

II. decide upon the final composition of the sample range and the bancor unit value of each commodity;

III. decide upon the date on which the final system would enter into force.

Since at that date the tonnage of each commodity in the reserves (in standard equivalent terms) would be known, the structure of a "composite ton" could be worked out arithmetically, Since there would be a "declared price" in bancor terms for each commodity, the bancor value of the "composite ton" could be worked out by adding up the values of its components. The size of the

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(1) When the total bancor issue was covered up to some 80% by gold and stocks of other non-interest-bearing commodities, and up to 20% only by interest-bearing shares there would be no question of paying interest representing more than one-fifth of deposits. To help the poorest countries which need to earn interest on their reserves and encourage the use of the bancor, it would be better to pay interest on the amounts held by each country up to a certain ceiling rather than distribute interest-bearing shares according to member countries' quotas, income levels, etc.

range adopted as a unit would correspond to the number of composite ton necessary to make that unit suitable for transactions in any commodity. If we take it that the smallest appropriate unit for a commodity is a ton, the unit of the global sample must correspond to the number of tons so that the quantity of each commodity in the range can be expressed as a multiple of a ton.(1)

12. If the initially established reserve target were not reached by the five-year period following the start of the purchasing operations, the plan could be put into force on the basis of a provisional unit-product as soon as three-quarters of the commodities selected as the initial target had been purchased

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(1) If, for instance, the sample contains 30 commodities and the number of tons of each commodity varies from 1 to 30 (the "heaviest" commodity containing 30 times as many tons as the lightest), the unit value of the whole will be 465 composite tons. If we take it that a composite ton equals 1.15 of a bancor unit, the unit value of the 30-commodity range will be 534.75 bancors. The discretionary powers of the IMF would obviously enable it to round off the assets in appropriate commercial unit multiples. Let us take it that, as in the last example, the unit of the full range of 30 products is 465 tons and its parity is 534.75 bancors: operations could start with a unit comprising fewer goods, say 24 amounting to 350 tons, with a parity of 390 bancors. The total weight of the unit range and the parity of each unit would be gradually raised as fresh commodities were assigned, but as these would be incorporated on the basis of their "declared values" (which under 7(11)(C) could not exceed average prices during the preceding six-month period) the exact final parity of the complete range would not be known before the end of the process described above.

and when stocks of such commodities stood at three-quarters of the amounts originally fixed for the reserves. The value and composition of the provisional unit would be determined as in paragraph 11 above. Stocks of those commodities which had been only part-purchased at that date would have to be completed by purchases made on the basis of "declared prices" as laid down in paragraph 7(11)(C) until such time as the initially fixed ranges had been constituted; those commodities would then be added to all the other goods, the contribution of each commodity added to the unit value of the whole being calculated on the basis of the last "declared value" before inclusion of the commodity in question.

EXCLUSION OF CERTAIN COMMODITIES

13. If the market price of one of the commodities in the unit-product (measured by standard-quality price) were to increase by 50% or more over the "declared price" before it was included, it would have to be left out of account in calculating the product-unit, and the composition and parity of the range of goods would have to be revised. If the market price remained at 150% or more of the declared price for two consecutive months, the IMF would have the right to sell if it could find takers at that price level.

When a product was excluded from a range, it could be re-included only after a period of 3 years, on the basis of a fresh "declared price" laid down in accordance with paragraph 7(11)(C) above and only after additional stocks sufficient to reach the amount originally laid down had been acquired.

CONVERTIBILITY OF THE BANCOR

14. (a) From the date fixed for entry into force of the plan, member countries would be able to purchase bancor currency from the IMF

(i) in exchange for gold;

(ii) in exchange for deposit certificates representing the declared range, expressed in product-unit multiples.

(b) Member countries would also be entitled to sell bancor to the Fund:

(i) for goods, represented by deposit certificates;

(ii) for gold and goods combined, at the rate of 4 product-units for a single gold unit (at a later stage, if member countries have deposited a suitable quantity of gold with the Fund, full two-way convertibility would be introduced for gold and goods separately).

15. The IMF would have to buy gold at 1% and goods at 2% below their respective parities. On the other hand it would have to sell its goods at 2% above parity. When goods and gold were sold together, the margin would be 1% for gold and 2% for goods. If the plan entered into force with an incomplete range of goods (see paragraph 12) the margin between purchase and sales prices might be extended to 3% in each direction.

16. The bancor parity of each product-unit would extend to the standard quality in terms of equivalence. The IMF would have to accept delivery of any commodity, whatever the category, convertible to standard quality if that category was specified in the basic agreement; conversely, it would have the right to deliver all categories of commodity so specified, the real supply

or demand price being adjusted in terms of the equivalences between qualities listed in the agreement.

