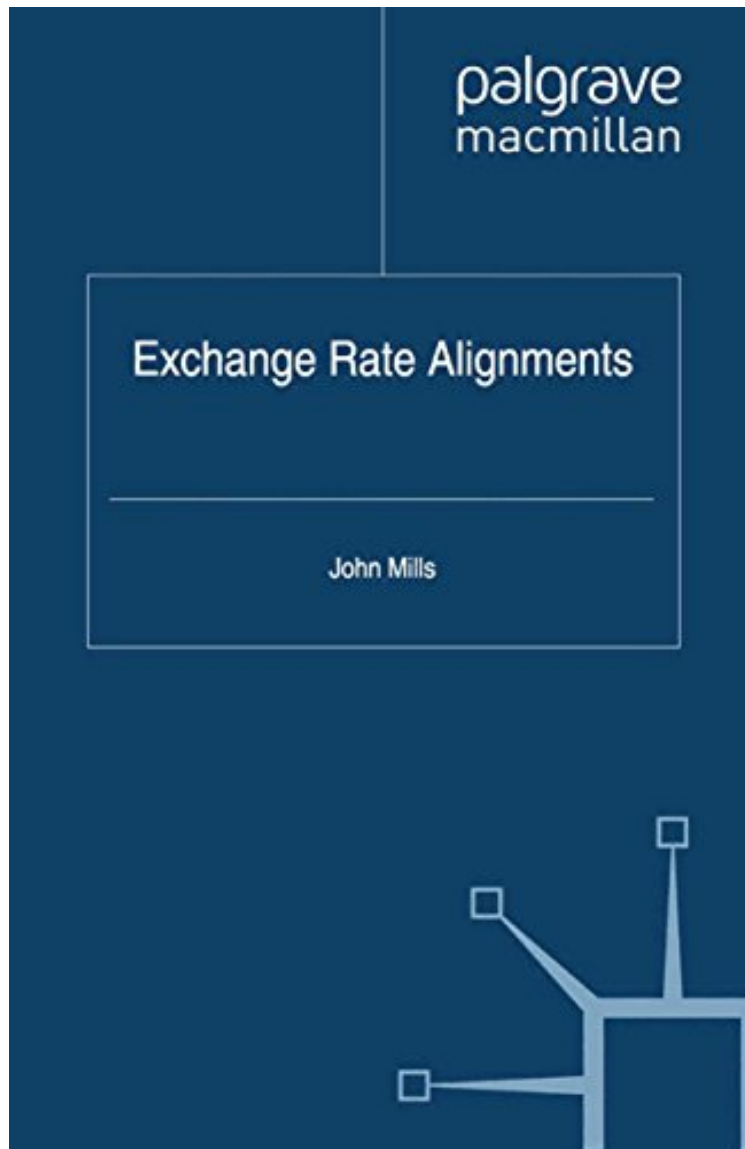


Exchange Rate Alignments

J. Mills

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J. Mills : Exchange Rate Alignments before purchasing it in order to gage whether or not it would be worth my time, and all praised Exchange Rate Alignments:

2 of 2 people found the following review helpful. Excellent case for devaluing the poundBy William PodmoreThis is a major new work by one of our best economists. He urges us to focus on rebuilding manufacturing industry, to escape 'the vicious circle of import-led stagnation' and to reject TINA fatalism.Competitive pricing is vital. Between 1952 and 1979, Japan's export prices rose by just 33 per cent, Britain's by 380 per cent. No surprise then that between 1953 and 1969 Japan grew 10 per cent a year, Britain 2.8 per cent. In Britain, "With sterling too strong, imports were

