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Weak dollar can strengthen economy in other ways

By Jim Landers

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WASHINGTON — Gov. Rick Perry's complaint against the Federal Reserve is that loose monetary policy has weakened the value of the dollar. Bob McTeer, former president of the Dallas Federal Reserve Bank, understands but says a weak dollar helps U.S. exports, one of the few strengths in the economy.

"I feel about a strong dollar like St. Augustine felt about chastity," McTeer said. "Lord, make me chaste, but not just yet."

The governor's criticisms of Federal Reserve chairman Ben Bernanke two weeks ago in Iowa drew attention for his tough language criticizing any move to print more dollars before the 2012 presidential election.

Perry returned to the issue last week in a radio interview with conservative pundit Laura Ingraham.

"Americans get it about this, the Federal Reserve printing more money and devaluing the dollars that are already not worth what they were two years ago because of the just absolutely horrible monetary policies, and stimulus and debt creation that this president and his administration and frankly a complicit Congress were involved in," Perry said.

The value of the dollar matters most in the cost of living for Americans. Pushing too much money into the economy inflates prices. If there's too little currency in circulation, it can cause deflation, or falling prices.

Without commenting directly on Perry's remarks, McTeer discussed the Fed's role in dollar creation.

"Printing money is what central banks do. It's a matter of how much they're doing," McTeer explained.

Between November and July, when the Federal Reserve was buying $600 billion in Treasury bonds — in effect, printing more money — the growth rate in the nation's money supply was "right around 5 percent," McTeer said, "which is very moderate, given a 9 percent unemployment rate."

Deflation fears

Bernanke and other Federal Reserve bankers explained last year that the economy showed signs of slipping into deflation. In the Dallas-Fort Worth area, for example, prices fell 0.4 percent last

year, according to the data compiled by the Dallas office of the federal Bureau of Labor Statistics.

It's been a different story this year. Through July, the Bureau of Labor Statistics found prices over the last 12 months were up 4.2 percent in the D-FW area.

The dollar's value also matters — greatly — in its exchange value with other currencies. When the dollar weakens against the currencies of the nation's trading partners, imports become more expensive. At the same time, U.S. exports become less expensive for foreign buyers.

The foreign exchange value of the dollar — what a dollar is worth in other nations' currencies — has fallen over the last three years about 12 percent. The dollar jumped by that much during the recession, however, when foreign capital flooded into the United States as a safe haven.

The current value of the dollar is where it was in 2008.

When the dollar weakens, foreign oil producers tend to raise prices to maintain their global purchasing power. With the war in Libya and speculation about further unrest in the Arab world, oil prices have climbed a great deal more than the dollar has weakened. Energy prices are up 20.7 percent over the last year in the D-FW area.

Buoyed in part by a weak dollar, U.S. exports have risen 17 percent in the last year. Texas is the nation's leading exporter and has done well by the surge in trade.

Trade value

Imports, however, have increased even more. The U.S. was running a trade deficit of more than $565 billion at the end of June. That's largely because of oil and Chinese goods. For many years, the Chinese have pegged the value of their currency to the dollar and invested more than $1 trillion of their trade surplus in U.S. bonds. That has distorted trade flows by keeping Chinese goods cheap, when they should be getting more expensive.

"Just the fact that we have this large trade deficit should keep [the dollar] weak on its own," McTeer said. "Years ago, the declining dollar should have corrected our trade deficit. Problem was, we keep getting all this capital inflow, which kept the dollar too high to clear the trade balance.

"We had a weak dollar, but not as weak as should have been," McTeer said. "Now that may be changing. People are using gold, Switzerland and Japan of all places as safe havens. So maybe capital inflow will decline some more."