analysis
FRANK CHODOROV EDITOR

VOL. VI. No. 1 *Freedom . . . undoubtedly means freedom to drink oneself to death.* — ALBERT JAY NOCK.

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Next: Dollar Devaluation

MONEY—so runs the classic definition—is a medium of exchange and a measure of value. Improvements on this definition have been offered, but none of them can match it in accuracy of description and conciseness of expression. It has been faulted mainly because it does not cover the uses to which the devious mind of man can put money; but, a definition manifestly cannot be a treatise and should not try to be. For instance, the definition of the word "hammer" is complete even if it does not include the idea that the thing can be dropped on somebody's head for the purpose of inducing death. Money is money, regardless of its use by politicians, often in cahoots with bankers, as an instrument of exploitation.

Ever since the first monarch realized the possibility of manipulating the measure of value into a profit for himself, provided he could monopolize it, money has been periodically inflated or deflated by the State, as "public policy" required; that is to say, the yardstick of value has been lengthened or shortened. In either case somebody is defrauded and the monopoly money-maker gains. When the State deflates, by arbitrarily reducing the existing stock of money, the purchasing power of the established unit increases; a debtor then must give up better or harder-to-get money than he had borrowed. Meanwhile, the reigning regime is enriched by the increased purchasing power of its own coffers. Inflation, which is really a counterfeiting process, robs the creditor and profits the debtor. Since the State, the monopoly money-maker, is an inveterate borrower, this means of getting out of debt is a temptation difficult to resist when the pressure of its obligations becomes annoying; kings, oligarchs and democracies always come to it. You can't blame the measure of value for this, any more than you can blame the yardstick if the merchant should surreptitiously shave it by an inch or two.

Right now the governments of the world are in a dither of devaluation. Your interest in the matter is probably on a par with your interest in differential calculus, and you skip the headline stories as something that does not concern you; you turn to the sports pages. That is the sound and healthy thing to do, except that you should know how this devaluation business will ultimately rob you of the mustard on your noon-day sandwich, and that you will admit is important.

WE have to go back a bit to get our bearings. Since the devaluation of the pound started this whole round of devaluations, we must look into the circumstances that brought Britain to it.

At the end of the two world wars the capital structure of England was in a bad way, what with the outlays in preparation for and prosecution of war, and the destruction of some capital by the German *Luftwaffe*. War is waste, of course. As a consequence of the wars, she lost large hunks of the empire that had poured capital into the island for a couple of centuries. The reason for this disintegration was that the cost of maintaining a collection agency—that is, a military establishment—was more than she could stand; the expense became greater than the income. (That is how all empires

When Sir Stafford decided on devaluation he went to the *free market* in Switzerland to find out what the pound was really worth. That's how he hit on the $2.80 price. However, the free market does not stay put. The day he announced the new pegged price, you could buy pounds in New York at $2.70, and since then the price dropped again.

crack up.) Without the expensive and extensive army and navy she could no longer extract capital from where "the sun never sets."

Now, capital is that part of production not immediately consumed but set aside to facilitate further production. The only way to come by capital, putting aside theft, is to work and save. But, the English people were somewhat tired of working and saving, seeing that nothing came of it but more taxation and another war, and were attuned to the siren song of the Labor Party: *abundance without toil.* When this gang got control of the reins of government they proceeded to keep their promise by nationalizing industry, on the theory that by putting away the private owners, the parasites, there would be plenty for all; and with a minimum of labor. Somehow, the theory did not work; not only did Socialism fail to produce any capital, it failed to keep the workers stoked up sufficiently to induce an interest in production. The national output fell and the cost of maintaining Socialism rose.

Along with Socialism came a scheme for getting capital at bargain rates: the pegging of money at a higher value than it is worth in terms of labor-products. In effect, the Labor Government said to Americans, if you want to buy our goods you must pay us four dollars for what you can get in your own country for three dollars. The idea was to sell dear and buy cheap, and to put the excess of receipts over outlay into an improved capital structure.

A fictitious value on money has two effects, one internal, the other external. With the subject people, who are compelled to accept money at the dictum value, it creates a feeling of opulence. The frustration of poverty, the lack of satisfactions, is sublimated in bank accounts and in playing with money. There being no goods for which to exchange the money, the only thing to do is to keep it, and despite an empty belly, one feels proud to hear the jingle of coins in one's pocket or to walk up to the window and lay a "bob" on a horse race. This sense of richness generates confidence in the government's ability to produce goods as well as money, in time. That has political advantages.

