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Real Money

The US dollar is at a record low versus the European currency. The reasons for its fall include record trade deficits, a product of our national penchant for foreign goods, and a budget deficit that continues to deepen, due to politically motivated out of control spending. This has caused deep concern on the part of investors overseas who must inject 1.5 billion dollars a day just to keep our currency on an even keel.

A weak US dollar is bad for Americans because the effective price for consumers to buy imported items goes up. A weak US Dollar has the same effect as inflation, the silent but deadly nemesis of people living on fixed retirements or salaries. The US government is encouraging the dollar to fall because it is supposed to aid US manufacturing companies, though I personally doubt that most of the jobs recently lost to cheap labor countries will ever come back to our shores.

As the US economy shows some signs of strengthening, consumers continue to borrow more money in order to keep spending on maintaining lifestyle choices made in an era of expansion and rising personal wealth. Our government is borrowing increasing amounts of foreign money in order to finance the national deficit. As we continue to import goods and rely on foreign investors to buy our treasury bonds, the inescapable consequence is a declining dollar.

The buck literally and figuratively has to stop somewhere! We have become, as a country and as individuals, debtors, spending money now at the expense of future generations. Our rate of saving is abysmal while the producing countries scrimp and save in order to teach their children English, computer skills, and other technical trades that will eventually enable them to compete for global jobs.

Global trade, driven by American consumer demands, is financed by debt. It is now effectively raising the standard of living overseas through transferring jobs from the USA abroad. How does this work?

As Americans consume and foreigners produce, our dollars end up in their pockets. They can then create jobs with our capital. Why should we be surprised or upset that the result is fewer jobs here? Are not lower labor costs and reduced environmental standards attractive to business owners?

Not withstanding our national pride, it is likely that the next decade will also see many high end service and technology jobs making a similar exodus out of the country. We will learn to like the English accents people have in Bombay, as they now answer many of our toll free inquiries. I wonder if they all went to boarding school in England or if they just listen to Upstairs/Downstairs on India's public television.

As a result of the movement of jobs overseas, the middle class is growing in places like India, Russia, and China. This is coming at the expense of good folks in Indiana. The Mid-west will likely have more Wal-Mart type outlets where they can buy low-cost goods but there will be less money in the pockets of many middle-class Americans. Blue-collar factory jobs and white collar middle management jobs are shrinking. The recent good news about new jobs created is comprised mainly of low wage retail and restaurant positions.

There is a danger that the US government will attempt to bail out America through tariffs, as recently happened with steel, bras, and then steel bras! We must face the fact that our international trading partners might then boycott our goods leading to an even higher trade deficit and trade war. Labor costs are ten times cheaper overseas so we should accept the fact that many manufacturing jobs are gone for good.

Global trade has made war passé. Trade works the same magic as guns but with less public relations work. For example, Mexico, under NAFTA has had to keep its borders open to US companies. This has been good for some Mexican workers and also helps Americans retiring down south of the border. Mostly though, it benefits American companies. One estimate is that US publicly traded firms have saved three billion dollars in labor and environmental costs since the start of NAFTA. It seems to me that we are not going to duke it out with China and Russia, former enemies of our government, because these countries now supply us with underwear and vodka.

In an age where the good of the commons seems lost to some folks, there are still good reasons to save money. If you can muster the personal courage to say no to that new SUV or family vacation on the cruise boat, you might consider diversifying your cash into Swiss Francs, gold, or tradable commodities. You could cast a vote for America by keeping your investments purely in US dollars but keep in mind the fact that the US dollar's value in the global market place is going down. It remains only as good as the oil that now backs it and if a renegade country starts trading oil in Euros, look out below! As global trade and many imbalances continue, putting some of your assets outside the US could go a long way towards keeping your purchasing power intact.

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