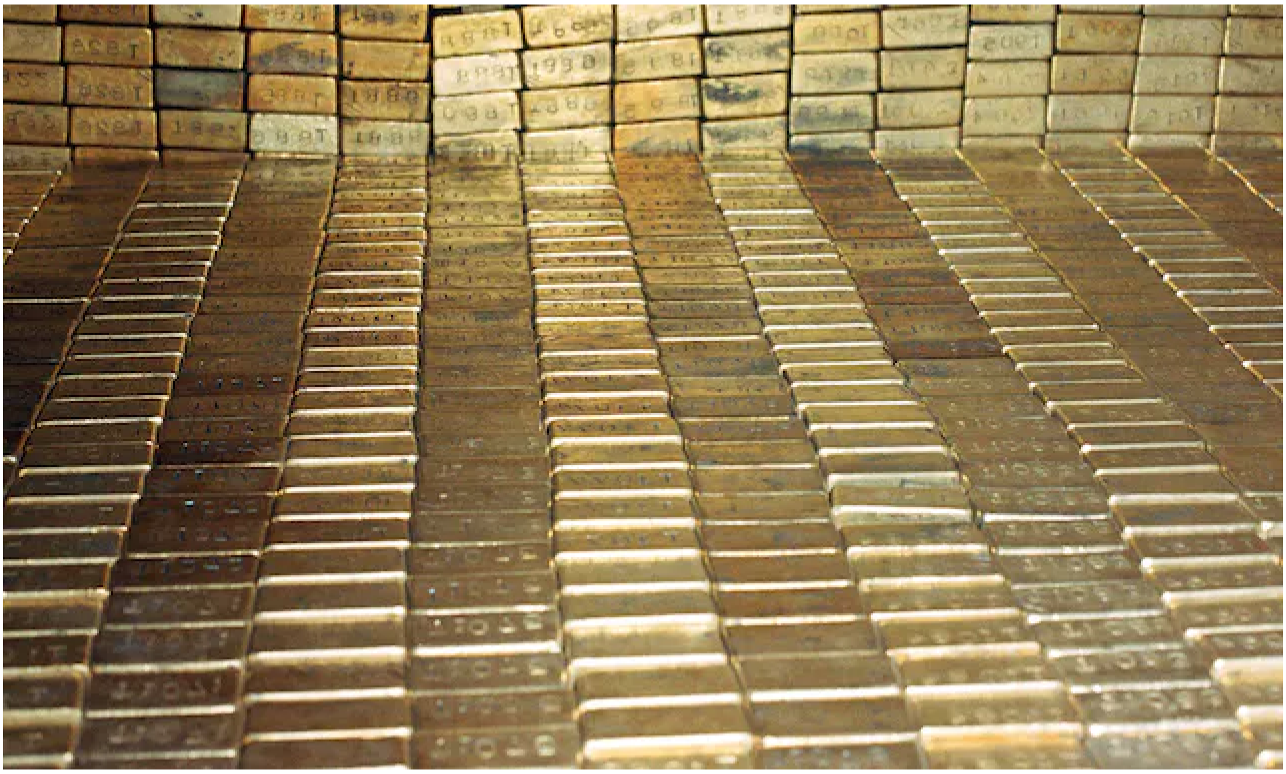
‘The World Needs a Hard Currency Again’

And Canada could be the country to offer it.



by Conrad Black

Recent bank tremors inspire me to dust off a few homiletics about the nature of money and the creation of wealth. Reading from Dr. Johnson in the 18th century and Charles Dickens in the 19th century, we can see that the price of bread and whiskey and a room for the night at a modest inn remained practically unchanged.

The money supply was essentially confined to money in circulation and a few categories of public debt. As Dickens famously wrote, if a household made one farthing more than it spent in a year it would be happy and if it made one farthing less it would be stricken with a miserable fate. When governments went heavily into debt, they raised taxes to reduce the debt.

It was the costs of the unprecedentedly expensive and sanguinary First World War that caused the victorious allies to pile mountainous reparations upon Germany, which borrowed in the New York financial markets to pay the reparations and then defaulted on its loans. An enormous American equity bubble developed, but not exclusively there.

Despite the obvious dangers, approximately 80 per cent of the rise in stock market prices in the last several years of the 1920’s was generated by buying pressure financed from borrowings. The loans were secured by the stock positions acquired with them, and when prices began to decline, stock positions were liquidated in an avalanche of crashing values, and the Dow Jones Industrial Average shed 90 percent of its value.

