

## **Brother, Can You Spare the Dollar?**

The plight of the US Dollar increasingly has grabbed center stage in global politics. In November, Federal Reserve Chairman Alan Greenspan issued his sternest warning yet that US deficit spending must be controlled lest the Dollar recede from current levels and surrender its status as the global reserve currency. In my opinion, the fate of the US Dollar rests in the hands of Japan, China and Russia, i.e., the 3 major world powers that have piled up the biggest surpluses of Dollar reserves.

Should any of these countries decide to gradually or suddenly abandon Dollars for Euros, Yen and/or gold, the Dollar is at best toast and at worst burnt toast, and US interest rates will be rising to compensate global holders of US Dollar-based investments for their additional risk. This likely would lead the US economy into a very serious recession. The alternative is for the US Government to demonstrate to the rest of the world some fiscal restraint so that it can put a halt to the reckless printing of money. Although a slowdown in US Government spending might put us into a mild recession, it beats the alternative of an economic tsunami further down the road.

I think that the chance of an abrupt abandonment of the US Dollar by foreign creditors is relatively low at the moment. The Asian economies have a tremendous amount to gain from continued product sales to Americans. Since a weaker US Dollar would make Asian goods more expensive to American consumers, there is incentive for Asian governments to keep financing our huge deficits in order to keep us in consumption mode. However, the 0% financing deals will not last forever, and eventually debt must be repaid, rolled over at higher rates or defaulted upon.

The Asian money game is a very complex and opaque situation but is an important key to our future standard of living. We know for a fact that China, which holds a massive foreign exchange surplus, is beginning to keep a lower percentage of that surplus in US Dollars, despite the fact that China is still courting the US consumer. Perhaps China's actions are suggesting that it foresees an emerging Asian consumer class that is poised to supplant the US as the primary buyer of Chinese manufactured goods, and that American buyers simply will not be as important to their economic future.

One thing we can be assured of is that we are going to be living increasingly in an Asian-centric world. How each of us chooses to handle our financial chopsticks is a matter of personal preference, but the traditional knife and fork are on their way out.

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