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The Dollar Crisis

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A country's economic strength, in the last analysis, is always a function of its productive capacity and labor productivity, that is, of its potential for producing a given quantity of products with the smallest possible expenditure of labor. In a capitalist regime, this potential can be measured by the per capita value of production and by commodity prices relative to those of other countries (that is by the competitive capacity of industry and agriculture).

From this standpoint, the United States remains by far the most powerful and prosperous capitalist country in the world. Furthermore, the gap separating the US from its

principal competitors and from the USSR, which had tended to shrink between 1950 and 1960, has again widened in recent years.

How can the “dollar crisis” be explained under these circumstances? What is its basis? Does it reveal a structural weakness in the American economy, or does it, instead, show its strength?

How Is the Dollar Crisis Shown

> At first glance, the cause of the “dollar crisis” appears self-evident: it’s the U.S. balance-of-payments deficit. When a country has a deficit in its balance of payments, that means that the sum of the resources which it acquires in a year’s time (commodity imports; services purchased abroad; purchase of stock or other foreign paper) exceeds the sum of the resources which it has sold in that year (commodity exports; sale of services abroad; sale of American stock or paper, etc.). The difference must then be balanced by the liquidation of a part of the country’s reserves (gold and foreign currencies). The balance of payments of the United States has been in deficit since the mid-1950’s. As a consequence, the country’s gold reserves fell from $22.8 billion in 1950 to $20.6 billion in 1958, then to $13.2 billion in 1966 and to less than $12 billion at present.

When the origins of this deficit in the US balance of payments are examined, one finds the following:

1. The trade balance is largely in surplus: the United States continues to export many more commodities than are imported.

2. Private capital movements are in balance: net American capital exports equal the net repatriation of profits on capital already invested abroad.

3. (3) The source of the deficit then lies exclusively in: (a) governmental aid to foreign countries, that is, the cost of maintaining the imperialist alliances; (b) the expenses of the American armed forces abroad, that is, the maintenance of military bases and the conduct of military operations abroad.

It would not be wrong to say that the increased deficit in the US balance of payments in 1967 is due three-fourths to the Vietnam war. It should be added, however, that for the past twelve years this deficit takes in the expenses of NATO, SEATO, the operations of the Sixth and Seventh fleets, the landings in Lebanon and Santo Domingo, the antiguerrilla operations in Latin America and Africa, the aid to the military dictatorship in Indonesia, the cost of maintaining the bloody puppet regimes in Taipeh, Seoul and Saigon – all operations prior to or

concurrent with the Vietnam war in the strict sense.

Is the Dollar "Threatened"

> Could the gold drain experienced by the United States for more than a decade bring on the "downfall" of the dollar and would this "downfall" threaten the American economy?

Let me note first of all that the most powerful capitalists have long had little fear of devaluations of their own currencies. The dollar was devalued on the heels of the economic crisis of 1929–32; that did not reduce but rather increased the profits of the capitalist monopolies. A devaluation of the dollar would not be an economic catastrophe for the United States. It would hit primarily the small foreign and American savers who keep their accumulations in bank deposits or in loans payable in dollars. It could hit the American workers inasmuch as it provokes price rises not compensated for by wage rises.

But the American economy would be scarcely shaken by it. On the contrary, a devaluation of the dollar would reduce the prices of American products abroad and increase US exports. In fact, influential bourgeois economists like Paul Samuelson have continually advocated this.

If, nevertheless, the leaders of American capitalism have not taken this road – at least for the present – it is primarily for two reasons. They are afraid of the loss of prestige caused by such a devaluation (or revaluation of the price of gold, which comes to the same thing). They want to prevent the big holders of gold (their West European competitors and the Soviet Union) from gaining by the stroke of a pen

the ability to buy 20, 30 or 50 percent more dollars (or American commodities or stocks) with the same amount of gold.

Does “Weakening of the Dollar Threaten the American Economy

> But if the dollar is not devalued for the time being and if the efforts of the Johnson administration do not halt the gold drain but at most succeed in slowing it down, will the United States be in danger of sliding toward bankruptcy?

No. If the United States continues to lose its gold it can take three successive measures: abolish the 25 percent gold cover (which is purely formal) for the American banimotes in circulation; forbid the export of gold; demonetize gold – that is, refuse to accept gold in payment for any service or commodity purchased abroad and throw the whole gold stock of the US on the market to penalize the speculators, the Soviet Union and the European central banks by causing a drop in the price of gold.

