Devaluation Will Come!

After three years of putting the English people unmercifully through the wringer of "austerity," of ever-more crippling taxes and governmental wage controls; after three years of protesting to everyone up and down the country that the pound sterling would never, never be devalued, and that austerity was necessary to "protect the pound," Prime Minister [James Harold] Wilson finally threw in the sponge. One Saturday morning the stunned British public awoke to find that their sacrifices had been in vain and that the pound was now devalued. The latest chapter in government's eternal "credibility gap" with a long-suffering public has been written.

Devaluation comes about when government arbitrarily overvalues the worth of the its currency in terms of other currencies or in terms of the one world money, gold. For decades, Great Britain has been inflating its currency; i.e., pumping more pounds and bank claims to pounds into circulation, all done by the British government which, like all other governments in the modern world, has absolute control over the nation's monetary and banking system. And when more pounds are pumped into the economy, the true value of each pound — whether in terms of goods, other currencies, or gold — goes down. But the British government stubbornly clung to the increasingly overvalued price which it had set on the pound; hence claims to pounds in other countries piled up, and gold kept flowing out. Finally, after much travail for the British public, the government was forced to recognize the hard facts of reality: that the pound wasn't really worth $2.80 any longer. Hence, devaluation — the grudging acceptance of reality.

But, typically, the devaluation was puny: only 14 percent, and it looks as if the pound is still overvalued; so the austerity measure continue, as the British public is again told that it must buckle under to protect the new artificial value of the pound. Chances are good for another forced devaluation soon.

The lesson for the American public is all too clear. For the dollar, too, has been overvalued for years. The dollar has been continually inflated by the U.S. government until it is absurd to believe that it is still worth the 1933 price of $35 an ounce of gold. America, then, has also been losing gold steadily in the last decade, and its foreign economic policy has been devoted largely to persuading or intimidating foreign countries into *not* cashing in their huge dollar claims for gold, even though we have pledged to redeem them. All sorts of gimmicks, international pools and drawing rights, etc., have been concocted by the U.S. money managers in a desperate attempt to stave off the inevitable.

That inevitable is for *us* to accept reality, and that acceptance, which will surely come, and soon, is devaluation of the dollar — perhaps to $70 an ounce. That is the solution advocated by de Gaulle's brilliant monetary adviser, libertarian economic Jacques Rueff, and that is the solution which, after great fuss and feathers, will have to be employed.

But, once again, it is a solution that will come in the middle of some weekend night, and Americans will wake up to find that their government managers have lied to them time and time again. The "never, never" for devaluation of the dollar will go the way of all other such promises in the past. You can bet, however, that there will be no devaluation until the 1968 elections; for that is all Johnson would need to reduce his voting strength to virtually zero.