

To Revive U.S. Manufacturing, Reform Our Monetary System

By

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3/31/2002

Mindful that a “strong” dollar makes it very difficult for U.S. manufacturers to export and helps foreigners import into the U.S., but underestimating the ancillary monetary issues, U.S. manufacturers attempted to lobby for a weaker dollar through their trade association, the National Association of Manufacturers, (NAM). In fact, a “strong” dollar has the same effect as low, or even negative, tariffs for importing into the U.S., and very high tariffs for exporting into foreign nations. Depreciation of foreign currencies mitigates, and possibly defeats, any trade protections achieved by domestic industries. For example, the American Textile Manufacturers Institute has determined that: “Combined with a U.S. strong dollar policy, major Asian exporting countries now receive a *de facto* ‘tariff cut’ of 35% or more.”¹

In a nutshell, the NAM lobbied for a lower dollar in order to help restore the competitiveness of U.S. manufacturers with the rest of the world. Specifically, through its Coalition for a Sound Dollar, they asked for a dollar “whose value relative to other major currencies is determined by market forces which reflect fundamental economic trends, such as trade balances, interest rates, GDP growth, and other objective indicators of a country’s performance.”² Not being able to objectively define what any of this means, the NAM diluted its case to the point where it was easily defeated.³ The response from the administration and from the Federal Reserve was a flat out “No.”⁴

Some U.S. companies countered that they along with their workers are really hurting.⁵ They put it this way: “Manufacturing employment has fallen by over 830 thousand jobs since mid-2000 and the U.S. trade deficit has soared past \$400 billion, or 4.5 percent of real GDP. (See: *Chart 1: U.S. Trade Balance as a Percent of GDP, December 31, 1990 to December 31, 2000*, below) Nearly 100,000 export-related jobs have been lost in the agriculture sector.”⁶ The steel and textile industries have the support of their labor unions. In my view, they understate their case: whole industries have left America, and millions of good-paying manufacturing jobs have been lost. If we continue at this pace, America’s manufacturing sector is going to be decimated. In addition to the loss of manufacturing infrastructure, jobs, and know-how, there are also serious national security implications.

¹ See: “Statement of The American Textile Manufacturers Institute to the Committee on Ways and Means, U.S. House of Representatives on President Bush’s Trade Agenda Hearing of March 7, 2001,” p4

² See: NAM Press Release August 23, 2001

³ “‘Frankly, we’d be happy if the White House would simply stop creating the impression that there’s no such thing as an overvalued dollar,’ Jasinowski [NAM President] said.” See: NAM Press Release August 23, 2001

⁴ “Some commentators have urged the Federal Reserve to help U.S. firms that export or that compete against imports by easing monetary policy and fostering a dollar depreciation. This is a bad idea, and not just because it ultimately won’t help the traded-goods sector.” See: Federal Reserve Bank of Cleveland, *Economic Trends*, p8, August 2001

⁵ “Not surprisingly, manufacturers are howling with pain. And the cause of their agony, as they see it, is the U.S. government’s long-standing strong-dollar policy.” See: “A Strong Dollar” by Tom Holland, *Far Eastern Economic Review*, August 9, 2001.

