Cato's Reynolds: Dollar's Rise Isn't Really Harmful to US Economy

By Dan Weil
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The media has been full of reports recently that the soaring dollar is putting a big damper on the economy and corporate earnings.

But, "it's not that simple," Alan Reynolds, a senior fellow at the Cato Institute, writes in a commentary. When it comes to the economy, analysts are saying that the strong dollar hurts by depressing exports, which are now more expensive in foreign currency terms.

But, "the dollar was rising much faster in 1995-2000, when both exports and the economy were growing at an impressive pace," Reynolds explains.

On the corporate earnings front, U.S. companies say they are getting hit because their foreign revenue is worth less when translated into dollars.

"But that is equally true for earnings of European and Japanese firms (and for their stock prices when translated into dollars)," Reynolds states. "And multinationals often leave foreign earnings abroad, due to the uniquely foolish U.S. tax if offshore earnings are brought home."

The dollar hit a 12-year high against the euro Monday and a seven-year peak against the yen last week.

"The recent rise in the dollar has merely brought it back to about where it was in 1998 or 2006, which were not bad years," he notes. "The latest exchange rate gyrations are dominated by self-inflicted wounds to the euro and yen, but U.S. exports to the EU are only 1.3 percent of GDP, and exports to Japan are 0.4 percent of GDP."

Tom Lee, founder of Fundstrat Global Advisors, disagrees with Reynolds, arguing that the greenback's strength is indeed hurting the economy and U.S. corporate earnings.

"If the dollar stays at this level, it's going to be a headwind for earnings for the rest of the year, because we know there's a translation effect on inflation and GDP," Lee tells CNBC.

"One of the things I think is uncertain is where the dollar [will be] six months from now. If investors think it will be stronger, there is going to be a headwind."

Many experts expect the euro to fall below $1.

Emerging markets are suffering from the dollar's strength too, thanks to their huge debt burdens denominated in greenbacks. The dollar's jump to multi-year highs in recent weeks means the debtors have to pay more of their own currency to acquire the dollars to repay their debt.

"The soaring value of the American dollar is rippling across the globe. As it rises, it is threatening emerging economies where companies have taken on trillions' worth of dollar-based debt in recent years," writes New York Times columnist Neil Irwin.