

# THE MONETARY CRISIS AND INTERNATIONAL TRADE

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Another international monetary crisis erupted in February which has been temporarily "solved" through the devaluation of the dollar. Why have we had so many of these crises in the past few years?

Probably the principal, but not necessarily fundamental, reason is that the nations of the globe are engaged in a world-wide trade war with one another. This war is predicated on the belief that the nation with a "favorable balance of trade" is the victor. This "favorable balance" exists when a nation exports more than it imports. Economists have demonstrated ad nauseam that this doctrine is fallacious. It is similar to an individual assuming he is better off if he gives away (exports) more goods than he receives (imports). While it is perfectly obvious that an individual to export more than he imports is foolish, unfortunately where nations are concerned it is not so evident.

Now, since all governments have made money their monopoly, they use this control over money as a tool to increase exports and decrease imports. How? By maintaining the fixed exchange rates between their currencies and those of other countries as low as possible. For example, if West Germany maintains the exchange rate of its money low enough compared with that of the United States, then its money is a bargain for Americans. This encourages them to exchange their dollars for marks with which to purchase German goods. At the same time, since for Germans the dollar is expensive, they are discouraged from buying American goods.

How is Germany able to keep its mark at a bargain for Americans? It is accomplished by having its central bank, the Bundesbank, buy the dollars flowing into Germany. If the Bundesbank did not interfere and let the free market operate, then as dollars flooded Germany, the mark's price in terms of dollars would

rise to a point where it was not a bargain for Americans. This would slow the exportation of German goods for they would be more expensive to Americans now. At the same time, it would make American goods cheaper for Germans, which they would then import. The tendency would be for the value of imports to equal the value of exports in both countries, i.e., imports would balance exports.

Why does the German government deliberately try to keep the mark so low as to be a bargain for Americans? Does it love us that much? Hardly. It is because the businessmen, the politicians and the bureaucrats in Germany believe in the favorable balance of trade doctrine. They think by exporting a huge quantity of goods, German labor and business will be prosperous. But what actually happens is that some Germans, as exporters, are benefitted, but at the expense of all the Germans. How does this occur? The Volkswagen company gets dollars for the cars it sells in America. It exchanges them at the Bundesbank at the fixed rate of about three marks to the dollar.\* By using these marks to pay its laborers and suppliers, they get into the German marketplace, tending to raise the price level in Germany. This means that all Germans are forced to pay higher prices so that the Volkswagen company, its employees and suppliers, can enjoy prosperous conditions.

Since the dollar is expensive to Germans, they are discouraged from buying American goods, so the dollars pile up in the Bundesbank. But this cannot go on indefinitely for the more dollars the Bundesbank piles up, the higher the price level in Germany, with the consequent outcry by the people. Therefore, at some time or other, Germany must either let the mark "float", i.e., let the free market operate, or restrict trade with America, or induce the American government to devalue the dollar.

If the dollar is devalued, then the mark is more expensive to Americans thus discouraging them from buy-

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\*Where does the Bundesbank get the marks to buy the dollars? It prints them, thus inflating the money supply.

ing German goods. At the same time, the dollar becomes cheaper for Germans, encouraging them to buy American goods. The reason the German government wants America to devalue is political. It can say to German exporters that the American government is at fault for making it more difficult for them to sell to America rather than the German government.

Fundamentally, the problem is unemployment. Since most nations export a large percentage of their production, it appears that they must export or suffer unemployment. Of course, all nations cannot continually export more than they import. At least one nation must do the reverse, and the United States has been that nation for the past decade or two. But as protectionism has arisen in America, it too has been actively attempting to export more than it imports. But this has meant that all the nations were now trying to increase exports at the expense of imports. But this is manifestly impossible, so sooner or later something had to give, and the result has been the recent monetary crisis.

None of the nations' currency machinations solve anything in the long run, for unemployment is not really dependent on the export trade. Rather, as Georgists know, it depends on the system of land tenure practiced. But most people do not know this. They believe in the favorable balance of trade theory. Therefore we can expect each nation will continue to manipulate its currency to encourage exports, and in particular, exports to America. At the same time, America is going to keep on striving to increase its exports at the expense of imports.

Clearly then, as the trade war continues, one monetary crisis after another will erupt. Eventually common sense will have to prevail. However, at the present time, the sad fact is that all the signs indicate that such will not occur for a long time to come. History teaches that before common sense prevails, trade wars often eventuate into active physical wars. Let us hope that history will not repeat, but only a foolish man would bet on it.

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