In foreign trade, over-valued money has the effect of a protectionist tariff or an embargo. It keeps goods out, money in. It is like overpricing merchandise in order to drive customers away. The scheme is even sillier than it sounds, for British prices had gone completely out of line without this fictitious value of its money, thanks to the high cost of Socialistic production. The country socialized itself out of the world market.

Keeping goods out and money in would make some sense if the country were self-sufficient. There is no such country in the world and Britain is particularly short of many things needed for the sustenance of its people, let alone capital accumulations. It has to import goods. For a short time after the war the general world shortage made it possible to work its sell-dear-buy-cheap scheme; you are willing to be held up when in dire need. But, as soon as the producers of the world made up this temporary shortage, the scheme fell flat on its rump. Buyers laughed at the pegged pound, took their trade elsewhere, and the Labor Government came to Washington with tin-cup in hand.

Necessity finally forced the Labor Government to come to terms with reality; even Socialists must eat. The fiction that a country can get rich by overpricing its goods was held on to as long as possible for political reasons. The dropping of the pound to near its true value would drive home to the British the fact that they were only paper-rich; it would emphasize their poverty. And they would demand more pounds, because it takes more of the cheaper pounds to buy the things men work for, and this demand must be met by starting the printing presses going.

In an effort to avoid this politically-loaded inflationary step, the Labor Government resorted to the Hitler-Schacht scheme of swapping goods for goods on a basis that circumvents the pegged pound. That is all right if you can find countries under the necessity of doing business that way. But, there are some countries that need not take what Britain has to offer, and will sell only for money acceptable in more favorable markets. Since England needs the goods of these dollar countries there was nothing to do but to mark down the price of her goods. Sir Stafford Cripps capitulated.

The devaluation of the pound will temporarily help some British goods to vault the tariff walls that surround practically every country in the world, and particularly America, whose trade she sorely needs. This fact alarmed the other countries who had also gone in for economic isolation by over-valuing their moneys, and who are also in need of our goods; they met the competitive threat by likewise letting their moneys fall. A devaluation war set in; it is exactly like a price-war between retailers whose thresholds are not being darkened by customers.

NOW we come back home. Almost as soon as devaluation was announced, the American protectionist spectre of our being "flooded" with goods was raised. We are being told that our children will suffer from having too many European toys, French wines and Italian olive oil will push the *ersatz* stuff off our tables, English tweeds and Belgian lace will again be a consummation devoutly to be wished. The prospect of being inundated with good things at low prices is frightening, and we can rest assured that our manufacturers will keep after Congress to protect our "standard of living" and their profits.

However, the general inefficiency of European workers, due to their low wages, will help our import restrictions to keep their products out, except those that indigenous natural resources and ancient skills enable them to put out at prices we cannot meet. The impact of devaluation will not be felt so much in our domestic market; it will hit us hard when we compete with these countries in foreign markets. The countries that cannot get dollars with which to buy our goods, because we refuse to buy theirs, will turn to one another for their needs. South America will find British cloth, made from Australian wool, preferable to our product, while rayon made in Italy will give ours a tough battle. Even now, before devaluation, how big would our foreign market be if we stopped handing out dollars, free gratis?

Devaluation will hit us with particular force in the transportation and vacation industries. Our merchant marine will be priced off the seven seas and our airplanes will fly with subsidies, not cargoes. Vacationing in Europe will become the style again, not only because of cheap travelling rates on foreign ships, but because American dollars will buy more bed-and-board in the Scottish Highlands than in the Berkshires. Expatriation could again become the popular pastime among Americans with fixed incomes.

Following World War I, and up to 1934, when Mr. Roosevelt capriciously devalued the dollar by raising the price of gold, the relative advantage of American money in purchasing power developed a taste in this country for Scotch whiskey, at the expense of native Bourbon, and Wisconsin cheese was put into competition with the products of France and Italy. Also, the

fact that the dollar could buy more crepes suzettes there gave Montmartre a cultural edge over Greenwich Village. The dollars drained off by importation and by expatriation came back to demand more of our goods, thus stimulating production.

When Mr. Roosevelt took over, the depression was upon us. This economic disease is simply a widespread stoppage of

out course. He raised the price of gold, and since the number of dollars the Treasury may print is in proportion to the legally-fixed price of gold, his act resulted in increasing the volume of our currency and in reducing its purchasing power. The dollar lost its advantage over foreign currency and American goods lost still more of the foreign market. The expatriates came home.

