THE DOLLAR UNDER "ATTACK"

The American dollar is once more under attack. Such is the view put forth before the public when the exchange rate of the dollar for the deutschemark and Swiss franc hit record lows, as well as near-record lows against the Japanese yen. It was even weak against such weak currencies as the Italian lira and the French franc.

The terminology used would lead one to suppose that a war was in effect, and for some reason the United States dollar was being attacked. But actually such is far from being the case.

The reason the dollar price in terms of foreign currencies has fallen is because of the tremendous increase in the number of dollars which have, in effect, been printed. M_1, which in economic jargon, consists of bank deposits and currency in the hands of the public exploded in April, jumping to a 21% seasonally adjusted annual rate. M_2, which consists of bank deposits, currency in the hands of the public, plus time deposits in commercial banks rose at a 14% rate.

For the first half of the year M_1 registered a 6½% seasonally adjusted annual rate of growth while M_2 increased at a 9.9% rate. Of the two indicators of how much so-called money is in existance M_2 is probably the more important. At this writing M_1 is in the neighborhood of $322 billion while M_2 is over $765 billion.

Such figures are so enormous as to be meaningless. The average American doesn't even know what the so-called money supply is nor what amounts are, and probably could not care less. But he is concerned over the drop in the purchasing power of the dollar. It is doubtful, however, if he connects the amount of money issued with the drop in what his dollar will buy.

He does have, however, some vague comprehension that in Latin American countries they print so much money that it buys less and less. Since these countries tend to increase their currencies at a 20 to 30% clip, it may cause him to think twice when he learns that in April the money supply jumped at a 21% increase. True this was just for one month, but it signifies that the government is pursuing a dangerous program.

One of the most sensitive measures which indicates whether a currency is weak or strong is its foreign exchange rate, which is why the sophisticated watch it quite closely. It has been argued that the drop in the exchange rate was due to the trade deficit, that is the deficit between imports and exports.

We have imported so much more than we exported, largely petroleum products, that it is expected the rate deficit will be $27 billion by the end of the year, which is astounding, The overall balance will probably be a deficit of $14 billion as some of the money returns to America in the form of investments here in business and securities.

This deficit merely reflects the increase in the money supply in America, but unfortunately that is not recognized. Politicians, in particular, ignore the true reason for the drop in the exchange rate and the trade deficit partly because they do not know the real reason but also partly because if they acknowledged it, they would have to do something about it. And one thing they do not wish to do is to stop the growth of the money supply.

The reason for this is that it is supposed to keep interest rates down, which should encourage business to borrow to construct plants and equipment, which should increase employment. Also consumers are encouraged to borrow for purchase of homes and goods, all of which is supposed to reduce unemployment.

The monetary authorities are well aware of the danger of constantly increasing the rate of growth of money. For years it was about 2%, well below that which is supposed to be indicative of how a sound currency should behave. Now the politicians consider a 6 or 7% rate of increase low, and are constantly fighting with the Federal Reserve System* to increase the rate.

All signs point to increasing the rate of growth of money. The people do not understand the importance of keeping the rate down, so the politicians certainly are not going to do anything about it. They'll merely say the dollar is under attack, implying that foreigners for some reason are attacking our money, probably because we are so much better off than they are.

If M_1 grows at about a 7% rate, it means in about ten years, the money supply will have doubled. Prices will have increased, some doubled, some more, some less. Pensioners will be in a greater bind than they are now for their incomes will hardly double. Grave unrest may erupt. The problem is a serious one and nothing constructive is being done about it. So, each individual will have to look out for himself, and take whatever measures he can to counteract the tremendous drop in the purchasing power of his dollar. The young can manage, but the elderly will probably be all but inundated in the ocean of paper money.

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