Some reply that there are more dollar claims in the hands of foreigners than there is gold in the United States and that such a demonetization of gold would provoke a rise rather than a drop in the price of the precious metal. This objection is not valid. The calculation takes into account only short-term claims (which do exceed the US gold stock by 200 percent). It disregards the amount of foreign stocks and paper in the hands of US citizens, which is more than double these dollar claims.

The United States is in debt to the rest of the world in the short term; the rest of the world is heavily in debt to the United States in the long term. If there were an across-the-board liquidation of debts, not only the Europeans, Japanese, etc., would demand payment in gold or currency for their "treasury notes" payable in dollars; American concerns would also sell their stock in European or Japanese companies and demand payment in dollars. This across-the-board exchange would result in a large deficit for Europe and not for the United States.

To put it differently: one of the sources of the present monetary crisis lies in the fact that the European capitalists are putting their short-term reserves in dollars, while the American capitalists are investing their long-term reserves in Europe. In the long run this system naturally benefits the Americans. To claim that it shows the "weakness" of the dollar is obviously nonsense.

If this is so then why do the Americans worry so much about the persistent deficit in their balance of payments? Not because this deficit directly threatens their economy but because it threatens the functioning of the entire international monetary system and thus the expansion of world trade And if the expansion of world trade is halted, American exports will eventually decline in their turn and the entire world economy will be in danger of being drawn into a real deflationary avalanche like 1929.

But precisely because this is American imperialism's principal fear it stubbornly rejects the return to the gold standard demanded by de Gaulle and his "mentor," Professor Rueff. This cure is worse than the sickness. It entails automatic monetary adjustment which would force the American government to practice a policy of deflation when recessions coincide with balance-of-payments deficits. But to practice a deflationary policy at such times means

provoking an economic crisis of exceptional gravity as the Bruning government learned in Germany.

The American capitalists want a flexible money which can be used as a tool for fighting crises. That rules out a return to the gold standard. However, this means that ways must be sought to enlarge the ‘international liquidity system” by means of a “world money” such as the “right to print money” created by the International Monetary Fund.

Does This Mean That All is for the Best in the Best of All Possible Worlds

> The “dollar crisis” and the search for means of international payment independent both of gold and “currency reserves” (dollars and pounds sterling) reflect clear recognition on the part of big international capital of a contradiction inherent in the present-day capitalist system; the contradiction between the dollar’s role as an “international money,” and its role as an instrument to assure the expansion of the American capitalist economy. To fulfill the first function, a stable money is needed. To fulfill the second function, a flexible money is necessary, i.e., an unstable one. There’s the rub.

The dollar’s real weakness lies not in the US balance-of-payments deficit. It might even be claimed paradoxically that this deficit reflects the strength rather than the weakness of the American economy. The real weakness of the dollar rests in the enormous governmental and private indebtedness in the United States, without which the

formidable American productive machine could no longer sell its flood of commodities.The American private debt went from $140 billion dollars in 1945 to $753 billion in 1963. It came to 78 percent of US gross private production in 1945; it went to 143 percent of this in 1963. In 1951 the average American paid out 14 percent of his disposable income on debts and interest. This now reaches almost 25 percent!

It is clear that this debt spiral, which is a genuine inflationary spiral, cannot continue indefinitely without threatening the underpinnings of the system. A devaluation of the dollar would clearly have the benefit of disadvantaging the creditors and favoring the debtors. But these creditors are the banks and a few big American monopolies; it is understandable that the system hesitates to apply this drastic remedy.

The dollar's weakness thus reflects a weakness inherent in the capitalist system at the present time.

The amortization of crises of overproduction through recessions has meant the emergence both of an ever greater surplus productive capacity and a more and more pronounced depreciation of money. Thus we again come to the old Marxist contradiction between the tendency of capital to expand the productive forces in an inlimited manner and the limitations which this same capital imposes on the expansion of the buying power of the "ultimate consumers

And in the long run there is no solution to this contradiction – not devaluation of the dollar nor return to the gold standard nor the creation of an "international money." The only solution is abolition of the capitalist mode of production itself.