

THE FUTURE OF GOLD*

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Let me begin with some platitudes. Gold is a metal. It has many uses. It is used as jewelry, in dentistry, and in industry. It is used as a store of value. It is used to be used as money. The price of gold is determined by demand and supply. To predict its price sometime in the future requires nothing more than to predict demand and supply at that time.

So much is universally agreed; what I have said about the price of gold applies to nearly any commodity. But that, of course, is only the beginning. Both demand and supply are complicated by the problems of gold as relics of money; by its characteristics as an exhaustible resource; by speculation and hoarding; by the psychology of the market; by technological change affecting its use and supply; by the attitudes of the monetary authorities in various countries; by cold-war politics; and even by professors! Some of these problems gold has in common with other commodities; others are unique.

Opinions differ about how the monetary system works. It may sound strange to hear that specialists in the field of money—practitioners, theorists or government representatives—could have different ideas about how the monetary system works. But that is the case, and it is not, upon reflection, so strange. World monetary organization is one of the most complicated scientific subjects. It requires, in a sense, a combination of all our theoretical and practical knowledge of economics. It is only in recent years that a comprehensive grasp of all its complications has been acquired by experts or theorists.

Economists, of course, have always had notions about how the system works. But these notions have sometimes bordered on the simplistic. We have had to abandon many of the notions that continue, even today, to be prominently displayed in many leading textbooks in the field.

I do not want to dwell on this unduly. But it is always worth recalling that "science" exists in the mind only; its purpose is not just to reveal "truth," but to make people feel comfortable! Of course, we may choose to say that fact is fact and that is all there is to it. But it is also necessary to recognize that our conceptions of fact undergo quite drastic transformations.

It may give you an idea of what I have in mind if I ask you to think about some of the controversies that raged in astronomy during the Renaissance. Two thousand years before that, the Greeks debated between competing cosmological systems: a heliocentric theory and a geocentric theory. The geocentric theory won out. It became "truth" for over 1500 years, even though it was wrong. But to preserve the geocentric theory, it was necessary to encumber it with complications until it completely lost its elegant simplicity. Scientists gave up talking about it, and the time ripened for a new theory to fill the void. The Copernican theory fitted the facts better and could be formalized, by Kepler, into new laws of planetary motion, which in turn prepared the way for a theorist like Newton to build Galilean and Copernican mechanics into a grand generalization.

Newton is an appropriate point of departure for my discussion today because he was a gold and silver expert, who, in fact, probably spent more time on the problems of gold and silver and monetary systems than he did on physics. He was Warden, and then Master of the Mint from 1696 until his death in 1727, which included the period of recoinage (1696-99). He advocated devaluation (an increase in the official price of silver), but that did not take place. As a consequence, silver was driven out of circulation, and Britain got onto the gold standard. Later, Newton accommodated himself to the official view that once you set a standard, you should stick with it.

Perhaps more interesting, Newton calculated gold-silver ratios with great accuracy; it was on the basis of these calculations that he set the course of the gold standard as it was to operate for two centuries. In the last quarter of the nineteenth century, of course, silver depreciated with its demonetization but it is

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