



Business Trends

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WHAT'S BEHIND THE DOLLAR RUMORS?

One of the most grotesque by-products of the British monetary and economic crisis is the gossiping it has engendered with regard to the future value of the American dollar.

Most of this across-the-back-fence talk is not particularly derogatory of the present dollar, which is sought after by virtually all nations of the globe, but hinges around the permanence of the present statutory price of gold—a matter that is relatively remote from everyday American life. It is impossible, however, to question the present established gold price without implicating the reputation of the dollar, and it is the purpose of this discussion not only to subject these rumors to the test of sincerity and objectivity, but also to examine their plausibility and logic.

The earliest suggestions involving an increase in the price of gold in the United States originated abroad and appear to have been motivated by private considerations not wholly compatible with world recovery and rehabilitation. Ever since the end of the war gold-producing industries in such countries as South Africa, Canada, Australia, and others, have been campaigning more or less openly for a higher price for their product, to compensate for the steady rise in mining and refining costs.

The recent devaluation of the British pound, followed by a score of similar adjustments in

closely related currencies, has effectively silenced this specific source of monetary propaganda from abroad, at least until such time when a further rise in the general price level in those countries washes away all or most of this fortuitous gain.

Another proposal of foreign origin has been equally effectual in inciting a certain degree of distrust regarding the value of the dollar. Aside from the understandably selfish but somewhat disguised pleas of the gold mining industry, talk of dollar tinkering has also been inspired by suggestions from abroad this past summer to the effect that the burden of Marshall Plan aid could be made more palatable to American voters and taxpayers by marking up the value of American gold stocks and by using the resulting gold profit to finance exports to Europe and other participating areas. The fact that this would automatically entail a devaluation of this country's monetary unit and thereby accentuate inflationary tendencies over here was more or less overlooked or avoided in this rather naive suggestion.

A third element in the present situation, and one which has been susceptible to much more misinterpretation, is the price or discount at which dollars are alleged to have changed hands in a number of foreign centers, especially in the Near East and in the Orient. At varying intervals in

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recent years, unauthenticated reports have been received and publicized in this country to the effect that gold was bringing more than \$40 an ounce in the so-called free markets of Europe, Asia, and even Africa. If such were precisely the case, then obviously some depreciation in the dollar had occurred without the general knowledge of the American people.

It has been established beyond reasonable doubt, however, that these random and more or less surreptitious transactions are merely evidence of the existence of American funds abroad whose legitimacy was a matter of concern to the holders thereof. Despite the establishment of a highly effective control over international financial transactions and current movements shortly after the invasion of France, some American dollars found their way into the hands of unfriendly or enemy nationals.

The manner in which such purchasing power was used is not within the purview of this discussion. But it is quite conceivable that a subsequent recipient of such funds, whether in Bombay, Cairo, or any other cosmopolitan center, might clearly prefer to sell his dubiously acquired dollars at a moderate discount, and for unidentifiable and universally acceptable gold, rather than risk going through official channels.

Another explanation for some of the bizarre prices of gold reported from the same general area is that the quotations are only a reflection of the artificiality and ineffectiveness of the official exchange rates of the countries involved. When gold is bought and sold from day to day in Cairo, for example, the seller usually does not receive American dollars, but takes payment in Egyptian money. Because of mutual distrust of the domestic currency, whether justifiable or not, both the buyer and seller may have agreed on a price that exceeds the legal gold price in that country. Under such circumstances, which apparently prevail in many parts of the world, it is wholly and completely misleading to use the official monetary yardstick to translate the terms of the sale into dollars and cents, especially when no American money whatever is involved in the transaction. The truth of the matter is that such transactions are eloquent testimony of the relative strength of the American dollar, by disclosing how much the foreign currency has depreciated.

A fourth and perhaps most elusive cause of many irrelevant remarks about the stability of the dollar stems from the sequence of events in the depths of the Great Depression. It is not difficult to recall how on that earlier occasion a change in the value of sterling was followed within a relatively brief interval by a devaluation of the dollar.

Because that occurred within the lifetime of nearly all present-day business and professional men, it is small wonder that popular interest was stimulated by the September devaluations abroad, and that certain superficial conclusions are being drawn therefrom. The general public is aware that, whereas on both occasions the British government had virtually no choice, here in America devaluation was undertaken as a deliberate policy. It is utterly impossible, however, to draw any comparison between the present state of economic activity in this country with that which prevailed in 1933-34 when the value of the dollar was adjusted to its present dimensions.

Moreover, in view of the fact that inflationary tendencies in this country appear to be active scarcely below the surface, and in some instances are plainly visible again, it is difficult to imagine the Congress giving any consideration whatever to dollar devaluation. Such consideration would not only accentuate the inflationary process at home but would also tend to nullify the recent currency realignments which were interpreted in this country as a necessary prelude to world wide economic recovery.

One further aspect that must bear considerable weight in resolving doubts regarding the dollar is that any kind of an increase in the American price of gold would represent a proportionate gift to the Soviet Union. The government of that country owns a very large stock of gold, and is also believed to be mining new gold on a substantial scale.

It is exceedingly difficult to visualize the American Congress or any other branch of our Government sanctioning a monetary policy which would immediately endow the gold stocks of the Soviet Union with greater power to buy either strategic materials or political allegiance in the rest of the world.

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