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Ways of Solving the Dollar Problem

The threat of protectionist measures on the part of the USA is hanging like the sword of Damocles over the economy of the world. Faced with the urgent need for restoring the equilibrium in the balance of payments, at least approximately and that as quickly as possible, many American politicians would seem to be more inclined to favour a relapse into protectionism rather than pursue a policy of restricting the economy at home. They have obviously learned nothing from the experiences of the thirties.

For many weeks now the Americans have been hesitating, wondering which of the two ways to choose. This period of indecision may be regarded as time wasted or time gained. Time wasted if reasonably therapeutic measures are to be taken, that is temporary measures designed to restrict internal demand because for such measures to have a decisive effect on the balance of payments takes in any event long enough. On the other hand, valuable time would have been gained if after the period of hesitation it turned out that events had rendered the planned protectionist measures obsolete and superfluous. And for some little time now the hope has been dawning that this may be the case. That hope is called "de-escalation" of the Vietnam war.

Estimates vary of the burden the war in Vietnam imposes directly and indirectly on the American balance of payments. But much can be said in support of the view that the burden is now rather heavier even than last year's increased deficit of \$ 3,600 million. Admittedly, an appreciable reduction in the scope of the war in Vietnam or even a cessation of hostilities over a wide area would not automatically remove the strain on America's foreign exchange position completely, at least not in the foreseeable future. Nevertheless, that strain could be alleviated to the extent of bringing nearer the time when the balance of payments is fully restored. The rest could be safely left to the normal economic trend in the USA, for such a development in the Vietnam conflict would undoubtedly lead to less hectic business activities.

Prospects are thus brighter of solving the foremost of the present international monetary problems. This problem has arisen because the rest of the world is showing increasing reluctance to acquire more claims on the dollar. For the time being, however, it remains questionable whether the solution to the American balance-of-payments problem, which seems to be in the offing, will bring about a "stable equilibrium". In this connection we are thinking not so much of the uncertainty surrounding the future development of the cost and price-level in the USA and in countries that are America's most important competitors. The present trend disfavors the USA, but this may soon change. What we are concerned with is rather the economic circumstances in which it will be possible to restore the balance of payments in the foreseeable future. These circumstances will be marked by a slowing down of economic growth in the USA, and at the same time, by a strong expansion in Western Europe.

However, the Americans cannot tolerate a pronounced slowing down of their economic growth, let alone stagnation, for anything but a short time. For them reasonable expansion, i.e. one that more or less absorbs their productive capacity, is no fetish but a vital necessity in view of the growing racial conflicts. American economic policy must therefore be bent on shortening as much as possible the expected period of deceleration. It is then that it will become evident whether a renewed expansion of business activity will once again upset the recently restored balance of payments. Should this be the case, the time would definitely be ripe for taking a fresh look at the dollar problem.

Now, taking a fresh look means considering all the means of achieving equilibrium in the balance of payments compatible with a world economy based on a division of labour. This excludes further restrictions on convertibility and anything impeding the progress of trade liberalisation. What might be considered is a redistribution of "political burdens" and above all of development aid. Another subject for debate could be the parity of the dollar in relation to the other currencies, but only as part of internationally concerted action to disentangle the whole exchange-rate structure.

Hans-Jürgen Schmahl