⁶ See: NAM Press Release August 23, 2001

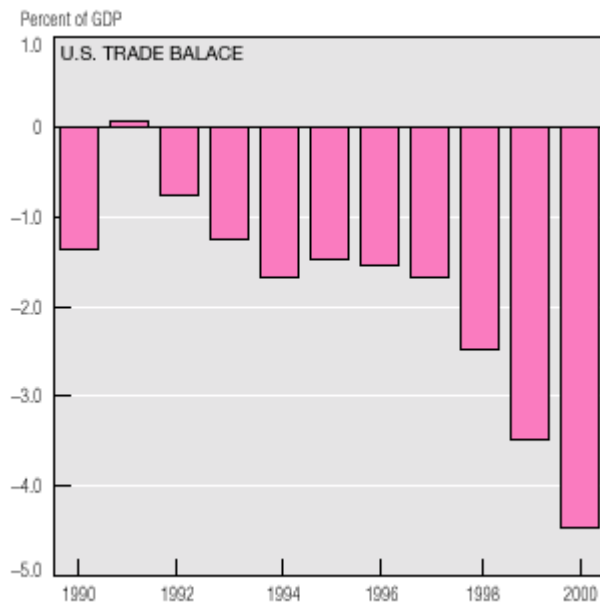


Chart 1: U.S. Trade Balance as a Percent of GDP (Source: Federal Reserve Bank of Cleveland, *Economic Trends*, p8, August 2001)

The essence of the administration’s—and Wall Street’s—pro-strong dollar response, as testified to by former Secretary of the Treasury Robert Rubin, now Vice-Chairman of Citigroup, and by others was: “A strong dollar helps maintain the equity markets, and that’s important, too. Also, ordinary people benefit from cheaper manufactured goods, thereby improving their standard of living. The trend for the world is free markets, globalization, and a greater division of labor leading to a higher standard of living. We cannot let special interests, such as old-line manufacturers, stand in the way of progress. It’s like trying to hold back the tides.”

U.S. manufacturers were positioned by the Bush administration, and by Treasury Secretary O’Neill in particular, as a special interest trying to get the government to manipulate the currency for their benefit at the expense of the general public.⁷ Consensus thinking was that if some sectors of the economy and their unionized workers suffer, that is regrettable, but, as pundit Larry Kudlow trumpets, quoting Schumpeter about how capitalism depends on “creative destruction,” that’s life.

⁷ “Paul H. O’Neill, who in his current job, secretary of the Treasury, is the chief defender of the strong dollar and derides those who bemoan it.” “With O’Neill in the lead, Bush administration officials have espoused with gusto the belief voiced during the Clinton administration by Treasury secretaries Robert E. Rubin and Lawrence H. Summers: ‘A strong dollar is in the best interests of the United States.’ The rationale for that approach is based mainly on the favorable effect on interest rates and inflation. As Europeans, Japanese and other foreign investors convert their euros, yen and other currencies into dollars, the inflow of capital helps keep interest rates relatively low in this country, boosting housing, auto sales and economic growth generally. Moreover, as the dollar goes higher, imported goods get cheaper for American consumers, helping to suppress inflation. Anything that undermines foreigners’ faith in the dollar might throw that process into reverse. So O’Neill has gone to great lengths to burnish his strong-dollar credentials in recent weeks, heaping scorn on companies that plead for a weaker greenback.” See: *The Washington Post* “O’Neill’s Strong-Dollar Talk Belies His Past” by Paul Blustein, Washington Post Staff Writer, August 3, 2001 Page A01.

Economic arguments alone about money will never carry the day for manufacturers. Today, issues dealing with monetary economics are controlled by a small group in the financial sector. That group has defined the rules, and especially the figures of merit by which the results are judged, all of which, as it relates to money, are false; or, in the more politically correct words of famed Establishment economist Professor John Kenneth Galbraith: “The study of money, above all other fields in economics, is one in which complexity is used [by economists] to disguise truth or to evade truth, not to reveal it.”⁸

Here is the winning strategy for U.S. manufacturers:

- Demand: A *stable* monetary system; a system whereby money does not, and cannot, depreciate at home or abroad (why should it?).
- Demand: A monetary system that is fair. Define a “fair monetary system” as one with voluntary transactions (no coercion), without subsidies, and without protection. (Parenthetically, this is coincident with Adam Smith’s definition of a free market, something Wall Street has been quite vociferous about.)⁹
- Demand: A monetary *system*—not regulation—that protects the savings of ordinary people, and especially the pensions of seniors, all over the world.
- Demand: A monetary *system*—not manipulation of interest rates by a central planner, i.e., the Federal Reserve—that affords the lowest possible interest rate structure.
- Demand: A monetary *system*—not bailouts to the financial elite— that does not expose us to systemic risk.
- Demand: Full disclosure, no misrepresentations, and no coercion as relate to monetary issues, i.e., a monetary system that is consistent with free market principles.

