

OPINION

Weak Dollar, Weak Economy

By David Malpass

With all eyes on the debt-limit debacle and Washington's out of control spending, it's easy to forget the monetary-policy mess created by the Federal Reserve and its near-zero interest rate. But it is even more harmful for economic growth than our \$15 trillion debt and might get worse if the Fed lurches toward QE3, another big wave of bond buying being urged by big-government forces.

The U.S. is practically alone in the world in pursuing a near-zero interest rate and letting its central bank leverage to the hilt to buy up the national debt. By choosing to pay savers nearly nothing, the Fed's policy discourages thrift and is directly connected to the weakness in personal income. The zero-rate policy only benefits mega-borrowers like federal and state

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governments, big banks and big corporations—a group not known for much net private-sector job creation. The select few are able to borrow cheaply, but corporate proceeds often go abroad while most government borrowing just encourages deficit spending.

The combination of super-low interest rates and trillions in leveraged Federal Reserve debt constitutes a semi-official weak-dollar policy. It has driven gold to a record high and made the dollar one of the world's weakest currencies. The dollar index has fallen 38% since 2002 (to 75 from 120) despite cynical statements by officials that a "strong dollar is in our national interest." To protect themselves from the weakening dollar, investors and corporations are shifting growth capital from U.S. businesses into foreign infrastructure and jobs, a process that is dismantling decades of U.S. wealth creation.

One of the fastest, most decisive ways to restart U.S. private-sector job growth would be to end the Fed's near-zero interest rate and the Bush-Obama weak-dollar policy. As Presidents Reagan and Clinton showed, sound money is a core growth strategy—the fastest and most effective way to tell world capital that the U.S. is back in business. Instead, near-zero rates and a weak dollar severely undercut the



Federal Reserve's credibility, once one of America's strongest magnets for global investment.

Weak monetary policy isn't providing monetary stimulus. Under the 2010 QE2 Fed bond-buying scheme, the more the Fed intervened in markets, the weaker the GDP growth each quarter. Banks are overflowing with liquidity already, but their lending is rationed by armies of federal regulators sitting rent-free in their offices. The interbank market—which normally moves large sums from cash-rich banks to the growing banks that lend to new and small businesses—can't function properly with rates at zero. Monetary policy's goal of market-based allocation of capital has morphed into subsidizing debt and manipulating the dollar downward.

Only Japan, after the bursting of its real-estate bubble in 1990, has tried anything similar to U.S. policy. For close to a decade, Tokyo pursued a policy of amped-up government spending, high tax rates, zero-interest rates and mega-trillion yen central-bank buying of government debt. The weak recovery became a deep malaise, with Japan's own monetary officials warning the U.S. not to follow their lead.

As American capital escapes the weakening dollar, it drives down U.S. living standards. Since the end of 2008, the average hourly wage is up only 4.5% (to \$22.99) while the consumer price index is up 6.1%. Social Security checks haven't gone up at all. Much of the private sector feels stuck in the mud, yet Wall Street and Washington are booming. They are the middle-men in the wealth transfer from savers to debtors and foreigners, creating thousands of millionaires each year trading currency volatility and inflation hedges. The profits are immense, but it's a zero-sum game in which the losers are the millions of Americans who work and save in dollars. Put the question to the public or to small businesses whether President Obama should run a weak-dollar policy and the answer is a thunderous "No!"

Countries around the world grow faster when they implement sound money. This offers a turnaround path for the United States. Brazil's economic boom dates from early 2003, when President Luiz Inacio Lula da Silva decided to stop the real's crash. Russia's frenzied collapse ended almost overnight in 2000 when then-President Vladimir Putin stabilized the ruble. Australia's

per-capita income has more than doubled since the Aussie dollar started its climb in 2002. The strong Canadian dollar, backed by a well-run central bank, is a magnet for American investment, rising to \$1.04 from 65 cents a decade ago while paying solid interest rates.

Most important for world growth, China's economic surge started in mid-1993 after Zhu Rongji—trained as an engineer like many other senior Chinese leaders—sat at the central bank and created a yuan that would hold its value. China's boom hasn't stopped.

Washington's twin crises—fiscal and monetary—are killing jobs. It may take years to fully unwind the federal government's debt buildup and the entrenched tax-and-spend culture driving it. But the president, or his deputies, could stop the monetary-policy half of the crisis tomorrow, renewing America's spirit and job growth. The historical evidence is irrefutable—investment floods to strong and stable currencies.

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