The election campaign in the United States could make a difference. A number of people in New York believe an increase in the price of gold is necessary or desirable or inevitable. There is room for a difference of opinion here. There is a sense in which an increase in the price of gold is everyone's third choice. It depends on the options which the authorities are willing to create.

I would be negligent in my analysis if I did not mention a new factor working against an increase in gold price. Public opinion has never been enthusiastic about a gold policy that would have such beneficial effects for South Africa and Russia as an increase in the price of gold would involve. Public opinion has recently become less favorable to France. I do believe it would be politically difficult to persuade Congress to adopt a policy that would so clearly favor these countries. Perhaps this is not the appropriate criterion for the U.S. gold policy, but I have no doubt that it will be an important desideratum. As long as there are other alternatives, they will be explored.

So my conclusion is that the strategy of the gold forces will not pay off. If I am right, South Africa will have to choose between selling her supplies in the London or Swiss markets, forcing the price down toward $35 or below; or else financing gold accumulation by external borrowing or domestic austerity. South Africa has limited ability to do this; and, since the French crisis, one of her potential allies in the game is financially prostrate, even if only temporarily.

All factors, therefore, converge to my conclusion that gold is over-bought. My reading of the current turnover in Zurich and London is that the professionals are gradually unloading and that, sooner or later, the price will have to come down.

Let me conclude by saying a few words in summary fashion about central bank holdings. *First*, those central banks who hold primarily gold in their reserves feel illiquid; dollars are money, gold is not. Countries like France, Switzerland, and the Netherlands *appear* to have made a capital gain on their gold holdings. But it is unusable and very risky paper profits. It will be very hard to realize these capital gains; and if they do so in the private market (subject to an interpretation of Fund rules), they undercut their right to sell it at $35.

Second, the lower the U.S. gold stock becomes, the greater is the chance the U.S. will not buy it back. Gold is not important to the U.S. economy except, in the final analysis, as a useful commodity reserve. In this respect, the U.S. is unique; because of its size, the U.S. can always let other countries adapt to it if it finds international constraints too restricting. The more speculation about an increase in the price of gold and the greater the drain on the U.S. Treasury, the greater is the chance that gold will be demonetized. I need hardly tell you that there are strong forces in the U.S. pressing for demonetization, based both on the benefits of spending the existing gold stock of the U.S. and on resentment against the Republic of South Africa.

Third, the two-price system is unlikely to be a permanent system. A change in U.S. policy is possible, even likely, after the SDRs are established as a substitute for gold. There are several directions which policy may take. One major possibility is, of course, an increase in the official price of gold. I regard this as *possible, but not likely*. Politically, it is a losing game. It has been said that Lyndon Johnson does not want to be remembered in history as a president who devalued the dollar. And a substantial increase in the gold price would mean that the U.S. would have to accumulate large gold stocks at a time when the pressure of competing use of the resources for the cities, for fighting poverty, for education, and for defense is very high.

Another possibility is much more imaginative. It involves a centralization of central bank holdings in the U.S., or in a newly formed gold pool, with the U.S. or the pool issuing, in exchange, dollars or gold-pool certificates. This would quench speculation altogether and establish a new reserve asset with more attractive properties than the SDRs. There is need today for a world currency usable both by travelers and by central banks. The main question is not *whether* it can be brought about, but *when* it will be brought about. I do not wish to go into this question now. I shall have more to say about it elsewhere.

To summarize the future, then, I am bearish as far as gold is concerned, compared to most people. I cannot, of course, predict U.S. policy, or the policy of central banks, and the possibility is always open that the official price could be raised. A market thrives on differences of opinion, and if everyone believed as I do, the price would be well below the $42 an ounce it has been in Zurich this week. But I believe the price will go down, not up, in the future.