

If speculation on a rise in the price of gold were to stop, in the sense that no further speculative purchases would take place but that those who have bought gold for speculative reasons were (foolishly) holding on to their not so precious possession, the private demand for gold by industrial users and by traditional hoarders would fall substantially short of present gold production. Thus, the present price of \$35 an ounce could be maintained only if the price support extended by the United States and other monetary authorities is continued.

It is true that this situation would change after a few years. As incomes rise and as other prices increase, private demand for gold, quite apart from speculation, increases. And since gold production is expected to decline in coming years, the time will come when private demand catches up with new production, and thereafter overtakes it.

Whether this will be the time for an increase in the price of gold will depend on what happens to the monetary stocks of gold. They are now in a magnitude of about \$40 billion. Even if all gold production stopped completely and even if the industrial use and traditional hoarding of gold were to double, the present monetary gold stock would suffice to feed private demand for about 20 years.

Since the monetary gold stock serves chiefly to satisfy old superstitions, there is hardly any reason against using this enormous buffer stock for gradually supplying all that private users might demand in the foreseeable future.

MEANS OF PAYMENT FOR PRIVATE GOLD PURCHASES

The effects of private purchases of gold upon the financial position of the United States depend to some extent on what funds the buyers use to pay for the gold. It is one thing if the purchases are made out of current incomes in all sorts of currencies; it is another if they are paid for out of dollar balances no longer demanded by their holders.

The United States is to some extent involved no matter how the private gold purchases are financed. If the present gold pool—United States, United Kingdom, Germany, Italy, Belgium, Netherlands, and Switzerland—supplies the gold, the share of the United States in the loss of gold will initially be 59 per cent. Eventually, however, it is not unlikely that under present arrangements the United States will have to shell out all of the gold, because the other monetary authorities may not be willing to have the metallic part of their reserves reduced.

If the purchase of gold is at the same time as a flight out of dollar holdings, the effects upon the United States position are more serious. Paradoxically, they need not show in any change of the liquidity balance, since both the gold stock and the liquid liabilities to foreigners decline *pari passu*. (The reduction in liabilities to private foreigners leads first to an increase in liabilities to official foreign holders of dollars; their increase in dollar holdings is then cancelled when they use the dollars to pay for the gold sold by the United States.)

The erosion of the United States gold stock occurs in any case. It is, therefore, necessary to change international arrangements so that not all private gold purchases, even those not connected with reductions in the demand for dollar balances, cut into the reserves of the United States.

DOLLAR OVERHANG AND DOLLAR OVERFLOW

It would not be difficult to deal with speculation against the dollar and with speculation on an increase in the price of gold if the excess supply of dollars were not constantly replenished by our continuing payments deficit. In other words, one could deal with the overhang from past accumulations of dollar balances if there were not always an overflow of dollars pouring into foreign markets. (The opposite, incidentally, is also true. It would be easier to deal with the current overflow were it not for the overhang that threatens to come down on the exchange markets in a crisis of confidence.)

In view of this predicament and in view of the impossibility of stopping the overflow in the near future, action to seal, brace, or otherwise secure the overhang of dollars is of utmost urgency. It is sufficient to confine this action to the dollar holdings of monetary authorities since only they can present their dollars in New York for conversion into gold.

Let us then consider what kinds of action might be taken with regard to official dollar holdings.