of gold was lost within the three months, reducing the stocks to $10.5 billion. The decision by the members of the Gold Pool, on March 17, 1968, to halt sales to private parties and no longer to intervene in the London gold market was a sensible reaction. But what will now be the effects of private excess demand for gold?

Assume that speculators want to acquire more gold than is available from new production after the requirements of industrial and artistic users and traditional hoarders are satisfied. Without any sales out of monetary stocks, the sole source of supply for bullish speculators is gold relinquished by less bullish speculators. That is to say, the eager buyers will bid up the market price to a point at which less eager holders are willing to part with enough of their gold to meet the demand. Although dollars are used in the transactions, the position of the dollar in the exchange markets will not be affected if neither buyers nor sellers of the gold reduce or increase their dollar balances in the end. If the buyers have, at the outset, had currencies other than dollars, and had to buy dollars in order to buy gold, whereas the sellers, at the increased price of gold, hold on to the dollar proceeds, the dollar will be strengthened in the process and some central banks may have to sell dollars against their own currencies. Conversely, if the buyers have held dollars whereas the sellers want to hold their proceeds in other currencies, the dollar will be weakened and some central banks may have to acquire dollars under our system of fixed exchange rates.

It would be difficult to predict which of these three possibilities is the most likely to materialize – were it not for the continuing supply of additional dollars originating from the payments deficit of the United States. With this continuing deficit, one may expect that dollars, both from the current overflow and from the amassed overhang, will land in the hands of foreign monetary authorities and, through conversion, contribute to the further erosion of the gold position of the United States.

Cheap Advice

If the predicament is due chiefly to the deficits in the balance of payments and to a lack of confidence in the United States dollar,