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## Currency Crises — Free World Crises

**W**ith annoying regularity we witness an international currency crisis. It will be followed by others, for its causes are clearly still with us. Remedies are being applied to symptoms. We are trying to live with such crises as with earthquakes and volcanic eruptions.

As was to be expected, the realignment of 1971 provided only a short breathing space. The monetary system was very soon creaking again ominously. Countries were acting more and more frequently on their own. France quite some time ago split its exchange rate into two. Belgium and Italy followed its example. Great Britain resorted to floating. So did Switzerland more recently under speculative pressure.

The extraordinary pressure of speculation against the DM and Yen, in early February, led inevitably to an application of strong measures. An extreme emergency led the West German Government to resort to measures sanctioned under Art. 23 of the External Economic Relations Act, i. e. the prevention or regulation of major financial transactions between the Federal Republic and foreign countries. These measures shall continue for the meanwhile, in spite of the Dollar devaluation and Yen floating. The crisis is over for the time being, but in future the probability of further exchange and trade restrictions will grow with any new monetary crisis.

It need not be fatal if in an exceptional situation such methods are being applied for a while. Restrictive remedies used tem-

porarily are not even unusual. But they must be employed in order to effect a cure. As permanent narcotics they only lead on to worse disasters. The law under which action has now been taken was promulgated by its liberal sponsors in the knowledge that the free movement of capital is no more a final objective than, say, the market economy. Both must rather be regarded as means towards an end — that of achieving a maximum of subjective freedom and scope for development.

The western society is well on the way to losing this very freedom in an important sphere because as a result of political provincialism, lack of solidarity and a missing sense of responsibility it cannot muster the strength to initiate a comprehensive reorganisation of the monetary system. Such a new order is certainly not an easy task. But it was made clear long ago by prolonged discussions on what the most important prerequisites of a new order are: Crucial is first of all a high measure of solidarity. It is no longer a matter of retrieving marginal positional advantages of one partner or another but of safeguarding the partnership of free nations.

In the zealous defence of obsolete autonomy claims of the individual members of the old monetary club it lacks adequate appreciation that today it is no longer countries but blocs which confront each other and must find a *modus vivendi* in the face of economic and political rivalries. Furthermore, a solution will be possible only if the decision is taken to do away quickly with the anachronism of the Dollar's

dominant reserve position and instead to strengthen the SDRs under the sovereign responsibility of the IMF. Priority must be given to an attempt to fund the Dollar debts of the USA. This will require ungrudging and earnest efforts on the part of the United States, and measures will have to be taken to rule out the uncontrolled creation of new Dollars outside the USA.

The system to be established finally needs a modicum of flexibility so as to cushion unavoidable strains and stresses. A crawling peg system is probably more suitable for this than simple floating. The IMF should be given far-reaching powers also in this respect. The more independence the various regions enjoy in determining their development rhythm, the more importance will attach to the exchange rates as rectifiers for the dynamics and pace of development. For it should not be forgotten that any correction of an exchange rate not only compensates for divergencies between rates of inflation but changes the extent of competition. That may well be part of the price of freedom.

The US measures of August 15, 1971, and the threat of trade policy measures in the current crisis should have removed any lingering doubt about the essentially complementary nature of trade and monetary policies. The longer the currency problem is left unsolved, the greater is the danger of harm being done to trade relations. Unless decisive progress is made in monetary policy, the forthcoming GATT negotiations will carry no practical significance. *Alfons Lemper*