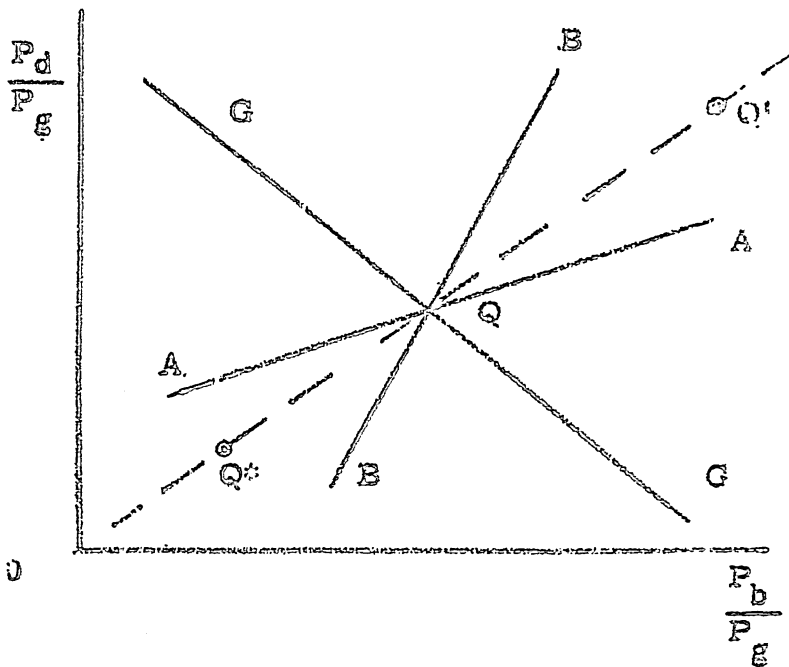


might be the best way of increasing world reserves quickly, since we do not have, at the present time, any better way of managing a drastic increase in reserves.

But we are not in a state of depression today: the problem over the past three years has been excess demand and inflation. So on these grounds I do not believe an argument for increasing the price of gold can be sustained.

Perhaps a reference to the diagram may help to make the point clear. If we double the prices of gold in terms of all currencies we move, in Figure 4, from the point Q to a point Q^* half-way along the ray OQ extended. Those who argue that an increase in the price of gold would not be inflationary are suggesting that there are no inflationary forces at the point Q^* . This is obviously untrue if the three schedules remain in their original position.

Figure 4



But I do not want to accuse proponents of the view that an increase in the price of gold is not inflationary of logical error for there is a set of premises that can rescue their argument. They would presumably say that the three schedules shift downward, presumably to intersect at the point Q^* . But what forces could produce a new position precisely at Q^* ?

Q^* could remain an equilibrium only if the demand for gold simultaneously doubled with the increase in its price. It might be argued, for example, that the central banks want to double the ratio of gold backing their monetary liabilities. I very much doubt that this is the case, but even if it were it would alter the flow