CHAPTER THIRTEEN

Devaluation or Revaluations?

The question whether the correction of the dollar’s overvaluation should assume the form of its devaluation or of the revaluation of a number of important currencies was the subject of heated controversy. Official American opinion, backed by the ‘dollar lobby’ and by many American academic economists, was fanatically opposed to a major dollar devaluation, on the ground that since the dollar was the basis of the world’s monetary system its gold value must be considered sacrosanct and it was the duty of every other country to adapt its parities in a sense as to ensure the equilibrium of the dollar. Under the Bretton Woods system a change in the gold parity of the dollar would mean ‘an all-round change of all parities, which would leave the dollar overvalued’. This nonsense, and the refusal to realise that the dollar has ceased to be strong enough to remain the basis of the world monetary system, was and still is the main obstacle to a sensible solution of the dollar problem. Yet from the moment when the United States ceased to convert official holdings of dollars freely – to be exact, when she began to ‘dissuade’ the holder from insisting on conversion – the dollar ceased to play the role allotted to it by the rules of the IMF.

But Americans were not alone in advocating the revaluation of other currencies in preference to a devaluation of the dollar. On the assumption that a major devaluation of the dollar would remove the last obstacle to advanced international inflation, the idea that parity readjustments should assume preferably the form of a revaluation of other currencies instead of a devaluation of the dollar, found support in some anti-inflationist quarters outside the United States.

This controversy may be regarded as a new version of the age-
old conflict between inflationists and deflationists. But it should not be assumed that all anti-inflationists are necessarily revaluationists and that all devaluationists are necessarily inflationists. I for one am in favour of a dollar devaluation, not because of its inflationary implications but because I am convinced that devaluations or revaluations would make little difference to the world-wide inflationary trend.

During the last quarter of the nineteenth century the controversy assumed the form of bimetallism v. monometallism. Most inflationists favoured the retention of the monetary use of silver for the sake of ensuring the expansion of the volume of monetary metals, or at any rate for the sake of preventing its drastic reduction as a result of the demonetisation of silver which was proceeding fast. After the decisive victory of the gold standard, expansionism assumed the form of advocating a managed gold standard and a gold exchange standard which came to be widely adopted between the wars. Not content with the resulting expansion, extremists such as the social credit school were in favour of the determination of the volume of credit independently of the volume of monetary gold, on the basis of social requirements which are limitless. They received strong if qualified support even from respectable experts such as Keynes and McKenna.

After the suspension of the gold standard in the '30s the conflict assumed largely the form of favouring or opposing an early return to stable parities, the alternative being the adoption of controlled paper currencies such as the Reichsmark was since 1931. It was found that in Germany it was feasible under the protective shield of exchange control, and even more under the totalitarian regime of the Nazis, to bring about a considerable degree of monetary expansion with the aid of a currency divorced from gold, thereby creating employment and financing rearmament.

During the Second World War the planned and controlled economies of the belligerent countries reduced their inconvertible paper currencies to what Arthur Greenwood called 'meaningless symbols'. Production came to be determined by the