Discussion:

The benefit of positioning the money issue in terms of fairness and justice coincident with the principles of a free society is that it shifts away from the realm of economics, where the financial sector has manipulated the game, to the moral realm, in which the position of the financial sector cannot be defended. Morality always trumps economics in the public mind. People really do want to do “the right thing.”

There is no provision in our *Constitution* that allows for fiat money, i.e., irredeemable paper money. The monetary system we have today has been imposed on us by a combination of coercion, misrepresentations, and material non-disclosure. In addition to an intolerable level of systemic risk, the result is that there has been volatility in the major currencies (dollar/yen; dollar/euro; yen/euro) on the order of 30% over a year or two.¹⁰ For some smaller countries, the

⁸ Galbraith, John Kenneth, *Money: Whence It Came, Where It Went* - 1975, p29.

⁹ Writing in *The International Economy*, “In the Dollar We Trust: The Bush administration’s strong defense of a strong dollar,” former Governor of Federal Reserve, Dr. Lawrence B. Lindsey, now Assistant to the President for economic policy and Director of the White House National Economic Council misspeaks: “It continues to be the case that the great majority of all foreign trade conducted on the planet is invoiced in dollars. But this *is a matter of consent* between the contracting parties, a choice, which could be altered if confidence in the dollar as a stable medium of exchange were lost.” [Emphasis added] In fact, there is material coercion in the form of legal tender laws, a.k.a. forced tender laws, which compel people to use fiat money for their transactions. There is additional coercion in the form of restrictions in the Articles of Agreement of the IMF that prohibit member countries from linking their currencies to gold, the free market choice for money.

¹⁰ “The dollar is being appreciated nearly 30 percent since the beginning of 1997, 10 percent in the last year alone. It is now at its highest level in 15 years. As a result, many of our members’ [Motor & Equipment Manufacturers

volatility has been worse.¹¹ (See: *Chart 2: Nominal Dollar Exchange Rate Index January 1973 – January 2001*, below) This is simply unacceptable to anyone who is engaged in international trade. This kind of volatility cannot be hedged and, in any case, hedging costs money. It is essential to those directly or indirectly (through their customers) engaged in international trade that there be *stability* between currencies in order to minimize the transaction costs of doing cross-border transactions.

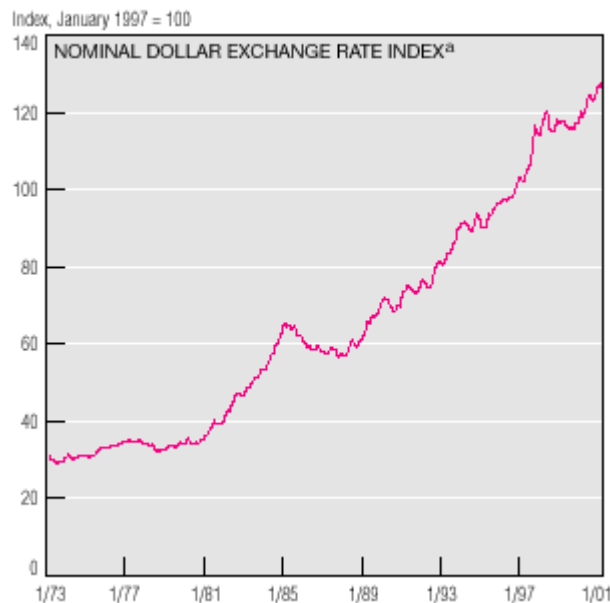


Chart 2: Nominal Dollar Exchange Rate Index January 1973 – January 2001 (Source: Federal Reserve Bank of Cleveland, *Economic Trends*, p8, August 2001)

