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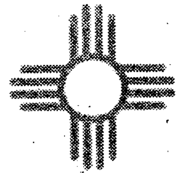

Business

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U.S. dollar tangled in complex worldwide economic web

At the end of most news broadcasts, we hear how the U.S. dollar has fared that day. Usually it is quoted against the European currency, known as the "euro," and the Japanese yen. Most people ignore this brief report. If we do stop to think about the U.S. dollar, most of us envision some far off, anonymous person staring at a computer screen or a tourist trying to figure out how many pesos is a fair exchange.

In many ways, the world's currency markets tell us more about how power is changing hands than the government officials do. Oil, gold and much of the world's

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Real Money

commerce has revolved around the U.S. dollar for 60 years.

Many countries formally or informally peg their currencies to the U.S. dollar. As we look at the rising unemployment in our country, we can see that our weak currency is one major factor that 2.6 million jobs have been lost since 2001. Most large U.S. companies have learned that by using labor in countries that maintain a weak currency (in relation to the U.S. dollar) gives them a labor cost advantage.

In order to try and reverse this trend, U.S. Treasury Secretary John Snow recently traveled to China demanding that the Chinese unhook their currency from the U. S. dollar. If China agreed to this, it would help U.S. companies that export products made here become more competitive. This would save some American jobs and would be good for this administration's economic agenda. The economic reality of the world's currency markets likely will preclude this from happening.

China, Japan, Brazil and many other countries export their goods to turn around and buy U.S. Treasury bonds and bills with their surplus dollars. This allows U.S. consumers to buy more goods and services from other countries at "cheap" prices. We benefit by getting more stuff at the cost of sending jobs overseas.

As a result of this kind of circulation of money through the world's currency systems, international institutions have come to be an integral part of the U.S. financial system. Without foreign capital,

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U.S. interest rates would be much higher than they are and the U.S. dollar would be much lower than it is. So far in 2003, Japan has spent over $120 billion to maintain a low currency rate — all to protect their domestic jobs.

If the U.S. administration got its way with its Asian counterparts, and if countries like China delinked their currencies from ours, the U.S. dollar would likely fall dramatically.

Thus, our products would be less expensive for foreigners to buy and profits would increase for exporters but interest rates would go through the roof as we desperately try to attract capital to finance our nation's deficits. Higher interest rates are the one thing that the U.S. economy cannot stand.

If interest rates go up, especially if they rise quickly, many corporations would be adversely effected. The U.S.'s fledgling recovery would be at risk and global recovery would become problematic. Everyone might be worse off than they are today.

Higher interest rates used to be a cost of doing business during good times. Companies were able to absorb higher interest costs because they could raise their prices. Today, as more people are unemployed and underemployed, companies are finding they can't raise prices because of competition from manufacturers and service providers overseas.

Higher interest rates hurt people in debt. The U.S. national private-sector debt, as a percentage of disposable income, is 20 percent higher today than it was 10 years ago.

When and if interest rates go up, everyone and every company that is in debt will have to work harder to stay even or possibly just give up and walk away from their obligations.

Of course, more people in China are finding employment because of us; Asia is subsidizing its own economic growth by providing the U.S. money to keep ourselves in debt. The U.S. dollar is a currency that is likely overvalued. If market forces come into play, our money would decline rapidly in purchasing power.

If the U.S. dollar drops, foreign goods become more expensive for us to buy. Interest rates will go up if foreigners move to diversify out of U.S. treasuries and U.S. dollars. This would be a severe blow to the U.S. economy and to our national standard of living. Do you feel like listening to that U.S. dollar report now?

The key for investors is to protect themselves against inflation and currency risk. Traditionally, stocks were thought to be a hedge against inflation.

However, at the price-earnings ratio the market sells for today, which is close to 30, stocks seem overvalued. The price-earnings ratio when the bear market started on March 31, 2000 was 29.4. In a 10-year period, there has never been a time when investors have made money by purchasing stock at price-earnings ratios as high as they are today. Could it be different this time?

Investors would do well to expand their horizons to include precious metals, inflation-protected bonds, floating-rate corporate bonds and investment opportunities in other markets around the world in order to be diversified enough so that you can afford to ignore the daily U.S. dollar report.

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