Questions And Answers On The Fall Of The Dollar

Q: Will the fall of the dollar help American exports?
A: Exactly the opposite: the dollar is falling because of a collapse of American exports — and world trade in general — for reasons that have nothing to do with the value of the dollar relative to other currencies.

Q: Isn't the value of the dollar determined by the balance of our exports and imports?
A: Only in part. Half the dollars in circulation are held outside the United States, in the so-called Eurodollar market. Dollars are used not only to buy American goods, but other countries' goods — they finance 70 percent of world trade, or $700 billion of exports a year. American exports are only $120 billion a year. Dollars are also the world's main currency for international investment: Europeans and Japanese, for example, use dollars to invest in Asia and Latin America. To cite the numbers: there are about $800 billion of dollars held abroad, using the same definitions of money. That is to say, the dollar is a world reserve currency; its value depends on its use in trade and investment on a world scale.

Q: What's behind the fall of the dollar, then?
A: World trade and investment are collapsing. In absolute terms, the total volume of industrial countries' shipments dropped by about 10 percent between the second quarter of 1977 and the third quarter of 1977 — the worst rate of drop in the postwar period, according to preliminary estimates. The worst-hit sector of world trade is the developing countries, which should represent the long-term growth potential of American export industry. They have been loaded up with high-interest, short-maturity bank loans — about $250 billion worth — and servicing this debt takes up every cent they can earn, and more.

But, banks are still lending to these countries at all-time record rates, to refinance the debts; this kind of lending creates new bank deposits, or dollar liquidity, with no trade to back it up. That means there are "excess dollars," which can't be used in trade, because the nations which want to import can't afford to import. The dollars can't be reinvested in the United States, because the Blumenthal-Schlesinger policy has wrecked investment prospects at home. So the dollar is fundamentally weak.

To top it all off, British banks, from the Bank of England on down, have been dumping dollars, because they want to push us off the international scene.

Q: Even if there is some trouble in world trade, why won't a cheap dollar give us a better edge?
A: The exports of the big six industrial countries rose by $3 billion in inflation-adjusted dollars, while U.S. exports fell $1 billion, in the year from the third quarter of 1976 and 1977. During this period, the dollar fell by almost 10 percent against the currencies of these countries, such as the West German mark and Japanese yen. U.S. trade depends on the expansion of the world economy — the ability of other countries to buy U.S. goods — not on marginal price advantages.

On top of this, Western European and Japanese banks, as well as government agencies, have been willing to finance more exports than have our banks and federal Export-Import Bank. So, their exports have increased, despite higher prices after currency appreciation.

Q: The government says that the dollar fall isn't so bad anyway, and that the "trade-weighted depreciation" of the dollar has only been 2.4 percent over the past few months.
A: If the dollar goes out of whack, then the value of every payment made from a foreign currency into dollars goes out of whack, too. In the last two months, the dollar has fallen from 2.30 West German marks to 2.10 marks, or almost 10 percent — more than the usual profit margin on a three-month export delivery. So all of international trade is in danger. What the U.S. Treasury means by "trade-weighted" is that the Canadian dollar, the Mexican peso, and other weak currencies of our trading partners are heavily figured into the calculation. But this ignores the most important question — the currency in which world trade will be conducted. And there is no substitute for the dollar.

Q: What if we cut oil imports, which the Administration says will help the dollar?
A: That is a completely phony argument — a cover line for Schlesinger's rampage against American industry — and it depends on the false premise that the value of the dollar is determined by the simple balance of imports and exports. Look at it this way: foreigners' investment in the U.S. runs about $30 billion a year, the same as our trade deficit, and that investment depends on the health of the U.S. economy. If Schlesinger succeeds in choking off oil imports, or raising the price of energy through taxes, or any other of his plans, the U.S. economy will look even worse to foreign investors. The dollar will probably suffer.

