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SOME ASPECTS OF THE DOLLAR PROBLEM

An address by Mr. Louis Rasminsky, Chairman (Alternate) of the Foreign Exchange Control Board, delivered to a meeting of the Canadian Club in Toronto, Canada, on December 12, 1949.

A couple of months ago, as members of this audience are well aware, a sudden and very drastic change in exchange rates was made by most of the countries of the world. The value of sterling in terms of American dollars was cut over-night from \$4.03 to \$2.80 and within a few days thirty or more countries had followed sterling all or part of the way. The sterling area (with the exception of Pakistan), the Scandinavian countries, the Netherlands and many middle Eastern countries went the whole way; countries like France and Italy, which had already substantially depreciated their currencies, allowed them to sink to lower levels; and countries like Belgium, Portugal and Canada which were in a relatively favourable international economic position, cut the U.S. dollar value of their currencies by a more moderate percentage - 12.5 per cent in the case of Belgium and 9 per cent in our own case.

This convulsive adjustment of exchange rates represents the most recent effort to deal with the so-called "dollar problem". I want to begin these remarks by saying something about the real nature of this dollar problem which seems to rise and plague us every 12 months.

I am anxious to do this because I sometimes get the impression that many people feel there is some sort of witchcraft about international finance - that it is an occult science or a slightly disreputable occupation, and that if only we got hold of the right witches or wizards (if we got the good fairies instead of the evil fairies) they would soon put the whole thing right. They seem to think that there is some monetary device, some strategem, which if it were adopted, could fix everything up and enable everyone to live happily ever after. Perhaps the writers on international finance, and even the practitioners, have themselves to blame for this extraordinary attitude. They encourage the atmosphere of mystery by using incomprehensible words, like multilateralism and convertibility and fundamental disequilibrium, to conceal simple meanings. I recall a cartoon which appeared in the "Washington Post" a few months ago. It was by Herblock and was later reproduced in the London "Economist". I'm sure many of you remember it. It showed two very puzzled looking gentlemen who are apparently part of an international monetary conference - this the reader can deduce not only from the fact that they look puzzled, but also from the fact that the floor around them and the table at which they are sitting are thickly scattered with papers marked with the signs of dollars, pounds, francs and so on. Apparently their investigation has come to a standstill for one fellow is saying to the other "Wait... let's start from the beginning --- If you have four apples...."