Intent is the most difficult thing to prove, and whether protectionism was the prime motive of Mr. Roosevelt's inflation will probably never be known; for, he had also embarked on a program of spending the nation into prosperity, and since this called for a lot of money, it may be that this was the basic reason for resorting to the printing presses. It had been the practice of rulers, before the introduction of paper money, to resort to the "clipping of coins" whenever they were pressed for funds; the metal thus purloined was minted into new coins and the monarch was enriched. Modern methods relieved Mr. Roosevelt of this crude indecency; he simply clipped the purchasing power of the dollar by printing a lot of dollars. Overnight, merely by signing a piece of paper, he fabricated a "profit" of $2.8 billion. About a third of this he used to finance the boondoggling New Deal, the balance he put into an attempt to bolster the moneys of the world so that they would not be too competitive with the dollar. This was the Stabilization Fund, the remains of which ultimately became our contribution to the International Monetary Fund.

THE conditions for a repetition of this Rooseveltian bit of history are maturing. The devaluation of foreign moneys will give foreign goods a competitive advantage over ours, not because that will make their goods cheaper, but because their moneys will get around easier than the dollar; cheap money always pushes dear money out of the market. Inflation, which must follow devaluation, will bring their prices up again, and the greater production of our as-yet unsocialized workers will hold our prices down. But, it will be easier to get a pound or a franc or a lira than a dollar, and for that reason business will flow away from the dollar-area. We will not let foreigners get dollars in the orderly way, by buying their goods, and we cannot indefinitely shell out dollars. As in the 1920's, our economic isolationism will drive us out of the foreign markets. The idea of cheapening the dollar, rather than making it more available by lowering our import restrictions, will take root.

Another and far more telling parallel with Rooseveltian policy will drive us toward a re-devaluation of the dollar. It will be the need for money resulting from political profligacy. We have it on the authority of Senator Byrd, who is giving much study to the matter, that by the end of the fiscal year 1952 our Treasury Department will be in hock to the tune of $10 billion. The estimate is based on present spending commitments only, not on expenditures still in the dream stage, and assumes that economy efforts, like the Hoover Report, will not bear fruit.

How will the government meet this accumulation of promissory notes and unpaid bills? There are but three means at its disposal: more taxation, increasing the funded national debt or manufacturing money. It is doubtful that any administration will risk political suicide by

adding $10 billion to our tax-load; the pay-envelope will be tapped under the euphemism of "social security" and a little more may be gotten from levies on capital, but a twenty-five percent increase in total taxation is an impossibility, in peacetime. As for floating a bond issue, the only way it could be done would be by forcing our financial institutions to absorb it, and that would be met with considerable resistance. The quick way of wiping out the $10 billion obligation is to do a little legal counterfeiting.

Another circumstance that should hasten a dictum revaluation of gold—which means printing more dollars—is the deterioration of our economy resulting from political bleeding. When at long last it becomes evident that rounds of wage increases do not improve the purchasing power of take-home pay, when the certainty of taxes offsets the possibility of a net return from investment, when, in short, the realization that production does not pay off in satisfactions, the disease called depression will again be upon us. Following precedent, the government will turn toward make-wage boondoggling, and that will compel resort to bogus money.

So then, deficits in being and deficits in the making will combine with the effects of foreign money devaluation to speed up the printing presses. It is entirely possible that foreign devaluation will automatically—without change in the legal price of gold—make for an increase in dollar bills. The gold producing countries of the world are even now rushing shipments to Fort Knox because of the premium on the dollar. The $35 our Treasury pays the Canadian miner for an ounce of gold is worth $38.50 in his own country; in South Africa, where before devaluation the metal brought 172 shillings, it now fetches 250. One writer estimates that this stimulant will annually add $200,000,000 worth of gold to our stockpile, and that means more authorization, under present law, for printing dollar bills.

Eventually, however, the current of political expediences will lead to dollar devaluation by raising the price of gold. There is even now somewhere in the pigeonholes of Congress a bill to put the price up to $55 an ounce; it will probably be reintroduced year after year until the time is ripe for its passage. Significant, however, is the fact that foreign governments have expressed an interest in the measure. They argue that the raising of the price of gold will raise the value of their own stocks, thus bolstering the value of their moneys; also, our "profit" in the transaction will enable us to continue our gratuities.

As far as you are concerned, this manipulation of the medium of exchange and the measure of value simply means that the sandwich you once paid a dime for, and now costs you a half-dollar, will set you back one buck, mustard extra. Your best hedge against this tragedy is to buy yourself a gold mine.