

'On the brink of monetary chaos', from Süddeutsche Zeitung (18 August 1971)

Caption: On 18 August 1971, the German daily newspaper Süddeutsche Zeitung reviews the economic and monetary implications of the decision taken by the United States, three days earlier, to suspend the convertibility of the dollar into gold.

Source: Süddeutsche Zeitung. Münchner Neueste Nachrichten aus Politik, Kultur, Wirtschaft und Sport. Hrsg. DÜRRMEIER, Hans ; Herausgeber HEIGERT, H. 18.08.1971, n° 197; 27. Jg. München: Süddeutscher Verlag. "Am Rande des Währungschaos", auteur:Slotosch, Walter , p. 1.

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On the brink of monetary chaos

by Walter Slotosch

What is now going to happen following Nixon's monetary policy coup? That is the question being asked today in all the global trading countries. Obviously, people have not yet got over the initial shock and have taken time out to clarify their thoughts on the situation. To date, the only comment to come from Bonn has been a calming assurance that the stability of the Deutsche Mark is not under threat from these events, thanks to free exchange rates. In the meantime, there is just speculation as to how the exchange rate for the mark against the dollar will develop in the short term. The European gold and currency exchanges were also closed yesterday, and no one yet knows when they will be able to reopen.

For German shareholders, this new turn of events means a tendency for the market values for those sectors of industry dependent on exports to fall, especially the motor vehicle and engineering industries, electrical engineering and parts of the chemicals industry. Nobody yet knows the nature of the short-term solutions with which we shall soon have to cope and what we may expect in the way of a chain reaction of protectionist measures and exchange rate corrections for individual currencies.

The Deutsche Mark out of the woods?

One thing is certain: with the reopening of the currency markets, we shall not have long to wait before a united front is established on concerted international defensive action against the chaotic conditions prevailing in the world of international payment transactions. In the first commentaries, the American action was, in many cases, greeted as the prelude to the long overdue reform of the Western monetary system. But what should this reform look like? Opinions on this are deeply divided: after all, the subject of reform of the world currency system has been under discussion for more than a decade, without any practical conclusions being drawn, apart from the introduction of special drawing rights. True, we have to accept that common decisions are more likely to be reached under the pressure of an immediate threat to world trade, but there is no guarantee of that whatsoever.

On the other hand, the situation is not so simple that Bonn can make the cool assessment that the mark is out of the woods. German tourists abroad may, indeed, be reassured: they receive for their German currency more rather than less in foreign currencies. However, what is involved is not really so much the stability of the mark as the stability of our economy. One is tempted to think of the words of Heinrich Brüning who, at the peak of the catastrophic unemployment in 1931 with more than six million unemployed, emphasised with satisfaction that that it had been possible to secure the stability of the German currency.

The Connally enigma

The point of the American action is to create an economically intolerable situation that should force America's most important trading partners to negotiate. The statement from the American Secretary of the Treasury, John Connally, that a root-and-branch devaluation of the dollar had not been ruled out, poses something of a riddle. Does he mean by this simply the relative devaluation of the dollar through the correction of exchange rates with other countries, or do we actually have to reckon on a full-blown alteration to the gold parity of the American currency, which has hitherto been fixed at \$35 per ounce? Such a measure would also result in American exports becoming cheaper on the world market in accordance with the devaluation rate. According to rumour, any devaluation of the dollar could be of the order of 12 to 15 %. If we bear in mind that American exports account for almost one quarter of total world exports, then it is easy to imagine how such a competitive advantage in favour of the American export industries would affect the other competing world trading countries.

General confusion

If we assume that the present state of suspense, with currency markets closed and complete uncertainty over the future international exchange rates, cannot be maintained for long without causing chaos, with each

country following the policy of 'every man for himself', then the only possibility is interim and stop-gap arrangements. Nor can we wait until a European Monetary System becomes operational, or until a new international monetary order is established without the dollar. How widely the general confusion has already spread is shown by the proposal that the Swiss franc should be made into the new reserve currency. Not that we have anything against the Swiss currency.

Nixon is simply fooling himself over reasons for the measures he has taken if he lays the blame for the dollar's misfortunes at the door of those wicked speculators. The flight from the dollar was, ultimately, merely a consequence of the weakness of the currency, which was brought about by American inflation and deficit financing. What is more, the bombastic phrase that, from now on, the dollar would never again be abused as a hostage in an anti-American campaign, is a devious assertion because, after all, hostages are taken captive, which can hardly be said of the dollar.

All in the same boat

Today, there is not much point in arguing about who is to blame. We are all in the same boat. Serious disruption to international trade caused by chaotic currency conditions would hit us all. In the present situation, therefore, all parties will have to be prepared to make sacrifices so that the world economy can be saved. A devaluation of the dollar has been demanded for many years, and the dollar rate has been criticised as excessively high and distorted, so it is difficult today to criticise in principle measures that amount to a correction of the international dollar rate. The important thing is to avoid sudden, unexpected disruption as was caused recently by Nixon's unilateral decisions. The clearest and quickest decision possible might be a gradual full-blown devaluation of the dollar. Then individual countries would still be free to adapt to the changed situation with their own exchange rate corrections. If, to date, America has always exported its inflation, then there is now a real danger, given the current course of international economic policy, of the USA exporting its unemployment.