

The new conversion account (or reserve-settlement account) of the Fund could also assume the function of dealing with the problem of nonmonetary gold. In principle it would be possible to leave the gold market completely free, the Fund neither selling nor buying, no matter what price gold would fetch in the free market. In this case one might expect the price of gold, perhaps after a few months with higher quotations, to fall considerably below the present price of \$35 an ounce. For there would probably be substantial dishoarding of gold by disappointed speculators, and industrial demand would still be far below the volume of new gold production. After a few years industrial uses of gold would increase enough to exceed the private supply, and then the price could go above \$35. By that time even the most conservative central bankers and financial authorities would have learned that the large monetary gold stock kept buried by the international agency was serving absolutely no purpose. The question would then be asked why one should allow gold permanently to be withheld from productive uses and whether it was not more intelligent to release it from the monetary concentration camp.

Instead of letting the price of gold in the free market first fall far below and later rise far above the present official price, the Fund could operate a buffer stock, taking over the task which national monetary authorities have carried out for so long. (This collective buffer stock accumulated gold for hundreds of years and began selling only in 1965.) If the Fund is to buy and sell gold, it should perhaps maintain a pair of prices — buying, say, at \$34 or below and selling at \$36 or above — so that it would have a source of income besides the interest earned on the dollar and sterling assets taken over from national monetary authorities. Gold-mining interests would surely plead for higher prices or for postponement of any sales from the pooled reserves. The decision would not be of great consequence once it is settled that there can be no purchases for monetary reserves at any increased price.

Still another function could be assigned to the conversion account (reserve-settlement account) of the Fund: to devise a quasi-automatic adjustment of the exchange rates for the currencies of