

currencies.

The function, then, of this delicate mechanism in the world of the International Monetary System is to enable the world trade in goods and services and the world movement of capital to continue to expand in pace with the economic growth of the aggregate of the world economies; and, secondly, to permit countries to finance disequilibria in their balances of payments.

Now, disequilibria in balances of payments can be, as the little outline indicated, chronic or they can be temporary. Unhappily, in the kind of business that I work in, it is not always easy to determine whether we are dealing with a chronic or a temporary disequilibrium, when something that starts out to be temporary may turn out after all to be chronic. This often causes a good deal of trouble.

The very fact that one talks about disequilibrium and raises the possibility that disequilibria in balances of payments can be chronic or temporary, raises the extremely difficult and complex question of the mechanism of adjustment of the balance of payments. Theoretically there should be no such thing as chronic disequilibrium in the balance of payments. If we go back to the classical concept of the old gold standard, a country whose total credits and total debits on international account, in a given period such as a year, did not balance without the necessity of moving gold as a balancing item, was in a disequilibrium situation in which the inflow or outflow of gold net was expected to have, in theory at least, very powerful adjusting effects, powerful effects on the credit structure, on the rate of interest, up or down, and, therefore, finally, on the cost-price structure of the given