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The currency system: ... and for a New Bretton Woods

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will be able to attract back home capital that has escaped abroad when the speculation believed that the D-Mark would be revalued. On the contrary, since currency controls have been introduced, France has become a mousetrap for the funds still left there, feared by those that are outside, so that their existence actively discourages a return of the escapees and thus delays indefinitely the restoration of the French balance of payments. How the abolition of the tax on wages and the simultaneous increase of the tax on value added can be "neutral" regarding the price level is not clear at all. What such measures presuppose are businessmen and consumers acting in strict rationality—which especially in times of crisis cannot be expected automatically. Even narrowing the deficit in the budget has its problems, since this is not possible without cuts in public investments which are needed to sustain economic growth.

Economic growth, balanced external accounts, price and currency stability—all this must be coordinated now with harsh measures of state intervention. All these aims would have been achieved without such tremendous effort much more likely on one condition: a moderate devaluation of the French franc. sch.

United States

Waiting for Nixon ...

In the course of the tough negotiations of the "Club of the Ten", in which several of the Ten demanded a revaluation of the D-Mark, the Chairman of the meeting, the German Minister of Economics, made a commentary on the position of the USA: It is not the German currency which should be considered to be undervalued, but the American dollar which is overvalued. This remark by Professor Schiller made a point which, during the whole of the conference, was virtually ignored or gravely neglected—the point that the US \$ is in a highly problematical position within the present international currency system.

That this problem was not more thoroughly dealt with was, of course, due to the momentary weakness of the French franc (and of the English pound); apart from this, the US delegation also did everything to evade a serious treatment of the dollar problem. True, the dollar, in international markets, has recently shown a surprisingly firm trend but, nonetheless, the Washington Administration has not ceased to feel the pressure caused by the massive outflow of gold.

The delegation led by the US Secretary of the Treasury, Mr Fowler, made a strong stand, during the currency negotiations, in favour of revaluing the D-Mark, which was evidently a measure of self-protection. Yet, though the USA, in this respect, had the full support of France and the United Kingdom, it did not succeed. How-

ever, the American delegation was satisfied with the outcome of the conference and specifically welcomed the German measures representing the administrative equivalent of a currency revaluation, and the currency restrictions introduced by France.

In Washington, the results of the conference are assessed "mainly as measures of transition" which, in the short run, will be beneficial for the USA. The task is now to find improved solutions. For the time being, Washington has no clue what they should be. All hope is therefore concentrated on the new President, Mr Nixon. hch.

The Currency System

... and for a New Bretton Woods

In spite of everything, there has been a revaluation in Bonn, though not of any national currency, but of the importance of upward or downward corrections of the rates of exchange. Whether a national currency was upvalued or devalued was considered an indicator of success or failure of a given government.

This way of thinking—evidently already firmly established in the minds of people—will not, however, open the door to a true solution of the problems of our currency system, which will inevitably very soon loom ahead again, and become more pressing than ever. This attitude will very likely lead again into the murky valleys of perpetual state intervention and protectionism, and carry down into the abyss all the achievements of liberalisation gained over the last twenty years. This, however, would be against the interests of all parties concerned. This gives grounds for, at least, some moderate hope for realistic thought and new and effective initiatives.

If the system of rigidly fixed rate of exchanges is retained, from which no deviation over 10 per cent is permitted without special sanction, at least a completely new settlement of all the relative currency valuations is needed. But to expect that such a change could grant more than a brief interval for recovery would be over-optimistic. After a period of new tensions maturing, the present drama, possibly with other main actors, would inevitably be staged again and again. On the other hand, time does not seem to be ripe yet for the introduction of flexible currency rates, though practically all economic experts believe this to be the optimal solution. But perhaps the number of people advocating at least limited and graduated flexibility will have grown until the next conference. This solution together with a worldwide correction of rates of exchange might be a long-term remedy quelling the unrest in currency policies. On the other hand, to patch up again the ramshackle Bretton Woods system appears to be a dubious nostrum. ke.