encouraged and domestic production discouraged. Too much investment went abroad. Too few talented people went into industry and commerce." Britain produces only 20,000 engineering graduates a year, of whom nearly a quarter are in non-graduate or unskilled jobs. Many who graduate here are from China and other countries. Germany produces 50,000 a year, Japan 100,000, the USA 137,000, and China 352,000. Mills notes that in the 1990s, "labour's bargaining position ... had already been undermined by increasing unemployment in Europe and rising immigration in the USA." On the effects of large-scale migration, he points out, "Those in the developed world with a low income tend to find their earning capacity reduced while the pressure generated on housing, infrastructure and other social resources generally increases, especially in countries or urban environments where the population density is already high. At the same time the poorer countries from which migrants tend to come can ill afford to lose the skills and abilities of the sort of people who most want to migrate." A 1995 IMF study found that inflation at less than 8 per cent a year did not cut growth or increase unemployment. Inflationary surges have not been caused by changes in the money supply but by the USA's wars against Korea and Vietnam, and by oil price rises. They have also been short-lived. Our money supply increased by 15 per cent in 1931-32 and by a further 19 per cent in 1933, yet inflation was no problem. Devaluations, like Argentina's in 2002, increase GDP, industrial output, investment, wages and living standards, and cut unemployment. In 1931 the British government devalued the pound by 24 per cent against all other major currencies, and by 31 per cent against the dollar. As a result, the economy grew 4.6 per cent a year from 1932 to 1937, the fastest ever; manufacturing output rose by 48 per cent and 2.7 million new jobs were created, half in manufacturing. By contrast France in the 1930s refused to devalue: its GDP fell by 17 per cent, industrial output fell by 25 per cent, investment fell and unemployment rose. In the 1950s (largely before the EEC's creation on 1 January 1958), France's economy grew by 56 per cent, Italy's by 80 per cent, West Germany's by 115 per cent, and Britain's by 30 per cent. France's industrial output grew by 89 per cent, Italy's by 131 per cent, Germany's by 148 per cent, and Britain's by 28 per cent. This led some in Britain to urge us to join the EEC: did they believe in growth by association? But the closer the ties, the worse the performance. EEC total GDP growth from 1950 to 1969 was 5.5 per cent a year. When the currencies were linked through the 'Snake', from 1969 to 1975, average growth fell to 3.7 per cent, from 6.9 per cent to minus 1.2 per cent. After the Snake's demise, growth was 3.6 per cent a year between 1976 and 1979. Under the Exchange Rate Mechanism, 1979-93, growth was just 2.1 per cent a year, falling from 4.7 per cent to minus 1 per cent. From 1993 to 1997 growth was 2 per cent a year. The euro was set up in 2000, and from then to the 2007 crisis, Eurozone growth was just 2.2 per cent a year. In 2008, there was nil growth. In 2009 its GDP fell by 4 per cent, far worse than any other region of the world. In 2010, growth was just 2 per cent and in 2011 it was 1.5 per cent. The Eurozone did not grow at all in 2012's first quarter, it fell by 0.2 per cent in the second and by 0.1 per cent in the third. The euro's strength on foreign exchanges, buoyed by Germany's superior export performance, prevents the EU's other members doing well in world markets. Norway, outside the EU, had the OECD's highest growth rate in GDP per head between 1973 and 1992, at 71 per cent. Britain's was just 31 per cent, the EU's 41 per cent. The City of London has run our economic policy since the 1950s, keeping finance as king over industry. It calls the pound 'weak' if it's low, 'strong' if it's high. We need to devalue by 20-25 per cent. Portfolio foreign direct investment needs to be discouraged, not encouraged. We need to sell pounds and buy foreign currencies. We need a reflationary policy to weaken the balance of payments and increase the deficit, until the pound's value falls. We need to encourage a drop in our credit rating, to help to lower the pound's value. Mills concludes, "the choice will be between the single currency breaking up to allow for large-scale devaluations in the weaker Eurozone economies or severe deflation and austerity in the weaker countries as far ahead as anyone can see." Currencies will fall, either by choice, in an orderly way, or, after a long and damaging delay, in a rout.

This book calls for a radical reappraisal of economic policy in the UK. It argues that a much lower exchange rate is needed to re-establish sufficient manufacturing capacity to enable Britain to pay its way in the world. Mills makes the case for the removal of balance of payments constraints to achieve growth and avoid endless austerity.

About the Author JOHN MILLS is an Economist who has spent all of his working life running companies involved in making and selling consumer products. He combines a theoretical background in academic economics with years of practical experience both in international business and in political affairs. He has written or co-authored seven books and many articles on economics and related subjects.