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Applied Research: Decline of the US Dollar and an Alternative to Current Policy

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Abstract

Some spectators have put forth the argument that the dollar, which is the US currency, is declining and is heading toward a decisive collapse. The first point is true, as the evidence indicates. The second, that the dollar is headed for a collapse, is not accurate. This applied research sets out to define a practical solution to currency devaluation. Scholarly opinions, theory, and empirical evidence are investigated at large. The conclusion is drawn based on an analytical understanding: A market-based economy, coupled with a limited government, is the alternative to current policy. The current national state in America is viable, but the conclusion in this research is presented with a different view.

Keywords

Capitalism, Limited Government, Free Market Economy, Supply and Demand

1. Introduction

1.1. Framing the Issue

Percy L. Greaves is largely an economics expert, and he is the author of *Understanding the Dollar Crisis*. He maintains that a free market, which is unregulated by the government, is a model of economic sustainability. In order to clarify what this means, Greaves relates that economics is about action that is purposely human, not political-economics mélange (Greaves Jr., 1973: p. 9).

The US government regularly intervenes in the economy, and for a variety of reasons, including social programs (i.e., health care). The question is: Where do you draw the line?

This is an important question in the context of predictions made by some individuals that the dollar, which is the US currency, should fail. One of the reasons that this is speculated to happen is that the government is imbedded in the economy. More specifically, the government, which is responsible for keeping the dollar afloat, mints a lot of USD and injects it in the economy and uses it, and this is partly a result of an expanding govern-

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ment. One is prompted to ask: what explains the phenomena of dollar devaluation, and is the government one or the main reason?

1.2. Problem Definition

The US cannot simply detach from the national economy. In other words, government intervention is indispensable. Evidently, the government collects taxes, which keeps the government per se working, and in turn the government provides social benefits. Further, the "market needs protection", and it is safeguarded by the government as such (Greaves Jr., 1973: p. 53). The free market economy "can only operate under peaceful conditions" (Greaves Jr., 1973: p. 53). Government intervention is necessary.

However, any unnecessary increase in government intervention runs the risk of opposing the idea of a limited government, the counter thesis to a free market. Greaves contends in this regard that "every unnecessary rise in costs or prices, every unnecessary increase in taxes, and every governmental intervention must reduce the first-choice transactions of consumers" (1973: p. 53).

Although we do not have a limited government in the United States, we do have capitalism, which offsets the problem of an expanding government because capitalism generates tremendous wealth.

The economy of the United States is a free enterprise, an environment with labor and proprietors. Karl Marx had argued that capitalism is a deception, to some extent. He maintained the "labor theory of value", in which "anyone who gets rich from trade or business is doing so at the expense of the workers" (Greaves Jr., 1973: p. 34). This sentiment is shared between labor unions and political parties that determine that capitalism is a deception because it deceives employees (Greaves Jr., 1973: p. 34). However, the presence of capitalism in the United States is very much real. In fact, the free market economy needs free enterprise based institutions in particular.

1.3. Implications

Any increase in the supply of money in the economy decreases the value of the money, yet it only helps the individual with the money (Greaves Jr., 1973: p. 145). The second point is obvious. And, it is of the paramount importance to note that it is not money per se that we want, it is the purchasing power, or the ability to buy with money (Greaves Jr., 1973: p. 147). If not, money is just a piece of paper. Now, the purchasing power of this money is "greatly affected by the quantity of money available and the demand for it" (Greaves Jr., 1973: p. 147). There are two issues that affect the value of money: 1) the quantity of money; and 2) the demand for it. But, demand for the money is more important in determining the value of it, more so than its quantity (Greaves Jr., 1973: p. 147). Demand for the dollar is high, so this issue is overlooked. On the other hand, ever-increase in the quantity of money in circulation plunges its value. The technical term is inflation, "any increase in the quantity of money" (Greaves Jr., 1973: p. 178). The real implication is as follows: If fiscal expansion is not halted soon, "it must break down the monetary system" because a quantitative increase of money, "like an increase in the quantity of any other economic good, causes the value of every existing unit to fall" (Greaves Jr., 1973: p. 164). Instead of money, we need wealth (which is generated by capitalism), including goods and services (Greaves Jr., 1973: p. 187).

1.4. Can We Measure the Problem?

An argument was once nominated by Aristotle himself, which is that any exchange must be under equal footing to be considered fair, but this is wrong (Greaves Jr., 1973: p. 28). There is no debate about it. Indeed, values are not arithmetic. Economists often make this mistake. They try "to find total values by adding or multiplying the known values of certain units. This is a basic error in all national income and gross national product (GNP) figures" (Greaves Jr., 1973: p. 46). In this sense, we cannot measure the problem. We can, however, utilize various economic indicators to infer conclusions about the state of the national economy.

