THE OUTLOOK FOR GOLD

Charles Morgan-Webb

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CHARLES MORGAN-WEBB

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CONTENTS

CHAPTER		PAGE
	Foreword	7
I	SUPPLY AND DEMAND	13
II	THE STORAGE FUNCTION OF MONEY	25
III	THE DE-HOARDING OF GOLD	40
IV	LIQUIDITY PREFERENCE	54
V	THE LIMITATIONS OF INVESTMENT	73
VI	THE SUPPLY OF GOLD	91
VII	THE DECLINE OF DISRUPTIVE FORCES	101
VIII	THE RE-DISTRIBUTION OF GOLD	115
IX	A SIMPLE SOLUTION	139
	Index	149

FOREWORD

THE first chapters of this book were written to an accompaniment of grave disturbances in the public mind as to the utility and value of gold. Financial circles in the United States were hotly discussing the necessity of reducing the price of gold from thirty-five to thirty dollars an ounce. The Government of South Africa was pressing insistently for the return of Britain to a gold standard. A general panic of gold de-hoarding was being reinforced by the involuntary de-hoarding of £70 millions of gold in one month (June 1937) from the French Exchange Fund. Gold was being sterilised in wholesale quantities by the Government of the United States.

The public were so full of uncertainty as to the present value and position of gold that an enquiry into "The Outlook for Gold" appeared to be a wantonly speculative enterprise. As the chapters proceeded towards their conclusion, the efforts of the French Government to impose a managed currency on the gold-minded French people helped to make confusion more confounded. The difficulty of keeping a single eye on the future while the present offered such manifold distractions and contradictions has been ever present.

The author was, however, greatly comforted by the comments of a friendly critic who read the work in typescript. His observations were to the following effect:

"I congratulate you on sitting so discreetly on the fence through the whole of the nine chapters. Like all prophets, you have backed the future both ways."

He cited the last paragraph of the book in support of his opinion, saying "If the price of gold goes up you will quote the first sentence of that paragraph triumphantly and say 'I told you so.' If the price of gold goes down, you will quote the second sentence and say with equal truth 'I told you so.' "

It is comforting to know that in the midst of so many distracting influences, the calm, judicial attitude implied in the phrase "sitting on the fence" has been preserved throughout the nine chapters of the book.

More serious criticism in advance has been directed against the assumption made at the outset that the price of gold is governed by the Law of Supply and Demand. Against this assumption it has been contended that the price of gold is fixed by governments. In particular, it has been pointed out that the present price of gold is fixed at thirty-five dollars an ounce by the United States Government, and that the dollar price fixes the price of gold in all the currencies of the world.

The reply to this criticism is that the fixing of the price of gold by governments does not destroy nor supersede the Law of Supply and Demand. That Law applied to gold affirms:

i. if the demand for gold exceeds the supply, the price rises;
ii. if the demand for gold is less than the supply, the price falls;
iii. if the demand for gold is equal to the supply, the price remains stable.

Governments fixing the price of gold utilise the third of the above manifestations of the Law of Supply and Demand. If they rate the services of gold at such a high level, they can stabilise the price of gold by exercising perpetual vigilance and by expending unlimited funds in equating the demand for gold to its supply. But the Law of Supply and Demand is operating intensively all the time to keep their noses to the grindstone. A momentary relaxation of control, a momentary hesitation in supporting the market, and the inexorable Law demonstrates its vitality. In the five years September 1931 to September 1936, the Law of Supply and Demand brought three strong nations to their knees—Britain in 1931, the United States in 1933, and France in 1936. Their respective fixations of the price of gold collapsed the moment their power, or their desire, to equate demand with supply ceased.

Moreover, it is not true that the dollar price of gold fixes its price in all the currencies of the world. It would only be true if the foreign exchanges are fixed as well as the dollar price of gold. The sterling price of gold is deliberately dissociated from the fixed dollar price of gold. It not only varies with the foreign exchanges, it goes to a premium above, or a discount below, exchange parity, in response to a hoarding demand or a de-hoarding panic.

An excellent description of the working of the Law of Supply and Demand, supplementing the dollar price of gold, is to be found in the articles on "The London Gold Market," in the *Economist* (Banking Supplement) for October 16, 1937, and "Gold and the Dollar," in the *Economist* for November 13, 1937.

The outstanding utility of gold is the confidence it gives in the future, whether to individuals, to banking systems or to governments. But governments have brought discredit on gold by requiring it to perform unnatural and impossible functions, and by attempting to destroy the individual demand which originally created the value of gold.

The panic de-hoarding of gold which accompanied the first chapters of this book has been succeeded by a strong hoarding demand for gold as it is going through the press. So violent an oscillation of public opinion with regard to gold in the short period of four months has brought home to the author his rash temerity in undertaking to discuss its future. But on the principle that present action is determined by our anticipations for the future, the book may help to interpret the present. Gold is the subject of violent prejudices, ranging from excessive adulation to passionate contempt. The attitude of the author from his position of detachment "on the fence" is equidistant from both extremes. His approach has been strictly utilitarian, regarding gold, not as a fetish, not as a superstition, but as a substance that satisfies the very human instincts, pride of possession, and assurance for the future, for the majority of mankind.

C. M.-W.

October 10, 1937

CHAPTER I

SUPPLY AND DEMAND

"Dr. Freud relates that there are peculiar reasons, deep in our subconsciousness, why gold in particular should satisfy strong instincts and serve as a symbol. The magical properties, with which Egyptian priestcraft anciently imbued the yellow metal, it has never altogether lost.

"Almost throughout the world gold has been withdrawn from circulation. It no longer passes from hand to hand, and the touch of the metal has been taken from men's greedy palms. Gold is out of sight—gone back again to the soil. But when gods are no longer seen in their yellow panoply walking the earth, we begin to rationalise them; and it is not long before there is nothing left."—Mr. J. M. Keynes—*A Treatise on Money*.

In the above passages it is suggested that the value of gold is derived partly from its supposed magical qualities, and that both the magic and the value of gold will shortly disappear. On the other hand, there is much reason to believe that the value of gold is determined in the same manner as the value of all other commodities is determined, by the operation of the Law of Supply and Demand. Human psychology enters very largely, it is true, into the valuation of gold. But it enters equally into the valuation of all other commodities. The valuation of food, of clothes, of houses, of equipment for recreation, of necessities as well as luxuries, is determined largely by the psychology of