

Exchange Controls

Most economists have thought that “It Couldn’t Happen Here” — not, in mighty America, the home of high productivity and, therefore, the home of free international trade. But it has happened, and because of the chronic inflationary policies of the U.S. government, we are now boxed into a situation where the administration has adopted that despotic and tyrannical method of rule hitherto confined to despised backward countries: exchange control.

Exchange control means that the dollar is so weak compared to its official price that gold flows continually out of the country, and to stop that flow of gold, nations resort to arbitrary decrees rationing the short supply of gold and foreign exchange, and prohibiting nations from spending their money abroad.

President Lyndon Johnson, in a New Year’s gift to the American people, has instituted just such control, heralding an accelerating crackdown on American investments and travel abroad. This kind of direct interference with the way in which you or I wish to spend our money is not only patently unconstitutional, if the term has any meaning, it is also the final step toward a totalitarian economy. By what right does this man presume to dictate to supposedly free Americans where they can spend or invest their property?

Apart from being immoral, dictatorial, and unconstitutional, these exchange controls, though they will get ever tougher in coming months, will not and cannot work. In short, they will accomplish nothing in reducing the

chronic deficit in the American balance of payments. For instance, suppose Americans reduce investment and spending abroad by \$1 billion, as a result of the threats and outright coercion of the administration. Johnson and his Keynesian advisers automatically assume that our deficit will therefore be cut by that \$1 billion. But it's not so, because this simply means that Europeans will have \$1 billion less to buy our products, so that the flow of money into the U.S. will decrease by about the same amount. None of these frantic and despotic decrees will work.

In fact, trying to end the deficit by preventing people from spending their own money is like busting a thermometer to lower a patient's fever. It is an attack on the symptoms, rather than the causes. Our Brain Trusters in Washington never bother to ask: *Why* have we had this chronic deficit for the last two decades? Surely it is not from a sudden excess of greed or propensity to spend on the part of the American people. No, the reason is that the dollar, at the price we have pegged gold for over thirty years (\$35 an ounce) is increasingly overvalued as more and more inflated dollars are poured into the economy by the government. At this arbitrary value, gold will flow out of the country, as people rush to dump dollars and buy gold and other foreign currency.

The solution in the short run is to devalue the dollar to a more realistic gold price (say, \$70 an ounce). The solution in the long run is to stop the chronic American inflation. Eventually devaluation must come; it is inevitable. But, just as Mr. Wilson put the British people through three years of unnecessary sacrifice and torture to "save" an inflated pound, so Mr. Johnson is already beginning to call on all of us to "sacrifice" for the same futile and preposterous cause.