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Forget the Shrinking Dollar, The Real Issue Is Profligacy

By Josef Joffe

MUNICH — Thirty years ago the U.S. dollar was worth four marks. Today it is one-third as much. Then Americans could travel across Europe on $5 a day. Now $50 won't pay for bed and bratwurst. Have the mighty fallen? Have Japan and Germany, with their swollen currencies, muscled aside Uncle Sam? Hardly.

It is Washington that orchestrates the Middle East peace process. America, not Germany or Japan, leads the drive against the spread of the Bomb, coaxes North Korea and confronts Iraq. When the United States went into Somalia, the others followed. When it bolted, the others did, too. And who defines the relationship with Russia?

There are more power centers now than during the Cold War. But the United States still sits on top of the heap, no matter what the traders say about the dollar. Indeed, power is when a country can devalue its currency as brutally as the United States has without unleashing retaliation.

In the 1920s and 1930s, the watchword was "competitive devaluation." If country A devalued, countries B and C followed suit immediately so as to deny A the advantage of cheaper export prices. Or they would raise tariffs in order to get even.

Today Germany and Japan just watch the dollar plummet. They manipulate neither tariffs nor parities, even as the skyrocketing yen and mark tear at their competitiveness.

Since the middle Reagan days, the external value of the dollar has been halved, which is the equivalent of a 100 percent surcharge on exports to the United States. The rest of the world submitted, another way of dramatizing America's exalted position in the global trading system. Nobody wants to rile Mr. Big, let alone lose the largest market there is.

Historically, nations that play the devaluation game never win. After a short-term improvement in the trade balance, the bill comes due. Higher import prices fuel inflation by driving up the domestic price level. As a result, exports decline and the trade deficit rises again.

Miraculously, though, the United States has been spared that fate. As the dollar declines, inflation holds steady. Indeed, the United States is once more the world's largest exporter. This explains why Bill Clinton and Alan Greenspan, apart from ritual murmurings of "this can't go on," have been so laid back. In spite of the incredibly shrinking greenback, the United States is doing quite well.

Nor, one must add, could the Federal Reserve Board do very much to arrest the slide. When trillions of dollars zoom instantly around the world, a few billion in intervention money amounts to little.

So much for the short run. In the longer run, though, the United States has a big problem. America has lived like a person who writes checks at will. For almost a generation it has bought more abroad than it sold — hence the zillions of dollars in global circulation.

What happens when there is too much money? It buys less. Hence, no more four marks to the dollar.

Again, the external value of one's currency does not really matter as long as the fundamentals are sound. But the unstoppable fall of the dollar says that the fundamentals at home are askew. It virtually screams that America is consuming too much while saving and investing too little. The government is living on borrowed money. So is the consumer.

When households are profligate, they go bankrupt. Great powers can postpone the reckoning for a long time. But even the greatest powers of their days — Spain, France — fell from grace because they ignored the ledgers for too long.

It is not the dollar that will deflate American power. It is profligacy — being hooked on the sweet poison of consumption — that might yet lay low the American economy and thus American might.

The writer, editorial page editor of Süddeutsche Zeitung, contributed this comment to The New York Times.

Myopic America-Bashing

As the currency crisis has deepened, and as both Japanese and German exporters complain to their governments about the effects of the dollar's decline on their business outlook, America-bashing has become something of a national sport in Tokyo and Bonn. If America would just save more and spend less, say Tokyo and Bonn, world markets would stabilize and the world economy would grow. But bad as American "overconsumption" is for the dollar, without U.S. consumers the world economy would slip into recession.

— Walter Russell Mead, writing in the Los Angeles Times.