The dollar's reserve currency role is drawing to an end

By Dr. Paul Craig Roberts
Global Research, February 06, 2008
Online Journal 6 February 2008

Region: USA
Theme: Global Economy

It is difficult to know where Bush has accomplished the most destruction, the Iraqi economy or the US economy.

In the current issue of Manufacturing & Technology News, Washington economist Charles McMillion observes that seven years of Bush has seen the federal debt increase by two-thirds while US household debt doubled.

This massive Keynesian stimulus produced pitiful economic results. Median real income has declined. The labor force participation rate has declined. Job growth has been pathetic, with 28 percent of the new jobs being in the government sector. All the new private sector jobs are accounted for by private education and health care bureaucracies, bars and restaurants. Three and a quarter million manufacturing jobs and a half-million supervisory jobs were lost. The number of manufacturing jobs has fallen to the level of 65 years ago.

This is the profile of a Third World economy.

The "new economy" has been running a trade deficit in advanced technology products since 2002. The US trade deficit in manufactured goods dwarfs the US trade deficit in oil. The US does not earn enough to pay its import bill, and it doesn't save enough to finance the government's budget deficit.

To finance its deficits, America looks to the kindness of foreigners to continue to accept the outpouring of dollars and dollar-denominated debt.

The dollars are accepted, because the dollar is the world's reserve currency.

At the meeting of the World Economic Forum at Davos, Switzerland, last week, billionaire currency trader George Soros warned that the dollar's reserve currency role was drawing to an end: "The current crisis is not only the bust that follows the housing boom, it's basically the end of a 60-year period of continuing credit expansion based on the dollar as the reserve currency. Now the rest of the world is increasingly unwilling to accumulate dollars."

If the world is unwilling to continue to accumulate dollars, the US will not be able to finance its trade deficit or its budget deficit. As both are seriously out of balance, the implication is for yet more decline in the dollar's exchange value and a sharp rise in prices.

Economists have romanticized globalism, taking delight in the myriad of foreign components in US brand name products. This is fine for a country whose trade is in balance or whose currency has the reserve currency role. It is a terrible dependency for a country such as the US that has been busy at work offshoring its economy while destroying the exchange value of its currency.

As the dollar sheds value and loses its privileged position as reserve currency, US living standards will take a serious knock.

If the US government cannot balance its budget by cutting its spending or by raising taxes, the day when it can no longer borrow will see the government paying its bills by printing money like a Third World banana republic. Inflation and more exchange rate depreciation will be the order of the day.

Paul Craig Roberts was Assistant Secretary of the Treasury in the Reagan Administration. He is the author of Supply-Side Revolution : An Insider's Account of Policymaking in Washington; Alienation and the Soviet Economy and Meltdown: Inside the Soviet Economy, and is the co-author with Lawrence M. Stratton of The Tyranny of Good Intentions : How Prosecutors and Bureaucrats Are Trampling the Constitution in the Name of Justice.

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