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economist Brad Setser, at the New York-based Council of Foreign Relations, "and that translates into the loss of hundreds of thousands of jobs."

In addition, at the end of 2015, there was nearly $10 trillion in nonfinancial debt held outside the US. A third was owed by issuers in emerging markets. "If the current trend of dollar strength persists," says Variant Perception, a London research firm, "it is very likely we will see emerging market currency crises" because it will become much harder and more expensive for them to pay off the costly dollar debts.

"The number I look at every morning is what the dollar is doing," Mohamed El-Erian told Bloomberg. "And the thing the market should worry about is the dollar strengthening too quickly and too much. This is what could derail us." For seven years, El-Erian was CEO of Pimco, a huge

 SHLOMO MAITAL

MIGHTIER THAN THE DOLLAR

The shekel continues to soar, but Israel's economy remains strong, defying the doomsayers

ECONOMISTS SUCH as myself have two talents. Our forecasts make weather forecasters look like geniuses and we are superb at turning good news into bad. These are our gifts to the world.

Take, for instance, the mighty shekel. Its value rose 2.5% relative to the dollar in 2016, even though the soaring dollar itself is by some measures at the highest since 1986. The shekel-euro exchange rate is at a 14-year high, and shekel-pound sterling gained 18% in 2016 as the British currency plummeted following Brexit.

The mighty shekel makes imports cheaper. One result has been to create a boom in the purchase of new imported cars, for instance, mostly on borrowed money, and a boom in outgoing tourism. It also has helped keep inflation low; consumer prices actually fell in 2016, for the second year in a row.

Meanwhile, to stabilize the shekel, the Bank of Israel continues to buy dollars – $8 billion in all of 2016 and $1.14b. in December alone. The bank's foreign exchange reserves now top $100b., up from $84b. in August 2014, then an all-time high.

Part of the dollar purchases are aimed at absorbing the sale of dollars arising from natural gas production. The idea here is to prevent "Dutch disease" – a flagging economy in which a gas-driven strengthened exchange rate hurts exports, as was experienced by the Netherlands after its huge Groningen gas field was discovered in 1959.

So what is so bad about a strong currency, stronger than even the post-Trump election dollar that makes travel and imports cheaper? Leave it to us economists to find the dark side.

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Israel's traditional growth engine for years has been exports. According to a 2016 OECD "Economic Outlook" report on Israel, "…exchange rate appreciation … is projected to hold back [Israel's] export growth." This is because a strong shekel makes Israel's goods and services costlier for foreign buyers.

In 2016, Israel's goods trade deficit rose sharply, to $13.1b., compared to $8.4b. in 2015. Imports surged 5%, while exports fell 4% and hi-tech exports dropped 7%.

The economy's saving grace has been consumer spending, which rose 6% last year, driving gross domestic product (GDP) growth to 3.3%, up from 2.5% in 2015 and pushing the unemployment rate below 5%. High consumer demand helped generate a 7.5b. shekel windfall in tax revenue and kept the budget deficit at 2.15% of GDP in 2016.

It is not difficult to explain the causes of the muscular shekel. Money continues to pour into Israel's vibrant start-up sector. According to the Israel Venture Research Center, hi-tech exits (sales of start-ups) amounted to $10b. in 2016, including a single $4.4b. acquisition of Playtika, a social gaming start-up, by a Chinese consortium. This is up 12% from 2015.

MOREOVER, HI-TECH firms raised nearly $5b. in funding in 2016. Most of this money comprises foreign investment and boosts the shekel's value by supplying dollars. The Bank of Israel's dollar purchases pale in comparison to this flood of incoming money.

But it is a bit harder to explain the soaring dollar following a bitterly divisive US presidential election, chronic trade deficit and sluggish growth. The dollar is now at a 14-year high relative to a basket of six major currencies. Since the November 8 presidential election, the dollar jumped 6% against the euro and 12% against the yen.

Naturally, economists weigh in to explain why the strong dollar is a disaster.

"A 10% rise in the dollar increases the [US] trade deficit by 1% of GDP," says investment fund specializing in bond investments, with $1.5 trillion in assets.

The Dutch bank ABN Amro predicts the euro, currently worth $1.06, will be worth only 95 cents for most of 2017. Its report is titled, "Trump Gives the Dollar Wings." How in the world can the election of Donald Trump give the dollar wings?

