

FIRST EDITION.

GOLD BOOM OR SLUMP

by
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**A Critical Examination of the Outlook for
Sterling and Gold Shares**

PART I. Forecasts.

PART II. The Dominant Risk.

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DEFINITIONS.

GOLD PRICES : Commodity prices, as measured by index numbers, within the on-gold countries.

THE PRICE OF GOLD : The statutory or market price for the metal.

STABILISED PRICES : A stabilised index level of prices, the individual prices composing the index being allowed to fluctuate according to demand and supply.

RISE OR FALL IN DOLLARS, ETC. : Throughout this book I use the expressions "rise" or "fall," not in terms of the numerical market quotation, but in terms of exchange value. For instance, I take a movement in the dollar from 5 to 6 to the £ to be a "fall" in the dollar, although it is a rise in the quotation.

PRICE INFLATION : A rise in commodity prices due to monetary causes.

PRICE DEFLATION : A fall in commodity prices due to monetary causes.

COUNTER INFLATION : A deliberate reduction in the volume of money aimed at checking a further rise in prices.

COUNTER DEFLATION : A deliberate increase in the volume of money aimed at checking a further fall in prices.

MONEY OR CURRENCY : Anything which is generally accepted by the public in settlement of debt, i.e., bank deposits, as well as notes and coins.

TOTAL SUPPLY OF MONEY : Coins not used as backing for notes; *plus* notes not used as backing for bank deposits; *plus* transferable bank deposits, i.e., current or demand deposits as distinct from fixed or time deposits.

N.B.—In the supply of Money, I, of course, include bank credit as well as legal tender, just as when I talk of Traffic I include motors, even though they are merely a "convenient substitute" for horses.

THE DEMAND FOR MONEY : (a) The amount required as a medium of exchange for effecting expected expenditure before the next anticipated replenishment of monetary income; plus (b) the amount required for hoarding purposes either so as to keep "liquid" or as a speculative investment against an anticipated general fall in prices.

The demand for money thus arises from two separate motives: (i) for use as a medium of exchange; (ii) for use as a store of value.

INFLATION : A quantitative increase in the supply of money (as defined above), regardless of the immediate effect on prices.

DEFLATION : A quantitative decrease in the supply of money (as defined above), regardless of the immediate effect on prices.

REFLATION : A quantitative change in the volume of money aimed at restoring the price level to a former figure either upwards after a price deflation, as in America in 1933; or downwards, after an inflation, as in England in 1920.

PREFACE.

A warning to Bulls of Gold Shares and Bears of Sterling.

In this pamphlet I have argued that the present influence of the dollar on sterling is to make the pound decline, because the dollar is some 15 per cent. undervalued, whereas it ought to be overvalued because America is not only a creditor nation but also has an export surplus on trading account.

But does undervaluation of the dollar really exist as supposed ?

On page 470 of *The Economist* of March 2nd will be found a table showing that American internal prices have risen 18 per cent. since mid 1933 (and that French internal prices have fallen 10 per cent.) while those of Great Britain have been virtually stationary.

Thus the recent decline in the pound plus the rise in American internal prices *may have* largely wiped out the undervaluation of the dollar on which the optimistic *immediate* forecasts for gold shares in this pamphlet are based.

The influence of tariffs must not be forgotten. The British 10 per cent. import tariff tends to make sterling dearer than it otherwise would be (see page 3), but this is probably more than cancelled out by the even higher tariffs of America and the Gold Bloc; so that on the score of tariffs *alone* sterling should probably show undervaluation rather than overvaluation in relation to the gold currencies, as measured by purchasing power parities.

Similarly, on international debt and trading account^d the dollar should, other things equal, be *over-valued*.

* Yet, on internal price "prospects" the dollar should probably be *undervalued*, because of the declared reflationary policy of the Administration aiming nominally at a further 25 per cent. rise in prices.

My net guess at the present position, particularly in view of the fugitive capital now in London, is that the pound should depreciate a little further, even before France devalues.

Sterling, however, does not move solely with English internal prices and with the English export-import balance; but rather with the Sterling Area's prices and foreign trading balances, because other countries have linked their paper currencies to sterling. Consequently English index numbers are not a true guide to the correct international value of sterling and of the currencies linked to it.

If, however, the undervaluation of the dollar has *already* disappeared, as *The Economist* figures suggest, the *immediate* prospects for gold shares are not so bullish as the trend of this pamphlet suggests.

PART I.

CONDITIONAL FORECASTS

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