In order to evaluate the economy, we can use: "GDP, GDP growth, national debt, interest rates, unemployment, inflation, consumer spending, exchange rates, and balance of trade" (Bandelj, 2012: pp. 5-6). Further, by utilizing these indicators, economists also classify countries across the globe.

2. Theory

2.1. The Free Market Theory

An understanding of theory is important for public policy decision making. The free market theory upholds the basic economic principle of supply and demand, and the invisible hand (whatever the context). This, in turn, is the bulk of the discussion about the free market theory. And it is only a theory. In that, we do not have a true free market economy in the United States. By free market, it is meant an economy that is not regulated by the government because "central planning merely substitutes politics for market verdicts" (Gwartney et al., 2010: p. 126). The following quotation sets the tone for our theoretical approach to the problem at hand:

> Now, as in the past, two visions are competing for the minds and hearts of Americans. One is of limited government, economic freedom, and personal responsibility; the other, expanding government, collectivism, and dependency. America was founded on the first, but the second has been in ascendance for at least a century. Under the first vision, the economy will be directed by personal choices coordinated by markets; under the second, by central planning and politics. It makes a big difference. As the renowned Stanford economist Thomas Sowell has put it: "The first law of economics is scarcity, and the first law of politics is to disregard the first law of economics." (Gwartney et al., 2010: p. x)

2.2. The Theory of a Limited Government and the Constitution

According to experts in the field, a limited government provides the possibility for the economy to thrive. And capitalism is considered the perfect example deriving from a limited government. Capitalism means many economic liberties. In other words, the economy is exposed to many potential commercial opportunities that are unrestricted by the government. "At any given time a virtually unlimited number of potential investment projects are available to be undertaken" (Gwartney et al., 2010: p. 21). Government regulation in private economic affairs runs risks to the economy.

The Constitution is the legal side to the theory of a limited government. The Constitution guarantees capitalism, or free enterprise. Thus, the economy thrives, but it is the wisdom that is contained in the basic principle of supply and demand, or the invisible hand, all of which derive from the free market theory, that the economy thrives. For example, the Constitution guarantees private property, or capitalism per se. "Private ownership encourages wise stewardship" (Gwartney et al., 2010: p. 47), unlike public goods. The United States economy is classified as a liberal market economy (a variety of capitalism) (Bandelj, 2012: p. 38), wherein "the state is charged primarily with protecting the preeminence of markets as a key coordination mechanism between economic actors" (Bandelj, 2012: p. 39).

In fact, the Constitution contains legal elements that guarantee a successful national economy, i.e., free enterprise. This, however, does not answer the question: What accounts for the devaluation of the dollar? This leads us to political philosophy.

2.3. Political Philosophy and the Liberal Theory

Earlier, it is indicated that the United States government is increasingly an expanding government. Indeed, much of the governance is achieved by two rival political parties in the United States. As a direct result, we are no longer speaking of theories. And the reason we have an expanding government is not confined to a particular political party. In this context, both the Conservative GOP and the liberal Democratic Party are responsible for the accumulation of national debt and overspending. The blame is assigned to both political platform in an almost equal distribution. Whereas liberals intend for a greater interventional role in the economy at the domestic front (Barr, 2012: p. 39), the conservatives intend for a greater interventional role in the globe, both of which necessitate overspending.

In the case of the liberal theory, approaches to intervention include efficiency and social justice reasons (Barr, 2012: p. 80). Therefore, spending is justified. So, the government attempts to finance, which includes subsidies and taxes to change the prices of specific commodities, in order to account for busts (Barr, 2012: p. 80). Those who insist that the government should intervene for social justice reasons in particular are in favor of the welfare state.

Although we have an expanding government, gratefully other elements offset this issue, like money management and capitalism. Despite that, nothing can compensate for a limited government. This is especially true in the long run.

For an exhaustive understanding of the elements that keep the economy in order, the next subsection introduces law as it relates to the issue at hand.

2.4. Law and Policy

Law and order play a significant role in maintaining a functional economy. Indeed, "The foundation for economic progress is a legal system that protects privately owned property and enforces contracts in an evenhanded manner" (Gwartney et al., 2010: p. 46). Almost any economist argues the same.

The Constitution is not the only legal document. Law at large safeguards the economy and allows for competition, which "is the lifeblood of a market economy" (Gwartney et al., 2010: p. 53). In order to guarantee competition, the government of the United States has put laws in place. For example, AT & T attempted on many occasions to acquire smaller wireless companies (i.e., T-Mobile), but failed due to antitrust laws. Antitrust laws prevent the suppression of competition, or monopoly.

