6. The movement of gold from New York to London decreases U.S. monetary reserves and increases reserves in the United Kingdom, thereby serving to contract credit in the United States and to expand it in the United Kingdom.

7. In consequence, certain prices in the United States will fall, relative to prices in the United Kingdom, thereby making the United States a better market in which to buy and the United Kingdom a better market in which to sell. U.S. exports, therefore, will be stimulated while imports will be retarded.

Generalizing the illustration, a decline in the foreign exchange value of a currency, by inducing short-term capital inflow, by making it profitable to export gold, and by changing the relationship of exports to imports, serves to distribute the world's monetary gold among countries in accordance with their needs, and prevents prices of internationally traded goods from getting out of line with each other. This is what is meant by "equilibrium under the free gold standard."

The "correctives" under an idealized free gold standard are: freely fluctuating exchange rates, within the gold points; freedom to buy and sell gold; relatively free international movement of capital and merchandise; and fluidity of prices within and between countries, including those of the factors of production (interest rates and wages).

The essence of the free gold standard was the willingness of countries to allow their domestic economies to adjust to each other in response to changes in the external values of their currencies.

Those who favor return to a free gold standard are, in effect, arguing that countries allow wages, prices, and rates of interest to adjust to wages, prices, and rates of interest in other countries, as well as to allow gold to move internationally in response to freely fluctuating exchange rates. Most important of all, the discipline of the free gold standard requires that bank credit be allowed to expand or contract as the supply of gold expands or contracts.

It is doubtful whether any country in the world today is willing to go this far toward fostering a "world economy." Most countries seek to insulate themselves against inflationary and deflationary forces in other countries, and are more interested in domestic prosperity and economic growth than in a functioning international economy. Full-employment policies and programs take precedence over almost everything else in the economic sphere largely because of fears of the deflation which political leaders believe would result from return to a free gold standard.

Because of the unwillingness of countries to allow their domestic economies to adjust to each other, it is probable that return to a gold standard would have deflationary effects. However, if the economically developed countries were willing to make the internal adjustments necessary to bring about the full utilization of productive resources everywhere, it is probable that the cost of making the necessary economic adjustments would be slight.

If countries were to allow their economies to adjust freely to each other, only small quantities of gold would be needed for the purpose of making international settlements. Indeed, if they went the full way and became a true "world economy," with or without a unified world currency, there would be no need for gold at all. This is the situation that prevails in most large cities where banks balance their