Tax Code Is Big Reason For Weak Dollar

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The inherent strength of the peculiarly American version of free enterprise is shown by how long and how well the U.S. economy has been able to withstand the constant battering by wrong-headed government policies - but the bulwarks are starting to weaken.

Once upon a time the "greenback" was the world's premier currency. Now the dollar is cheaper in value than both the euro and the British pound.

In recent months, it has twice hit record lows. Every time our currency cheapens, the dollar price of oil and everything we import goes up.

With less purchasing power in the global marketplace, we Americans are poorer than we were before. We lose confidence in ourselves and stature in the eyes of others.

Currencies rise and fall against one another in international exchange markets on an almost daily basis and for a variety of reasons - including the recent expansion of the money supply by the Federal Reserve.

But the long-term weakness of the dollar is fundamentally the result of two failings.

First, we Americans do not save enough to meet the economy's requirements for capital investments.

We must, therefore, each year acquire from other countries about $700 billion of capital to fill the hole left by our profligacy. Second, and corollary to our lack of saving and investment, we consume more than we produce.

We must, therefore, acquire from other countries not only large amounts of their savings but also large amounts of their goods and services.

Because our exports (dollars flowing in, goods flowing out) are much less than our imports (dollars flowing out, goods flowing in), there is an oversupply of dollars in the international market that drives down the price.

The federal government is strongly implicated in America's spendthrift status, its enormous trade deficit, the weak dollar and the fact that most Americans are less well-off than they should be.

More than a hundred years ago, Henry David Thoreau (hardly a right-wing ideologue) had already tumbled to the sad truth about government.

He wrote: "The character inherent in the American people has done all that has been accomplished; and it would have done somewhat more, if the government had not sometimes got in the way."

Insofar as profligacy is concerned, the federal government leads by example. For 24 of the past 30 years, it has run a substantial budget deficit, having spent more than it takes in in revenue - and when it does so, it reduces national savings.

Federal budget deficits are dissaving by the government in the same way that individuals dissave when they spend more than they earn. Most Americans follow the government's example.

Those who rebel and who do save and invest are punished with extra taxes. The government has for decades deliberately taxed income that is saved and invested far more heavily than income that is immediately consumed.

Gross private savings has been less than gross private investment for 26 of the past 30 years.

Not only do taxes on savings and investment weaken the dollar, they slow the growth of the private economy - often costing Americans $3 billion in lost incomes and jobs for every $1 billion of revenue yield to the government. The total cost of tax-induced collateral damage to the economy is about $2.5 trillion per year.

Now the Democrats in control of Congress, led by New York Rep. Charles Rangel, are preparing to kick up the deadweight loss to the economy by another $2.9 trillion.

That's a $2,600 annual whack for every family in America for the next 10 years - and that's only for starters.

To make matters worse - especially insofar as concerns the trade deficit - the government heavily taxes the export of American-made goods, making it hard for companies to compete in the global markets from their home base in America.

But when American companies flee this country and operate abroad - because of the penalties on exports or for other reasons - they get a tax holiday from the

U.S. government, provided they reinvest their foreign-source profits abroad to the benefit of some other country's economy.

Woe be unto them, however, if they bring the money home to reinvest in America. The government will tax them.

No wonder the annual U.S. trade deficit is about $0.7 trillion and is equal to nearly 6% of America's entire gross domestic product. And no wonder those in other countries are downgrading their view of the American economy and downgrading the dollar.

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