In the United States, the Hoover administration invoked what we now know to be the worst possible policy prescription: higher taxes, higher tariffs, and shrinkage of the money supply. By early 1933 unemployment in the United States had reached 30 percent and there was no direct federal relief for the unemployed; all commodities and stock exchanges were closed and the banking system was shut down in 46 states and in the remaining two states, withdrawals were limited to $10.

The financial system of the United States was at its last extremity. None of the major countries of the world defended the integrity of their currencies, and the pestilence of inflation came. The British and French departed the gold standard, and spent what they felt was necessary to prevent intolerable human hardship and potential public violence on assisting the disadvantaged.

In Germany, Hitler conscripted practically the entire adult unemployed male population into the armed forces and defense production industries, and the government instructed the banking system and the securities dealers on how to manage the flows of cash and took over the trade unions; there were, effectively, wage and price controls.

Japan adopted a somewhat similar policy but with no burden of debt or guilt for the First World War and the entire economy was run by the Japanese government and four colossal corporate conglomerates. In Russia, Stalin was even more innovative in that he collectivized agriculture and deliberately shrunk the entire population by some millions of people who were starved to death or otherwise disposed of and put surplus labor to work as servile builders of massive projects of what would today be called infrastructure.

In the United States, President Roosevelt soaked up all of the unemployed in conservation and workfare projects that greatly enriched the country at a bargain cost to the taxpayer. The formerly unemployed were steadily absorbed by the normal private sector. The onset of war overseas brought the first peacetime draft in American history and the greatest rearmament program and eliminated the last vestiges of unemployment in the United States a year before Pearl Harbor.

At the end of the Second World War, there were approximately seven countries in the world that would qualify as prosperous and Germany, Japan, Russia, Italy, much of France, and many smaller countries were substantially smashed to rubble. Now, after nearly 80 years of general peace, approximately one-third of the world lives in relative prosperity and the entire world has become helplessly addicted to inflation.

We are experiencing total immersion in what Thorstein Veblen called “conspicuous consumption.” It is not confined to only wealthy people but is widely generalized. Ordinary T-shirts with the Chanel emblem on them sell for $9,800; ornate dog collars for $25,000, and jewel-encrusted handbags for up to

$250,000.

The political world has been roiled by the ostentatious wealth of specialists in new aspects of the economy who made astounding fortunes very quickly and very young. The old mystique of hard work for a long time to build a fortune is generally considered obsolescent.

Since most of the world now lives under somewhat democratic conditions, people are able to register their impatience when corporations ignore their nationality to raise profits by moving production to cheap labor countries. The ancient working class and middle class bulwark of society plods on with flatlined incomes, and is heard at the voting place, to the irritation of the elites.

There is a growing imbalance of productivity: most service industry and higher education adds no value. Our huge university enrolments are unemployment-deferral schemes as staggering sums are expended to qualify students in fields that cannot possibly enable them to earn a living (almost anything called “studies”). And too much of our economic product is just the velocity of money.

If Canada required everyone aged 16 or over to write a poem every day and sell it to someone else for $20, while also buying one, regardless of how short and mediocre the poem might be, also for $20, it would add almost $12,000 to the national per capita income but no one would be any richer.

We are bedeviled by a loss of respect for work and the erosion of the capitalist ethic by vulgar consumerism and terrible lapses of fiscal prudence that cause vast increases in the money supply that do not represent increased production or initiative, and are financed by borrowings that will not go away. All of the world’s currencies are now just valued against each other and they are all being diminished in buying power, together.

The world needs a hard currency country again, and Canada could be it, not a gold standard, which would be impractical, given the vast proliferation of money, but tied to a basket of valuables including gold, food, and oil, (despite the dangerous fantasies of the Green Terrorists).

Capitalism is the only system that works, because it is the only one that is based on the almost universal ambition to have more. Keynes was mistaken, though, when he claimed that there is a natural balance between spending, savings, and employment. There is not.

What should be done, and Canada is ideally suited to do it, is reconstitute a solid currency of reliable value, and generally confine public sector spending to revenues. These would be larger, and less expensive to collect, if income taxes were reduced in favor of increased taxes on non-essential spending. In that way, paying taxes becomes partly voluntary and resistance to it would decline.

The increase each year in GDP would be real and inflation would be drastically reduced. Canada would have to reverse its current self-destructive contempt for its natural resources wealth and exploit it, with respect for environmental concerns.

At the same time, we should deregulate our capital markets other than in matters of fraud and abuse of shareholding minorities and be more liberal in the acceptance of external funds as long as we were not thereby abetting criminal activities elsewhere.

The world will get to this eventually. Like most countries, for many years we have been demonstrating the accuracy of the old adages: you can’t drink yourself sober, you can’t spend yourself rich, and the power to tax is the power to destroy.

From the New York Sun.