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US Dollar may ‘implode’ in near future...Why?

China, Russia, and other emerging countries have recently become aware of why America has prospered at the expense of the producer countries. For the past 35 years, American consumers (currently 4.7% of the global population) have been consuming 20% to 25% of global wealth. In other words, we are now being exposed as consumers who have been living beyond our means. Why was this possible?

One reason that is gaining momentum is related to our control over finance Capitalism since the closing of the gold window in 1971. When President Nixon closed the gold window, collapsing the Bretton Woods Agreement of 1944, our dollar gained the advantage (a privilege) of being the primary reserve currency on this planet. All currencies became ‘imaginary’ symbols/numbers created by the Central Bankers on this planet. However, our dollar (\$1.00) became a privileged currency as it became the proxy for gold and also the primary reserve currency for all global transactions. Many nations pegged their currency to the dollar and since our dollar was privileged we American’s could exchange our debt for an unlimited amount of goods and services. We could run a continual balance of trade deficit with no immediate consequences from other global players. All of our trading partners accepted our dollar as equivalent to gold. Our advantage was dual. Our dollar was our national currency and also the global reserve currency. No other nation had this advantage.

This privileged position allowed us to consume much beyond what we produced. We could run continual trade and budget deficits with no immediate condemnation from our trading partners. And we let this privileged position create the debt society and consumer society which has now reached ‘bubble’ levels. Our trading partners also benefited from our consumption as they were able to export their products and grow their economies to a higher level. This mutual relationship was perceived as acceptable and beneficial until recent events made our trading partners aware that our debt situation had reached a threshold level. We had borrowed (at increasing rates since 1971) to consume without noticing any consequence for this behavior. However, with the current downturn and the collapse of the debt bubbles (housing and finance), everyone is now becoming aware that this borrow and consume behavior could not continue much longer. The stock market has

recently shed some 12 trillion in wealth. The real estate industry has recently shed some 10 trillion in wealth. And a trend is now in motion which is leading to a continual collapse of debt over time. An economic depression seems very likely in the near future. All this is a consequence of our lack of financial discipline over these past 35-40 years.

China and other emerging countries are now aware of our privileged position and they are seeking a new (neutral) reserve currency to replace the dollar. Mr Zhou of China has written a white paper explaining why the dollar needs to be replaced and why a new global financial institution needs to be established to administer global trade imbalances. This proposal is likely to be a topic of conversation at the G-20 summit in London on April 2, 2009. See: www.londonsummit.gov.uk/en The awareness of all global players that our situation is unsustainable will eventually lead to some major changes in how our world monetary system is administered. And the privileged position of the United States and our currency is likely to be revoked. To understand the history of this reality, you can request prior articles which I have written on this subject. I expect to have a new web site available in the near future with all my articles available for you to read.

What will likely happen as our dollar is replaced with a new global currency? This is impossible to predict precisely at this time, however, it is likely that the 'value' of our dollar will change materially. Gold and silver could reach historical highs and our lifestyle of consumption with no limits will change significantly. We will gradually need to consume in relation to what we produce. Currently, we make up about 4.7% of the world's population and consume about 20% of the world's wealth. This relationship is likely to change (over time) so that we consume in an equal relationship to our population. Until we increase our production nationally, we will likely experience some decline in our standard of living. The economic pie must grow if we expect to increase our overall wealth. This may be difficult for our society during this transition. Will we rise to the occasion and change our behavior?

Watch the upcoming London Summit on April 2, 2009. And then watch events as they evolve going forward. Change is coming and a new economic system is coming in time. Many think that global socialism will replace capitalism during this transition. But is this what the world needs and desires? My new web site will focus on many of these issues in the coming months and years. A couple of additional web sites that I would recommend to you are the following: www.leap2020.eu and www.ft.com/indepth/global-financial-crisis

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