reserve position. It does this, under this gold standard theory, by raising its discount rate, which tends to attract foreign funds to the market and support the exchange, and by selling securities to the money market. This contracts the cash base of the credit system and forces the commercial banks to pull in their horns, call loans in, sell securities, contract credit, with the deflationary consequences that one could expect from such action. Prices are supposed to fall, but in point of fact they do not fall evenly. Consequently, there are maladjustments in the price structure which lead to unemployment, and partly as a result of the fall in prices and partly as a result of the unemployment, there is general contraction of consumption, including the consumption of imported goods. On the other hand, the country is better able to compete in foreign export markets. It sells more abroad and the combination of those two factors tends to redress the deterioration in its foreign balance of payments. May I interrupt my exposition to ask whether Mr. Quelch would agree at this point that that is a fair statement of the operation of the gold standard to which the opponents of the gold standard most seriously object?

Mr. QUELCH: I think your definition was a fair one, and I think it helped to substantiate the claim that this is a form of gold standard.

The WITNESS: Then I will continue with the argument. I should like to add that what I have just said is, in my opinion, purely theoretical. I do not think in point of fact any gold standard ever did work in that way. I do not think that these adjustments did take place along the lines that I have indicated. What I have expounded is the textbook concept of the gold standard.

How does Bretton Woods differ from this? One difference is that it adds to the international reserves of countries. It increases the amount of adversity in their foreign balance of payments that countries can face without having to take such deflationary action as I previously indicated. But, of course, Mr. Quelch would be quite right in saying that is merely a time gaining device. If that were all then all that would mean would be that this was a gold standard made somewhat more elastic by the addition of $8,800,000,000 to the world's international monetary reserves.

*By Mr. Blackmore:*

Q. Including the United States?—A. Including the United States, yes. However, that is not by any means all that this does mean. In addition, and this is the important point, what this Bretton Woods document does is to recognize adjustments in exchange rates as methods of meeting an adverse balance of payments, and that is the basic concept, Mr. Quelch, which is not present in the gold standard. In the gold standard you change your exchange rate only under the most extreme circumstances.

*By Mr. Quelch:*

Q. You are free to do it though, are you not?—A. You are free to do it, but the whole psychology or mythology, or whatever you want to call it, of the gold standard is that you are an outcast if you do depart from the gold standard. That country which allows itself to get into that position is certainly not out of the top drawer, and is one that other nations would be very careful in associating with. Instead of that you have in the Bretton Woods document provisions under which a country is free to change the initially fixed exchange rate by as much as 10 per cent after mere notification to the fund. That is, consultation is necessary in that case, too, but the fund has no right to object, and the fund has imposed on it the duty stated in article IV, section 5, paragraph (*a*), on page 6 of the bill, to concur in a proposed change which is in excess of 10 per cent if it is satisfied that the change is