the Henry George News

PUBLISHED BY HENRY GEORGE SCHOOL OF SOCIAL SCIENCE • JUNE 1969

# The Currency Crisis

by OSCAR B. JOHANNSEN

BARELY six months have elapsed since the international monetary crisis which centered around the French franc. Now there is another one revolving around the German deutschmark. Revalue the mark upwards! is the insistent cry, to which Germany has so far turned a deaf ear. And well it should. After all, it is in the position of a man who has followed relatively good health habits while his neighbors have been blithely treading the primrose path. Instead of following his example they demand that he put shackles on himself so he will not be able to outrun them in the race for life.

As France and England have been pursuing unsound economic policies and inflating their money supplies at a faster pace than Germany, buyers have been fleeing from the franc and the pound into the mark, so that Germany is hard put to it to keep the mark from rising above 25¢. Under the rules of the International Monetary Fund it must value its currency within one percent, plus or minus, of that figure.

Probably few see any reason why Germany should not raise the price of its currency if that would stabilize international trade, as the intricacies of foreign exchange are inexplicable to most. The same end could be attained if the prices of the weaker currencies, the franc and the pound, were reduced — but French and British politicians do not wish to admit that they have been following unwise policies. Nevertheless since Germany has so far refused to upvalue its mark, the franc and pound may have to be devalued, and in the not too distant future.

But why are foreign exchange rates fixed? Because during the 1920's, as nations departed from the gold standard, they devalued their currencies hoping to take into account the inflation of their money supplies, and also to encourage exports at the expense of imports. Economic ignorance leads many to believe that exports should exceed imports, but that is impossible as exports are paid for by imports.

Still, manipulation of currencies can sometimes allow exports to exceed imports for a time — usually an interval when politicoes are up for re-election. In fact the main reason why Germany is not revaluing upwards may have little to do with economics, since there is to be a major election this September.

The shocking devaluations in the 20's made it appear wise to Americans to institute fixed rates. The opportun-

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ity to accomplish this occurred after World War II, when most nations were prostrate and willing to follow America's lead.

It may well be that the reason fixed exchange rates are so popular is because they were in effect when most nations were on the gold standard, and when they were based solely on differences between the monetary units. In the early part of this century the American dollar represented 23.22 grains of pure gold and the English pound 113 grains. The ratio of 113/23.22 is 4.8665, that is, the pure gold of the pound (a sovereign) weighed 4.8665 times that of the dollar. That meant that the pound's exchange rate, or price, in American terms, was $4.8665. This was known as the mint par of exchange. The fixed rates were thus merely the result of physical relationships, not of governments' mandates or interferences.

But that is no reason why fixed rates should exist when the nations' currencies are no longer backed by gold. Unfortunately, by means of policing and taxing powers, governments have enforced the use of "paper money" which is nothing but their IOUs on which no interest is paid. Today, then, the exchange ratio of the currencies of such nations as France and Germany, is the ratio of the non-interest bearing circulating debts of France to the non-interest bearing circulating debts of Germany, as they apply to foreign trade. Such a ratio could not possibly be fixed unless the governments, through intervention, kept it so.

History has proven that it is impossible to maintain fixed rates for any considerable length of time. Despite the existence of the International Monetary Fund which is supposed to police such rates, a change was made when the English devalued the pound from $2.80 to $2.40 in 1967.

Attempts to eliminate the recurring exchange rate imbroglios are fruitless as long as nations are on paper currencies. The proposal to let the rates "float," that is, to permit them to fluctuate in the marketplace, is a step in the right direction, for it amounts to putting the nations on a form of unofficial gold standard. In any system there is always a fixed point. Even in Einstein's theory of relativity there is the velocity of light, which is a constant.

And where would be the fixed point in floating exchange rates? Probably in comparing currencies people would ascertain the rates at which they were being exchanged for gold. For example, if 25 English paper pounds were exchanged for an ounce of gold in London, and at the same time and place 50 American paper dollars were exchanged for an ounce of gold, the price of the pound would be considered 50/2 or $2. In other words, one English paper pound might be exchanged for two American paper dollars. What this means is that the paper currencies would float around the real money of the world — gold. As long as governments refrained from interference, as they did under the official gold standard, a viable system would operate.

But governments will interfere. Even if they stopped inflating their currencies when the free market was established, such a halt would only be temporary, because any nation, particularly if it is a great power, will suffer economic and social disturbances sooner or later if it treats land as though it were private property. Poverty, unemployment and busts will be the order of the day. The one palliative which is invariably adopted to alleviate such conditions is inflation of the money supply, for it usually does work temporarily. But this causes the exchange rate of such a nation's currency to drop. Politics being what it is, those in control wish to disguise that fact and so intervene in one way or another; ergo, the free market disappears.

Therefore until the day arrives when men see the obvious — that they are living on and from the land, and that access to the land must always be freely available— monetary crisis will follow monetary crisis no matter what elaborate and sophisticated mechanisms are created to prevent them.

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**According to a report in the Detroit Free Press, George Romney, former Michigan Governor, now in Washington, might be in a position to influence tax policy, and he "clearly believes that taxes should be used not only to collect money for public service but as incentives or penalties to owners and developers."**

**In Editor's Corner by Neil Munro (Grand Rapids Interpreter) the hope is expressed that George Romney will, in his position as Secretary of the Department of Housing and Urban Development, defend the method of taxation that is vital if the decline of central cities and burgeoning of urban sprawl are to be arrested.**

**Irene Hickman, county assessor of Sacramento, California, evidently read the above "Interpreter Opinion" and wrote to the Detroit editor as follows:**

**"Congratulations to Mr. Romney for saying it—but even more congratulations to you for hearing and printing it; the statements regarding the way taxes work against the solution of the housing problems.**

**"These views are receiving growing support from many directions. Let us hope for more implementation before a real crisis occurs in our cities."**

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## FRED W. WORKMAN

**A sturdy pioneer and defender of Henry George's principles, Fred W. Workman, died at his home in Pacific Grove, California on May 22nd. Though crippled by a car accident two years ago he maintained an active interest and wrote frequent letters to the local newspaper which were nearly always printed. As a poor boy, orphaned early, he worked very hard all his life. At one time he embraced socialist ideas, but later repudiated them totally. He was once discharged from a good job because he spoke at a meeting in favor of the single tax.**

**Having chosen the Monterey Peninsula as the best of all possible climes he ended a long life there, still holding hope for the America he loved but sometimes wept over. He was greatly beloved in the community he has served for more than 40 years. Although there were, by his request, no funeral rites, his many friends will honor him with heartfelt tributes at a public service. It was Mr. Workman's desire that should any memorial contributions be received they were to be directed to the Henry George School in New York.**