Q: Why not just protect our industries from foreign competition, and say to hell with the rest of them?
A: First off, they can do the same to us, and world trade will shut down, as it did in the 1930s — as any sane businessman knows. There is more to it than that. Back during the 1930s depression, the Nazis called this kind of protectionism "national autarky." It means contracting

total production in an industry, for example steel, and raising prices on what's left. This works both on an international scale and at home. "National" industries, like steel, demand that their government keep up capacity at home by shutting out imports. Then they used the reduced availability of steel, or any other good, to force up prices, as Bethlehem just did by 5.4 percent. They are doing to every industry that buys steel — auto, construction, machinery — exactly what they did to "foreign competition." So none of this has anything to do with foreigners taking American jobs. Industry is hungry, and only the stupidest businessmen and trade union leaders would propose to eat their neighbor's leg. "Protectionism" is the fastest way to destroy the economy.

Q: Isn't it true, like Meany says, that exports of U.S. technology have enabled low-wage countries to dump their goods here and take away American jobs? Don't tell me that Korean textiles haven't hurt.
A: Only because the United States is blocking higher forms of technology exports. The worst example is nuclear. Potential world demand for electrical energy is 50 gigawatts based on 50 full-sized nuclear power stations, a year. That's a trillion dollars of exports a year, six times our present total exports. Westinghouse calculates that, if environmental restrictions and sabotage of nuclear exports had not interfered with their nuclear expansion program, they would have needed 2 million man-years over the next five years — or 400,000 full-time jobs for five years — to carry out their projections.

So the potential for expansion of American jobs on the basis of high-technology exports, once we clear some obstacles away, is virtually limitless. Once a developing country sets up a nuclear reactor, it will begin importing irrigation facilities, agricultural equipment, heavy vehicles, food, and other American goods. Getting nuclear reactors to the developing sector is the first step in creating a whole new market for American exports. Adding up current unused capacity and immediate development requirements, we could increase U.S. exports by $100 billion — almost as much as our current total — within a single year.

Of course, if development stops dead, and the U.S. fails to put technology to work, then some low-skilled jobs will suffer as the result of the last generation's exports of low-level technology to Taiwan or South Korea. But, if the U.S. throws out its commitment to progress, as Meany wants, every job is in danger.

Q: Where do we get the money to create jobs?
A: Right now, there are several hundreds of billions of dollars, mainly abroad, some in the domestic banking system, engaged in useless and unproductive forms of investment. The Federal Export-Import Bank has legal powers to absorb these dollars by taking deposits or issuing bonds internationally. If the Eximbank moves in to sponge up excess funds on the Eurodollar market, for example, it could put together a kitty of several tens of billions of dollars to start exports off the ground. If it puts funds into high-technology development, such as nuclear exports, there will be an immediate, huge effect on employment. To back that up over the longer term, we need a National Bank of the type Alexander Hamilton created at the founding of this country to fund high-technology industry.

But if we do what Meany wants, and put Federal money into make-work jobs creation, we will get broom-pushing, low-wage jobs we don't want, and vast amounts of inflationary spending, which will reduce all workers' incomes. The spending will be inflationary because it will not create more real productive capacity. In short order, we will have exactly the kind of economic breakdown the Nazis got themselves into, with the same policies, after four years of rule. We can create whatever amount of funds we want — if it goes into production.

EEC Clamps Reference Price On Steel

European finance ministers meeting in Brussels Dec. 19 voted to impose a minimum price for steel imports into the European Economic Community (EEC) from the beginning of next year, after the British and French threatened unilateral protectionist measures if the EEC did not act. The ministers' vote is a clear warning to the Japanese in particular to ease their trade competitiveness or face protectionist measures from its trading partners.

EEC

The measures voted by the European ministers will fix a basic price for steel imports related to the production costs of the most efficient foreign producers. As in the case of the recently discussed U.S. "reference price" proposal, to which the EEC plan bears close resemblance, the Japanese producers will set the reference price, and any imports falling below this level will be subject to charges of "dumping" — i.e., selling below the cost production, which is prohibited by international treaties.

To appear "flexible" to its trading partners, the ministers agreed to pursue talks on "voluntary" price floors with Europe's major steel suppliers in the next few months before a statutory reference price is imposed. However, if no satisfactory agreement has been reached by the end of next March, the mandatory minimum import price will be imposed.

The decision to set a reference price for steel imports coincided with a warning from the EEC Commission to the Japanese that the trade reforms announced so far by the Japanese government, although welcome, do not get far enough towards turning around Japan's major trade surplus with the Community. After allowing talks between Japanese Minister for External Economic