The financial sector, however, wants *volatility*, not stability, because the financial sector profits from “trading.” The transaction costs that those engaged in international trade want to minimize are, in fact, *revenues* to the financial sector. Thus, the financial sector has a conflict of interest with manufacturing (and with ordinary people and small countries). Being in *de facto* charge of the monetary structure for nearly a century, the financial sector has rigged the system for its own benefit to the detriment of everyone else.¹²

Another reason why the financial sector wants to maintain a “strong” dollar is to camouflage defects in our monetary system; defects that, if not corrected, expose us to a systemic collapse, a possibility that is being actively discussed at the Bank for International Settlements and elsewhere. In the last several years, U.S. banks have created roughly \$4 trillion, flat out of nothing. A good deal of that was lent to foreign countries and foreign business enterprises. The

Association, MEMA] are literally being priced out of markets at home and abroad, and U.S. exports have dropped by more than \$50 billion from last year.” Press Release from MEMA, August 23, 2001. Quote attributed to Mr. Chris Bates, MEMA President & CEO.

¹¹ The American Textile Manufacturers Institute research shows that: “Compared to January 1, 1996, the Asian currency declines are: Indonesian rupiah is down 80%, the Philippine peso is down 49%, the Thai baht and the Pakistani rupee are down 45%, the Sri Lankan rupee is down 42%, South Korean won is down 40% many the Indian rupee is down 25%, the Taiwanese dollar is down 19%, the Japanese yen is down 13%, and the Hong Kong dollar is down 1%” “During the same period of time, textile imports from those countries have soared by 80%.”

¹² U.S. banks and U.S. securities firms garnered more than \$600 billion from the economy in year 2000. On a worldwide basis in year 2000, banks and securities firms garnered more than \$1 trillion—just for moving paper around. They can be expected to offer fierce resistance to changing a monetary system that benefits them so greatly.

only way for foreigners to service that debt—repayment is out of the question—is to export to the U.S. more than they import. That the current monetary system necessitates the loss of U.S. manufacturing, and concomitant manufacturing jobs is of less interest to U.S. banks than not having to write off bad debt. In fact, we never should have allowed a system that facilitates this kind of wholesale transfer of U.S. manufacturing to foreign shores. That system needs to be changed.

Finally, as former Chairman of the Board of Governors of the Federal Reserve System Paul Volcker has stated, a global economy requires a global currency. What is that global currency going to be? Today, the “dollar” is the reserve currency for most of the world.¹³ One result is that most of the world needs to continue to acquire dollars. That means that foreign countries have a continuing need to export more than they import or, to put it another way, the current monetary *structure* results in continued pressure to transfer manufacturing to foreign shores. This has got to be anathema to U.S. manufacturers, it seems to me. Perhaps most important, our monetary system is inherently unstable, exposing us to what Mr. Greenspan calls “systemic risk,” and works against the interests of U.S. manufacturers (and ordinary people and small countries).

Plan of Action:

All of the monetary issues need to be revisited and thoroughly understood by the principals of manufacturing firms, and they need to present a well-thought-out case for reform. A modest beginning for solving this problem would be to join FAME’s Global Currency Initiative™, which is a study group, to put all of the monetary issues on the table. After the issues are understood, a global monetary system will be proposed to the media, to the administration, and to the financial sector. The result will be a monetary system — the gold standard — that will meet the needs of manufacturers, ordinary people, and small countries worldwide.

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¹³ It is significant that there is no longer a statutory definition for the fiat “dollar.” So much for the “Rule of Law.” Further, Federal Reserve Chairman Greenspan has repeatedly warned that the Federal Reserve stands ready to create “dollars” “without limit” should the need, in Federal Reserve’s sole view, arise. What does that say for property rights in our savings and promises of future payment, all denominated in “dollars”?

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