

new supply of means of payment should have the definite aim of bringing about a predetermined rise in the level of commodity prices.

Such a programme for bringing about a rise of prices often encounters the objection that a country which raised its level of prices in isolation would weaken its power of competition on the world market. This objection is untenable. According as the country raises its level of prices, the exchange value of its currency on the world market will be lowered, so that the country's power of competition in international trade will remain unchanged. When England has striven to keep down the international exchange value of the pound by large-scale purchases of foreign exchange and gold, she has, as shown above, been aiming at an undervaluation of her currency which is incompatible with equilibrium in the world economy. It would have been far better if the money available had been used to increase the purchasing power on the home market. In this way the level of prices would have been forced up, and the apprehended rise in the dollar rate of exchange for the pound would have been precluded in a natural way.

The observations made above are applicable to all countries on a paper standard. England has been taken as an example in view of the special importance of the pound, and of the desirability that England should take the lead in the reconstruction of the monetary system. But, pending such a lead, the other countries by no means need to remain entirely passive. There is nothing to prevent them individually proceeding on the right road and introducing a rise in their price-level. A small country which thus finds itself constrained to act independently will obviously be obliged to keep the rise of prices within rather narrow limits. None the less, active steps in the right direction will be greatly to the advantage of the country itself, and will undoubtedly prove to be extremely useful for a world which is only waiting for the right signal to be given and for the first step to be taken towards the reconstruction of a sound monetary system.