At the time when the main returns to the gold standard were made, the stimulus to do so was two-fold. (a) Relating the currency unit to a fixed weight of gold meant that inflation was checked, and relief from its evils secured, in the country concerned. (b) Returns on the part of most of the important countries meant that the relation of their currencies to a common standard once again permitted stable exchange rates between them, and relief from fluctuating exchange rates which had been yet a further hindrance to trade. But the automatic working of the gold standard (actually under very different conditions) before the war, and the fact that it had provided rough stability of prices, was responsible for the unwarranted assumption that return to the world gold standard implied that a stable price level had been reached: in other words, that gold supplies would be sufficient as a basis for the amount of credit needed to exchange or distribute the world's production. The simile which has been employed to illustrate this situation is the agreement of a number of ships formerly sailing independently to attach themselves all to the same buoy. Whether the net result is the achievement of stability or not, however, entirely depends on the movement of that buoy.

The simile illustrates only the simpler implications of the phenomenon, however. Returns were made to the gold standard when the supplies of the world's gold were still very unevenly distributed, the main holdings being by the neutral countries and most of all, by U.S.A., to which countries they had flowed in payment for materials and munitions during the War. And in addition, the difference, if any, at the time of the return, between the purchasing-power of the national currency unit in terms of gold and in terms of the things produced and sold within that country, was of vital importance for the country concerned. Great Britain's return to the gold standard was made when the £ sterling was valued higher in terms of gold than in terms of this