interest rates, and merchandise exports increase, relative to imports, if the currency of a country cheapens in terms of the currencies of other countries. Equilibrium is established, it should be noted, not by the adjustment of average price levels to each other, but by adjustment of the prices of individual commodities.

As the value of a country's currency declines, it becomes increasingly profitable for foreigners to buy in that country. A series of "export points" for various commodities become operative, such as a cheese export point, a wheat export point, and so forth, which are similar to the "gold points" under the free gold standard. Thus, when the Canadian dollar falls in value to a certain point, relative to the U.S. dollar, it becomes profitable for Americans to import Cheddar cheese from Canada. If, on the other hand, the Canadian dollar appreciates in value, relative to the U.S. dollar, it becomes profitable for Canadians to import Cheddar cheese from the United States. Such commodity shipping points serve to adjust national economies to each other through changes in the composition, as well as the volume, of international trade.

However, since international adjustments sometimes cause sensitive prices, including certain wages to decline, governments resist. This is what happened between World War I and World War II. The gold standard had been abandoned by most countries, and national governments vied with each other to protect themselves against exchange depreciation. They depreciated their own currencies in frantic attempts to increase exports relative to imports. Quantitative controls against imports, exchange controls, and a wide variety of other devices were employed to protect themselves against each other's exports.

The wide variations in foreign exchange rates that accompanied competitive exchange depreciation made international transactions hazardous and were a serious deterrent to international trade. Between 1930 and 1932 international trade dwindled to a mere trickle, and the world became bogged down deeper and deeper in depression, with millions of people unemployed.

There is nothing economically illogical about freely fluctuating exchange rates. The difficulties in adopting them lie in the political sphere. There is an all-pervasive fear against allowing a national economy to adjust to other economies or, in popular language, "to import deflation or inflation from abroad." Adoption of either an international free gold standard or a system of freely fluctuating foreign exchange rates would require that governments allow their economies to adjust to each other. It would be necessary that they abstain from interfering with international capital outflows and with merchandise imports, that they allow prices and wages to be determined by the interplay of market forces, and that they not try to prevent the transfer of capital and labor from less efficient to more efficient lines of production.

## The Adjustment Process

The international transfers of merchandise that bring about economic adjustment need to be conceived of in terms of actual commodities, rather than in terms of statistical aggregates. Adjustment occurs, not only through changes in the total volume of imports relative to the