Campbell Harvey: 'We Are in Midst of Ugly' Currency War

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By Dan Weil

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Global currency war is raging, and while that helps U.S. tourists overseas, it's not so hot for U.S. corporate earnings or the economy as a whole.

"We are in a midst of an ugly contest to see whether the eurozone, Japan or Canada can depreciate the most against the U.S. dollar, and China is probably next," Campbell Harvey, a finance professor at Duke University and a past guest on Newsmax TV, said in response to the latest Duke University/CFO Magazine Global Business Outlook Survey.

"U.S. exporters are being punished by these competitive depreciations, and this will lead to lower profits and less employment."

The dollar has soared to multi-year highs against a range of currencies in recent weeks. A rising dollar hurts U.S. companies by making their exports more expensive in foreign currency terms and reducing the value of their foreign revenue when translated into dollars.

Many companies have recently cited the dollar's ascent as a depressant on earnings.


Given that about 50 percent of the company's revenue is earned overseas, "our results are adversely impacted by a strengthening dollar, particularly with respect to the euro and the British pound." The euro slumped to a 12-year low against the dollar last week.

The dollar's rise also is deflationary for the U.S. economy, as it lowers the price of our imports in dollar terms.

The surging greenback has led economists surveyed by The Journal to project economic growth of just 2.3 percent for this quarter, barely an improvement from 2.2 percent in the fourth quarter.

Meanwhile, the pool of dollars overseas has exploded, thanks to $9 trillion of outstanding borrowings by foreign entities.

And these excess dollars could create a major problem when the Federal Reserve raises interest rates, wrote Ambrose Evans-Pritchard, international business editor of The Daily Telegraph.

That $9 trillion doesn't have "the protection of a lender-of-last-resort [the Federal Reserve] able to issue unlimited dollars in extremis," he noted. "The result [of the dollar pool] is that the world credit system is acutely sensitive to any shift by the Fed."

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'Competitive currency devaluations' in a 'beggar thy neighbor' in a 'race to the bottom.' All political economy terms that are detrimental to the global economy. Where have we seen this play out before? The 1930s Great Depression was exacerbated by these 'everyone for themselves' economic and financial policies. When these policies ultimately fail, the next step is totalitarianism and war. We are following a similar scenario that played out in the 1930s and 40s. "History may not repeat itself, but it does rhyme." -- Mark Twain