17. The Fund would undertake at all times to maintain parity between the bancor and the price of gold on the world market, if necessary by buying on the gold market whenever the price of gold threatened to exceed its official bancor parity. Member countries would be obliged if need be to place at the Fund's disposal the extra amount of gold required by such operations. Countries with gold assets exceeding a certain percentage of the total reserves would be obliged to sell all or part of the surplus to the Fund if the Fund so requested.

18. The parity between the bancor and the market price of the commodities in the range which constituted the Fund's reserve would be maintained in principle by the action of private traders buying these goods on the market and offering them to the IMF, or buying them from the IMF to offer them on the market whenever this would show a profit. However, since in ordinary business matters it is not customary to operate in several markets at once and in composite ranges of goods, this action might well be taken too slowly or too fast to maintain the market price of the goods composing the product-unit close enough to their parities. We therefore suggest that the IMF should have a commercial department which would itself intervene in the various commodity markets whenever the market price of the goods in the Fund's range went beyond official margins. (There might be a formal agreement to make these limits effective and thus create confidence in the system's operation).

PERIODICAL REVISION OF THE OFFICIAL COMMODITY LIST

19. To maintain the composition of this list in fairly close relation to the structure of world trade the IMF would have to revise the weighted co-efficients of the various commodities

every five years on the basis of the international trade tonnage in each commodity during the three years preceding the revision; similarly, the Fund would also have to revise the "price equivalent" scales of the various qualities of commodity in terms of standard quality. When the list of commodities had been revised, the IMF would be able to buy or sell goods on the world market (on the basis of the new series of "declared prices" so as to adjust its stock composition to the new norms. The resulting profits or losses would be credited or debited to member countries and might take the form of an increase or decrease in their bancor balances.

DETERMINATION OF NATIONAL EXCHANGE RATES

20. Each member country would be free to maintain a fixed exchange rate between its own currency and the bancor (which could be adjusted periodically according to agreed procedures) or a variable or "floating" exchange rate; however, in the latter case there would be penalties for countries maintaining an artificially low currency rate by extensive sale of their own currency and consequent increase in gold and bancor reserves at an unjustified pace. Such sanctions might be based on the "scarce money clause" as formerly proposed, or might take another form.

"BANCOR" COMMODITY ORGANIZATION

TABLE ILLUSTRATING THE RESERVE SYSTEM (1)

- Million dollars -

	Exports 1962	Stocks 1962	PROPOSED RESERVES: Purchases from stocks	PROPOSED RESERVES: Purchases from forward production: From developing countries	PROPOSED RESERVES: Purchases from forward production: From others	PROPOSED RESERVES: Total reserves (2)
Wheat	1386	3422	1733	0	0	1733
Rice	653		0	406	182	588
Barley	316	284	284	0	0	284
Maize	892	3279	1115	0	0	1115
CEREALS	3247	6985	3132	406	182	3720
SUGAR	1624	689	689	603	170	1462
Cocoa	451	43	43	363	0	406
Coffee	1870	2877	2338	0	0	2338
Tea	663	135	135	383	79	597
BEVERAGES	2984	3055	2516	746	79	3341
TOBACCO	1045	2758	1307	0	0	1307
Butter	422	241	241	0	139	380
Unrendered fat	88	7	7	0	72	79
Tallow	151		0	0	136	136
ANIMAL FATS	661	248	248	0	347	595
Soya bean	353	59	59	5	254	318
Groundnut	260		0	218	16	234
Cottonseed	80	50	50	7	15	72
Olive	107		0	24	72	96
Coconut	258		0	225	7	232
Palm	182		0	150	15	165
Linseed	102		0	52	40	92
VEGETABLE OILS	1343	109	109	681	419	1209
Cotton	2099	2337	2337	0	0	2337
Wool	1781	293	293	314	996	1603
Jute	160	311	200	0	0	200
Manilla hemp	37		0	33	0	33
Agave	108		0	89	8	97
TEXTILE FIBRES	4185	2941	2830	436	1004	4270
RUBBER (natural)	1042	276	276	662	0	938
Aluminium	492	60	615			615
Copper	1642	482	2053			2053
Lead	152	71	190			190
Zinc	160	79	200			200
Tin	410	112	513			513
METALS	2856	804	3571			3571
TOTAL	18987	17865	14678	3534	2201	20413

(1) Simplified translated table

(2) Reserves = 1962 stocks where these account for 90 to 125% of exports

= 125% of exports when stocks exceed 125% of exports

= 90% " " " " are lower than 90% of exports.

Major source of gross data (exports and stocks) :
U.N. Commodity Survey - 1962