Devaluation and Atom Bombs

From Our American Correspondent

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THE profound alteration of the world's structure of par values of currencies, effected through the IMF, is nothing short of "a peaceful and useful revolution", in the words of the Managing Director of the Fund. While devaluation had been regarded as inevitable, its magnitude has surprised many. Britain has taken a bold step, indeed, but whether it is also a discreet step, time alone will show. The IMF considers that devaluation was a necessary step, though only a first step in the long series of measures needed for balancing a country's internal transactions. A significant remark of Mr. Gutt which is not included in the statement which he issued on behalf of the IMF is that the new pattern of exchange rates emerging from last week's events "may be completed in the near or distant future by further readjustments". This means that more countries will have to devalue their currencies. The reference is, presumably to the Latin American countries, whose competitive position is now weakened as a result of the devaluation by almost all other raw-material-producing countries.

Government circles in the U.S.A. have welcomed devaluation. Mr. Snyder regards it as a constructive step. So does Mr. Hoffman, the E. C. A. Administrator, who said that the additional 2.5 billion dollar worth of goods which Europe will have to sell to U. S. to balance her international accounts constituted only 1 per cent of the gross national product of the U. S. in 1948.

In commercial circles, however, it is feared that devaluation by so many countries against the U. S. dollar may generate a deflationary tendency in the U. S. For one thing, imports will now be relatively cheaper than home-made goods. For another, since American imports will now be much costlier to the devaluing countries in terms of the local currency, exports may be curtailed. Moreover, the competitive position in the Latin American countries will be weakened since non-American imports will now be cheaper, even if these countries successfully resist devaluation. The result of all this will be a fall in the domestic output and employment.

While in some quarters this is deprecated, the general feeling is that the U.S., as the biggest economic power and creditor, have to make some sacrifice in order to rehabilitate world economy and trade. Besides, it is felt, that it is much better for the countries of the world to attain balance of payments equilibrium by devaluation rather than by U.S. Government grants and subsidies, "which cost the American taxpayer so much. It is not believed, however, that many countries will be able to increase their exports to U.S.A. to any considerable extent on account of the well known difficulties of expanding their own production and the unlikelihood of U.S. consumer demand being diverted to the products of other countries.

These fears of a possible recession were reflected in a considerable decline in stock prices. Similarly, the prices in most other organised markets, namely, cotton, wool, rubber and tin also recorded declines.

The actual price reduction on British goods in the U. S. market vary from commodity to commodity, depending upon their competitive position. The prices of British cars, which had been facing hard competition, have been reduced by 10 to 20 per cent. Books and several other categories of goods have '-come down in prices by varying proportions. For Scotch whisky, which had been selling well, there is no reduction in price, which means higher prices in terms of sterling. The trans-Atlantic fares of foreign steamship companies have been raised in the local currencies so that the fares in dollars remain the same. In the case of air-fares, there will probably be a reduction in the dollar fares, but not for Atlantic flights.

The present week will decide whether there will "be peace in the steel and automobile industries and whether the strike in coal mining which started early last week will be called off.

The immediate cause of the nation-wide coal strike was the stoppage of Southern coal operators' payment of 20 cents per ton of coal mined to the United Mine Workers' Welfare Fund. Although this was done after June 30 last, its effects on the U.M.W. were felt only recently when the latter suspended all its welfare payments to its members. Another reason is that the U.M.W. has gone back to its traditional slogan, "no contract, no work". Since the expiry of the old contract on June 30, mines have been working only 3 days in the week. Though negotiations have been started between Mr. John Lewis and the coal operators, there is little chance of an early settlement in view of the fact that the present coal stocks are expected to last 6 weeks.

The genesis of the dispute in the

steel industry has already been given in an earlier despatch. As against demand for higher wages, social insurance and pensions put up by the workers, the cost of which would aggregate 30 cents an hour, the President's Fact-Finding Board has upheld the claim for pension and social insurance only, costing about 10 cents in hour in all. The United Steel Workers agreed to these; the steel industry, however, led by the United Slates Steel Corporation, was not prepared to accept the Board's proposals as a whole. The resumption of the strike on the 25th, therefore, looked imminent, when President Truman appealed to both the parties for an extension of the truce up to October 1. to which both agreed. Negotiations have been going on concurrently with the various steel companies and the leaders of the United Steel Workers.

The steel dispute and the recommendations of the Fact-Finding Board have raised two very fundamental questions, the answer to which will have far-reaching effects on industry in general in the years to come. The one is, whether pensions and social insurance schemes should be contributory or not; the other being, whether there should be bargaining and settlement commanwise or industry wise. The companies feel that the pension and social insurance schemes should be contributory, *i.e.* labour also must bear a portion of the cost and secondly, that the bargaining should be companywise, as there are financial differences from company to company. So far the Union has held an opposite view in both respects. But the fact that the Union is holding talks separately with the management of several companies gives the impression that it may not be averse to come to terms with the companies, when in a tight-corner. According to latest press reports the U.S. Steel has made an offer of 6 cents an hour pension contribution and 4 cents an hour towards social insurance, both to be on a contributory basis. This means, the company is prepared to contribute the maximum of 10 cents an hour recommended by the Fact-Finding Board, and insists only on the employees' contributing a portion of the cost. It is not unlikely that the Union, too, may agree to some form of compromise. But one can never be certain of the final outsome. It is not improbable that encouraged by the concessions of the U.S. Steel, the Union may refuse to budge, so that the management may come down.

In the automobile industry, there are signs that the dispute between Ford Company and the United Auto-workers will be amicably settled. The U. A. W. also demanded pension and welfare benefits, financed entirely by the Company. The Ford Company has now proposed non-contributory pension costing 8¾ cents an hour and welfare costing 1¼ cents an hour, on the model of the recommendation of the steel report. It looks, from reports, that this may be accepted by the Union. But what its repercussions are going to be on other automobile companies, are not yet known.

In order to solve the problem of agricultural surpluses in some countries while others are in acute shortages, the F.A.O. has proposed the establishment of an International Commodity Clearing House, the details of which have been worked out by a special Working Party, of which Prof. D. Ghosh of the Calcutta University was- a member. It has not been possible to get any indication of the reaction of the U.S. Government to this proposal. Flow it will affect the farm prices support programme of the U.S. Government as well as the International Wheat Agreement has yet to be known in detail.

If devaluation of currencies has been somethin3 of an atom bomb, real atomic effect was produced in the country by President Trunin's announcement of the atomic explosion in Russia. The news stirred the nation profoundly, but one gets the impression that Americans have not become panicky or hysterical about it. It is likely to have far-reaching effects on the domestic as well as foreign policy of the United States. Indeed, some effects have been visible:

(1) It will lead to the intensification of the atom bomb output programme.
(2) Quick passage of the bill, without any cut, of military aid to the Powers of the North Atlantic Treaty.
(3) Less disinclination on the part of the U. S. to share atomic secrets with such powers as U. K. and France, and Canada.
(4) Realising the horrors of atomic warfare, it is expected that once more sincere efforts would be made to secure international. control over atomic weapons.
(5) Speeding up of President Truman's point 4 programme, that is, technical aid to backward areas, as a means of lighting communism.