

NOTE

DECLINING DOLLAR

PCR writes :

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 labour force participation rate has declined. Job growth has been pathetic, with 28% 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.

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 just concluded meeting of the World Economic Forum at Davos, Switzerland, 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 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. □□□