

kyats, bahts, wons, kips, piastres, or any other.⁶ The results of an increased private demand for gold will differ according to whether it is met out of new production of gold; or is met out of monetary reserves under the arrangements of the Gold Pool (rescinded in March 1968); or results in a higher gold price in the free market.

Assume that the final buyers are Thais, paying in bahts, and that the sellers are South Africans, who want their proceeds in rands, to pay for the production cost of gold. There will therefore be a supply of bahts in search of dollars, a payment of dollars for gold, and a supply of dollars in search of rands. If both the baht and the rand are pegged in terms of dollars and, hence, the authorities of Thailand and South Africa intervene in the foreign-exchange markets, the dollar holdings of Bangkok will decrease and those of Johannesburg increase. If the adjustment process works, the balances of goods and services of the two countries will eventually adjust and show larger exports from Thailand and larger imports (matching the exports of commercial gold) into South Africa. The dollar, having served in the process as transactions currency, will not be affected either way.

Let us now see what happens if the new demand for gold cannot be met out of new production but, under gold-pool arrangements designed to stabilize the gold price in the free market, is met out of official reserves sold by monetary authorities. Assume that the final buyers are Indians, paying in rupees, and the sellers are the monetary authorities participating in the Gold Pool. I shall not go into the delicate question whether the Reserve Bank of India will furnish dollars to the rupee owners (whose demand for foreign exchange may come in a disguise that appears quite legitimate) or in what other ways dollars become available to them. The relevant part of the process is the loss of monetary gold. Under the old arrangements, the seven countries joined in the Gold Pool had shared the loss. The European central banks in this case would not necessarily have acquired additional dollars in exchange for their gold, since the private demand for dollar balances had not declined:

⁶The last five are the currencies of Burma, Thailand, Korea, Laos, and Vietnam.