

MONEY AND GOLD

SIR, — If Mr. Smedley wants to stop this correspondence, he should not advance fresh argument. He writes that I have not grasped the idea that gold might once again be used as money. I am sure that gold will never again be used as money. Fifty years of propaganda have at last convinced governments that the volume of gold in existence is so small compared with the amount of paper money in circulation that only a great rise in the price of gold would make conversion of paper money into gold possible. And any gold price so fixed would be out of date, and restrictive, almost as soon as it was enforced.

Mr. Smedley also wants to know what would happen to the price of gold if sellers refused to sell. The reply is of course that the price of gold would rise until people were tempted to sell gold. The really important consideration is that the circulation of our money, paper money, should not be throttled by scarcity of gold. Gold is necessary only to maintain trust in the paper money, and for this purpose it is essential that the paper price of gold be free to follow the fluctuations of a free bullion market.

I have now looked at Mr. Smedley's new book. Our present note-issuing system was established by the Bank Charter Act of 1844. I will leave your readers to decide whether the account in my "Free Banking" of the circumstances that led up to that Act is more plausible than Mr. Smedley's.

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