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Climbing National Debt Weakens Dollar

By David R. Breuhan

Many residents of Michigan are aware of exchange rates, given our proximity to America's largest trading partner, Canada. With the Canadian dollar at par with the American dollar, analysts and economists often look for answers in trade data or other areas. It is my contention that the dollar is weak because of the oversupply of debt instruments. The dollar is losing value because there are too many dollars.

The national debt is the primary cause of the dollar's weakness. By issuing Treasury securities to finance the debt, the government floods the global financial markets with IOUs, devaluing the currency.

Most commodities have dramatically risen in price over the past five years. The accepted reason is global demand. A practical reason may be that these "higher-order goods" have simply risen in price due to the fact they are finite elements that have the market-based ability to hold value against the dollar.

We are witnessing a rise in the price of oil. Global consumption is roughly 85 million barrels per day. In seven years, the price of crude and gas has more than doubled. Global consumption has not.

Why is the price so much higher? Since oil is priced in dollars and the dollar is weakening, oil producers are demanding more dollars since they provide less purchasing power.

Most foreign currencies are gaining in strength as our dollar weakens. This not only reflects a poor international opinion of our currency; it creates imported inflation into the United States as imports rise in price. Our markets are more open and free than others; we will not witness a reduction in imports, only a rise in the price of domestic goods. American producers are able to raise prices without losing market share.

The data also demonstrate that raising interest rates may not save the dollar. The dollar will only strengthen once global markets have proof that the U.S. government understands that money cannot be created indefinitely.

Stories in the press and speeches by politicians often focus on the trade deficit. Points are often made that the trade imbalance weakens the currency. A far greater danger is the unrestrained creation of dollars by the Federal Reserve and the Treasury. Trade does not weaken the dollar; too many dollars weakens the dollar.

As we rely heavily on foreigners to finance our debt, we cannot expect them to hold $2.22 trillion of government securities while losing more in principal than we pay them in interest. Foreign investors do not have to sell U.S. debt to wreak havoc in the financial markets; they need only stop buying.

Expecting our government to act financially responsible is difficult to imagine. By just projecting the growth of the debt and the growth of GDP since 2001, it is likely that before 2023, they will equal each other.

Government needs to begin to sell assets and lay off employees. Departments must be streamlined. The departments of Commerce and Education should be the first for review, as these overlap the 10th Amendment function of the states. Federal pension programs would be next for streamlining.

On the monetary side, the Federal Reserve must no longer control short-term interest rates. They must be controlled by the market, just like other rates. Assuming that an Open Market Committee of 12 members can accurately set rates in a marketplace of 3 billion participants reflects fatal conceit. If the long war were about inflation, the Fed would have lost every engagement.

Although the dollar's demise has been predicted in the past, we have rarely seen the signals of commodities, currencies and other indicators providing such dire warnings.

David Breuhan is a portfolio manager in Bloomfield Hills and an adjunct assistant professor of economics at Walsh College in Troy.