On the other hand, policy manifests itself globally. Indeed, an economy (particularly that of the United States) requires trade with foreign countries. We are looking at the bigger picture: "Economic progress comes primarily through trade…" (Gwartney et al., 2010: p. 30). And, "Regulatory policies that reduce trade also retard economic progress" (Gwartney et al., 2010: p. 57).

3. Methods

This study has been conducted in faith to applied research. Indeed, there was an issue of concern, and a practical problem in the state realm. Applied research, then, moved into the field of public policy.

In order to understand public policy, theory as it relates to this subject was useful. Hence, economic theories were visited, as well as theories about the government, including the theory of a limited government.

However, these theories were not sufficient to address the problem. Then, political philosophy was sought. Political philosophy explains why the two major political parties in America act the way they do.

But beyond theory, it is the conclusion that has been made by economic experts that counts toward true analysis.

In this regard, Percy L. Greaves has been an important author. Much of the understanding in this paper has been to his credit.

The remainder of the data was retrieved in order to answer the research question: What explains the phenomena of dollar devaluation, and is the government one of the main reason?

As such, data has shown that the dollar is not in decline. To the contrary, much of the government intervention is done in order to maintain the currency and the economy at large.

However, the same data shows that this ultimately leads to an expanding government, which is a long-term issue. In other words, both debt and inflation are long term issues caused by an expanding government.

4. Results

Excessive governmental spending and borrowing (or an expanding government for short) is an issue, and it is correlated to currency devaluation.

The Obama Administration succumbed to "money-printing operations", which were designated as bailouts to rescue big banks in the United States, for instance (Lantier, 2009). This is one of the instances where the government intervenes. Rather, the government regularly intervenes. Examples are abundant.

It is not only spending that is causal of a decline in the value of the US currency, but borrowing, too. The biggest creditor to the United States in this regard is China. So, for example, if the US currency devaluates, one implication would be that of China's assets in the United States. But, "with so much invested in the US, China can no more tolerate a severe US implosion than Americans can. Any action taken by China to imperil the economic stability of the US would be an act of mutually-assured destruction" (Karabell, 2009).

Clearly, the government of the United States spends beyond its capacity, and borrowing is evidence of that. These are the important facts concerning this research.

5. Discussion

5.1. Dollar Decline

The only thing that saved the financial world during the mortgage and banking collapse in 2008 was the political unity and sophisticated administration by the Federal Reserve. In other words, government intervention was necessary. In 2008, in order to rescue the financial sector in the United States, the government passed into law a stimulus bill. It is similar to QE, the buying of bonds "from banks and investors: mortgage securities, treasury bonds, all to the tune of $65 bn a month" (Moore, 2014). This move saved the economy.

It is clear that government intervention remains necessary. After all, the government maintains the currency. In the short term, there is no worry that the dollar should decline.

5.2. Expanding Government

Some hardliners argue that there is no problem with a government printing more money beyond its capacity; "the United States government can create an infinite number of dollars at no cost to meet its obligations" (Gobry, 2012). As such, inflation is only a concept "because the US has an even bigger advantage than just being sovereign in its own currency… it also holds the reserve currency. The US dollar is the main currency that is used in most international transactions, it is held by all of the world's central banks, and so forth" (Gobry, 2012). Unfortunately, such an understanding is limited.

On the other hand, debt is when "the government borrows to fund public spending in excess of tax revenue and to cover the interest expenses associated with past borrowing. The Treasury borrows money on the government's behalf by auctioning debt to the public" (Thomas, 2010). Both debt and inflation are the biggest issues facing the dollar right now.

These issues are a result of an expanding government. In the long term, this poses a hazard to the value of the US currency.

5.3. Conclusion

Paper standard works, "but only if you maintain confidence in the money… and you do that by running a good economy and having a good business environment… we're doing the opposite. We are printing a lot of money. We have a lousy business environment. Taxes are too high. Growth is too low" (Hunter, 2013). The status quo is not sustainable.

Two issues spring forth. Managing debt and inflation are long term issues. This is what the government needs to manage. This way the dollar should neither decline, nor should an expanding government be an issue.

Overall, the government as a whole can manage the national debt, and the Fed is specifically responsible for controlling inflation. The Fed's mission "is to control interest rates to provide just the right level of demand so that the economy does not grow too quickly and cause excessive inflation…" or grow slowly and create a recession (Cochrane, 2011).

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