START WITH the stock market. Between November elections and mid-January inaugurations, newly elected US presidents have, on average, seen a 1.7% decline in common stocks. But the Trump "rally" saw an 8% increase in the Dow Jones Industrial Average, the most since the post-Herbert Hoover boom, or bubble, in 1928, fueled by hopes for a new era of economic growth driven by high fiscal spending and low taxes. There is generally a correlation between the value of the dollar and US stock markets.

Once, decades ago, exchange rates were driven by trade. Countries that had large trade deficits, or import surpluses, found their currencies weakening as more people bought foreign money than sold it. Today, though, in the wake of globalization, exchange rates are largely driven by flows of capital.

The United States has an approximate annual $500b. trade deficit and has had it for years. That should mean a weaker dollar. Instead, however, the dollar has soared. Why? Because capital flows into the US seeking a safe haven and perhaps profits in the rising stock market.

In this sense, the dollar and shekel are similar – pumped up not by exports, but by capital imports. This is not always healthy for the real economy, though always welcomed by the financial sector.

Perhaps there is comfort in the fact that the perpetual doom and gloom of economists has, like weather forecasts, proven unreliable. The usually savvy financial weekly The Economist wrote about the strong shekel in August 2014 and foresaw an economic slowdown, noting the shekel had risen 15% since 2012. Since then, the shekel has continued to rise, yet the economy has strengthened.

Actually, there is evidence the shekel will grow even stronger in the future relative to the dollar, i.e. the shekel price of dollars will fall further. How do we know? Thirty years ago, The Economist found a clever way to compute true exchange rates based on the purchasing power of currencies – initially done humorously and later, with serious intent. It is called the Big Mac exchange rate and it has been proven that actual exchange rates tend to move toward it.

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The price of a McDonald's Big Mac hamburger in the United States is about $5.04. The cost in Israel is about 17 shekels. So what 17 shekels buys in Israel, $5.04 buys in America. The implied exchange rate is thus 17/5.04 = 3.37 shekels. The actual exchange rate is currently 3.82 shekels per dollar. Hence, we can claim that it is the dollar itself that is overvalued, not the shekel. And the shekel may, in the future, grow even stronger, especially if foreign money continues to pour in.

The Economist observes that, based on the Big Mac index, the dollar is at present overvalued, i.e., too strong, against almost every currency, except perhaps the powerful Swiss franc. And, of course, we know why that currency is so mighty. (*See "A Swiss-Israel merger?" November 28, 2016*).

In her recent testimony to the Knesset, Bank of Israel Governor Karnit Flug tried to explain why economic forecasts are so tenuous. She cited a book by Philip Tetlock, "Expert Political Judgment: How Good Is It? How Can We Know?" Tetlock asks whether the world is too complex for people to understand.

No, he answers. Here is why.

There are two approaches to grasping complexity and building good forecasts, using British philosopher Isaiah Berlin's analogy of "foxes" and "hedgehogs." Hedgehogs know one big thing. Economists, and all those with strong ideologies or scientific baggage, use a single perspective. They impose a single formulaic solution on every problem and it is often wrong because the world changes rapidly and today's formula is tomorrow's folly.

But foxes know many small things. They collect many small pieces of information, assemble them again and again – and eventually crack the puzzle.

Conclusion: Be a fox. Think for yourself. You can't do worse than economists and maybe a lot better. And, if you think for yourself, you won't need to listen to economists' incessant gloom.

Postscript: On Monday, January 16, then-President elect Trump said the level of the dollar was too high and was preventing American companies from competing with Chinese counterparts. This is certainly true.

On the following Friday, at his Senate confirmation hearings, Trump's nominee for Treasury secretary, Steven Mnuchin, said, "The long-term strength [of the dollar] over long periods of time is important. And, again, I believe that's a reflection of, I believe, we have the most attractive investment environment in the world. We have to protect our US companies so they're not forced abroad."

This comes from a Wall St. banker who moved US companies to the Cayman Islands.

Look for continuing turmoil, as the new Trump administration tries to find its way among fierce competing interests. After Trump's executive order banning US entry to those from seven Muslim countries, the dollar dropped. ■

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