GOLD AND THE MARKET

SIR, — In reply to Mr. Smedley, if the price of gold is allowed to float, gold ceases to be of use as money and becomes merely a store of value. As such, it would be held in ingots of one ounce or larger. Notes would be converted into the nearest ingot, with the balance in silver or copper. The current free market price of gold is published daily today in the press. The important consideration is that a floating price for gold would render the money we really use, the paper note, independent of the demand/supply fluctuations of gold. This is really important. Our need to buy and sell the myriad commodities necessary for our daily life is quite independent of the chance presence of gold in the country.

Mr. Smedley repeats his point that if a noteholder can change his note for gold in the free gold market, there is no point in the issuing bank offering conversion in gold. But the free market price is merely the average price ruling in the market at a particular time: any one dealer can offer or accept any price, or even refuse to deal at all. Mr. Smedley writes that in a free market a seller would have to sell. I can say only that Mr. Smedley's idea of a free market differs from mine. In my free market a seller can refuse to sell for any reason that moves him, even for "I do not like thee, Doctor Fell; the reason why I cannot tell." A bank, however, binds itself to redeem its notes in gold at the price ruling on the previous day. A bank would have to be in a pretty bad way before the free market refused its notes; but the bank could defend its reputation by offering gold at the current average market price.

Yours faithfully,

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London, S.W.19