<u>The dollar</u>. There is considerable discussion among global leaders and economic players on the strength of the dollar and its impact on global business flows.

The Europeans are saying the dollar is too high and making their imports too expensive. This, they point out, has a negative impact on their inflation outlook. Some American industries, mostly lacking a competitive advantage, are alarmed that the strong dollar is making their exports too expensive and less competitive.

These concerns are wrong since they do not address the real issue. The dollar is strong because international businessmen and investors are buying dollars. They are buying dollars because they find it particularly attractive and profitable to invest and make business transactions in the dollar-dominated area. This is where the action has been and still is. Not in Europe. Not in Asia. Not in Latin America. The real action has been in North America.

The value of a currency is determined principally by the productivity differential between two countries. High productivity keeps costs under control without the need to raise prices. Businesses of the country with higher productivity experience high growth and high profits while enjoying lower inflation.

An economic and political system with flexible business regulations is another important feature attracting global investors. Lack of strict merger and acquisition regulations and antitrust policies, labor flexibility, and efficient bureaucratic environment create a favorable investment climate.

Businessmen love this kind of scenario because of its **high predictability**. This has been the situation in the US since 1995. It is no surprise the dollar has been king. Capital has been flowing from all over the world into the US because our business climate is the **best in the world**.

Does Europe want a strong euro? This is very easy to achieve. They need to create a friendly environment for business. Stop protecting producers and encourage competition. Create an environment where the consumer is king and controls the markets. Let entrepreneurs feel free to make money without too many constraints. Make labor laws more flexible. Stop protecting those who already work and make it easier for those unemployed to enter the labor force. Stop planning from the top (Brussels) the life of the people and rewarding inefficiencies (e.g. money ploughed into the south of Italy without any tangible results in more than fifty years).

These steps will go a long way in establishing business trust in a region struggling to achieve a credible identity and a strong currency.

Do we really want a weak dollar? I sincerely hope not. But just in case we do, this is also easy to achieve. Let the money supply grow very rapidly, as we have been doing since 1997. Force **short-term interest rates** to fall low enough to be inflationary, as they are now. Allow **inflation** to rise and **productivity** to sink, as they are doing now.

In other words, if we really want a weak currency we need to create an environment of uncertainty for business and consumers, as we have now. You can rest assured capital will flow out of our area and the dollar will decline sharply. **We are on the right track**.

A concept I learned a long time ago when I was living in Europe is that **a strong currency is always associated with a strong economy** characterized by high real interest rates and nominal interest rates close to 5%. A weak currency always reflects a country with dismal economic conditions with low real interest rates and nominal interest rates above 7-10%.

Just look at the last two pages of *The Economist* where they report interest rates and inflation for the major countries in the world. You will easily recognize those countries which have, and will continue to experience, a weak currency. **They are all countries where you would not like to live**.

7-30-01