'The dollar hits the floor' from the Süddeutsche Zeitung (17 August 1971)

Caption: On 17 August 1971, the German newspaper Süddeutsche Zeitung examines the consequences for international trade of the United States' suspending the dollar's convertibility into gold.

Source: Süddeutsche Zeitung. Münchner Neueste Nachrichten aus Politik, Kultur, Wirtschaft und Sport. Hrsg. DÜRRMEIER, Hans ; Herausgeber HEIGERT, H. 17.08.1971, n° 196; 27. Jg. München: Süddeutscher Verlag GmbH. "Der Dollar geht zu Boden", auteur:Slotosch, Walter , p. 4.

URL:
http://www.cvce.eu/obj/the_dollar_hits_the_floor_from_the_suddeutsche_zeitung_17_august_1971-en-7c2efa0a-f4a7-4f6b-8fa6-ed5fe8ec4347.html

Last updated: 05/07/2016

The dollar hits the floor

By Walter Slotosch

The headline above the leading article in the weekend edition of our newspaper read: ‘The dollar is sitting on a time bomb.’ Today, that bomb has exploded. What was yesterday still thought by most people to be an over-dramatic forecast has now actually happened overnight: the dollar as a base currency has hit the floor. America’s President Nixon, who is still an uncompromising proponent of the liberal market economy and an emphatic opponent of state intervention, has drawn the obvious conclusions from the catastrophic crisis of confidence in the dollar. After three days of intensive discussions with his financial and economic experts, which lasted until the early hours of Monday morning, he announced a programme of emergency measures which had a sensational effect all around the world: yesterday, with the exception of Japan and Malaysia, almost all the major currency trading markets in the world were closed as a result of the shock from these events.

The trade war has been declared

What we announced in our weekend leader as a probable consequence of the dollar crisis has actually happened. The exchange of gold for dollar bills is now completely abolished for foreign issuing banks as well: the dollar is a purely paper currency. The decision of the American emergency programme, which is of extreme importance for all global trading nations, is the introduction of a 10 % import tax. All exports to the United States will accordingly become more expensive on the American market. This means that there is a considerable disadvantage for those competing in America. This arbitrary intervention in the international system of competition by direct taxation of imports is generally regarded as a gross contravention of the rules of the international agreement on tariffs and trade (GATT). Competitors on the American market, however, will face greater difficulties not only as a result of the introduction of the new import tax, but also of the simultaneous decree to abolish the 7 % sales tax on domestic American products, which creates a further advantage for American manufacturers as against the competition from foreign imports.

All in all, the result of this — and it is surely permissible to state the facts here — is a devastating effect on German exports to the United States: the de facto upward revaluation of the German mark after the transition to free exchange rates will make German goods in the USA approximately 9 % more expensive, that calculation based on the dollar exchange rates quoted yesterday in telephone transactions. In addition, there is the import tax of 10 %, which makes a total of 19 %; the simultaneous abolition of 7 % sales tax for American products therefore increases the American competitive advantage in the American market by 26 %! This amounts almost to a declaration of a trade war by the Americans.

Nixon and his advisers are dominated by their view that American goods are suffering from discrimination on world markets. Accusations of this kind are being levelled above all at the European Economic Community but also at Japan. The trend in the dollar exchange rate when the currency markets reopen is still unknown. At present, discussions about this matter are still going on in London, where the American Under-Secretary of State, Paul Volcker, is attempting to clarify the American measures. The German Federal Ministry for Economic Affairs and Finance is represented in London by State Secretary Johann Schöllhorn and Professor Hankel. If the dollar exchange rate were to fall further when the currency markets reopen, which certainly has to be expected in the present situation, then there will be additional obstacles for imports into America as part of the international export trade that will exceed even the effects already calculated above. However, it is already the case, for example, that a Volkswagen on the American market costs 26 % more than it did one year ago, based on the calculations set out here. This is a difference in price that is most definitely likely to deter an American car buyer.

The most severely affected imports are the Japanese deliveries to the USA, which had recently been subjected to an immense degree of criticism from the Americans. Approximately one third of total exports from Japan are destined for the USA. Japan will, therefore, use all the means at its disposal in its attempts to offset anticipated losses by sending its exports to other countries. This will also have an indirect effect on the German export trade, since the exporters in the Federal Republic will now have to reckon on a degree of competition from the Japanese export industry, an industry that will fight to the bitter end.

It is quite obvious that Nixon's emergency measures can be no more than short-term measures. It is not so much a case here of a programme of reorganisation as one of a large-scale tactical method of applying pressure that Washington is using to force some countries, who have, to date, not been willing to act voluntarily, to bring in an upward revaluation of their own currencies against the dollar. This is because the American Administration continues, as before, in its resolve not to make any change in the gold parity of the dollar. When Washington now emphasises that these measures are not intended to involve a devaluation of the dollar, this is in fact only half the truth. As far as imports into America are concerned, the impact of the decisions that have been made is most definitely equivalent to a de facto devaluation of the dollar. For exports shipped from America, on the other hand, the situation remains the same as it was.

The export situation is becoming serious

We do not want to go as far as the American Senator George McGovern, who has called Nixon's programme 'economic folly' and a 'hotchpotch of gossip, irrelevance and riddles', or as far as Professor Kenneth Galbraith of Harvard University, who spoke of 'one step forward and two steps back'; however, we may see these most recent, drastic American measures rather less as a programme of reorganisation and more as a dramatic rescue operation, one which seems comprehensible only if we realise that the crisis of confidence in the dollar has reached such a pitch that it was no longer possible to withstand its force. President Nixon's remark that these measures will be upheld until discrimination against American exports on the world market has ceased also gives a clear indication that this action is intended to exert pressure on trade policies worldwide.

The elimination of international competition on the American market can never help in the battle against American inflation, although President Nixon states that this is one of the main points of his programme. In reality, the effect is quite the opposite. A completely new situation has been created for German exchange rate policy. It will not be possible simply to continue with the policy of a free exchange rate for the German mark. An even greater revaluation effect could lead to the ruination of the export trade. On the other hand, if the German Federal Bank returns to its policy of buying dollars in order to limit any rise in the exchange rate, then we shall again be facing the problem of an inflationary and, therefore, undesirable increase in German money supply.