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Conversations—The Free Market

As the Dollar Plummets, Gas Prices Soar
A Weak Dollar's Contribution to the Pain at the Pump

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Is anyone listening to what the free market is telling us about our country's finances?

Are you waiting for November to vote on the major issues of the day? The free market is not. It has already voted on the viability of the United States of America's financial health and you are not going to like the results.

The U.S. dollar is a proxy of the financial health of the United States, as is any nation's sovereign currency. It has lost over 80 percent of its value since 1984. It has lost a full 45 percent since 2001.

To add insult to injury, and to put it in terms of reality for most Americans, our collective inability to balance our checkbook (which has caused the exchange rate fluctuations) has cost us at least an additional 50 cents per gallon at the pump since January 2007. (A gallon of gas rose from just over \$2.00 per gallon to well over \$4.00 per gallon from January 2007 to July 2008.)

Free markets have an uncanny ability to bring clarity to a fiscal policy. This statement is true whether it be for an individual, a corporation, or a sovereign government. The free market will punish an individual harshly for financial mismanagement through bounced check fees and negative credit ratings. A corporation needs to post a profit or its stock drops to zero as it is delisted from the free market exchanges and suffers the throes of bankruptcy. A banana republic, or otherwise irresponsible government, will experience a run on its currency in the international markets and a flight of capital from its country. Look no further than the numerous examples of massive defaults and revaluations of currencies in countries such as Mexico, Argentina, Indonesia and Thailand (the effects of which, by the way, were incredibly hard on their citizens and ruined lives for many years).

Volumes of seemingly incomprehensible statistics on government deficit spending and borrowing are not always readily transparent to most of us. When we are talking a billion dollars here and a billion dollars there in the context of a trillion dollar budget, one just becomes numb whether one is a citizen or an elected representative. We do not necessarily see any relevance to these figures in our daily lives, nor do we always see any obvious impact to our personal finances. Or do we?

The unnecessary addition of an extra 50 cents per gallon during our current energy crisis should finally be enough evidence that the failure of Congress to manage our finances is indeed hurtful to each and every American. This 50 cent increase of the past 18 months is not due to any extra supply problem. It is not due to any additional tax that we had a chance to vote on and approve. It is directly related to the fall in the value of the U.S. currency. A declining dollar

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makes oil relatively cheaper for foreign consumers, propping up their demand. A weakening U.S. currency also encourages foreign producers to trade the oil for a more stable euro or yen. Since the dollar is now less desirable, producers then demand more of them to buy the same barrel of oil. Together, these factors exert additional upward pressure on prices.

Isn't it curious that for many years, White House and Treasury officials continually and vigorously stand for a "strong dollar" policy? They repeat this fiscally responsible statement incessantly because a true strong dollar policy is certainly in the best interest of every American. A strong dollar policy speaks volumes to the rest of the world and is clear evidence of financial strength and integrity.

We (Congress) can choose to increase revenues (i.e. increase taxes) or decrease spending. But balancing our collective checkbook is a must. Unfortunately, Congress controls the purse strings. Either Congress has quietly but willfully subverted the goals of the Treasury Department, or we really don't have any semblance of a strong dollar policy at all, thus reducing the Treasury Department to the role of a mindless shell.

Americans are remarkably resilient and free. The American citizen understands, respects and successfully navigates the free markets unlike citizens of any other country in the world. We deserve a government that is equally in tune with free market principles, and we do not deserve the burdens of deficit spending.

How you cast your vote this year will define you as a citizen. I would argue that if your vote, concern and resolve do not truly reflect your personal financial ethic then you should not blame Congress or anyone else for your personal hardships that are created from deficit spending, currency devaluation and inflation.

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