

Why The US Dollar Will Not Soon Lose Its Status As The World Reserve Currency

Written by Patrick A. Heller
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I have written extensively about the different means by which the US dollar is declining in use for international transactions. It wasn't that long ago that the dollar was the monetary unit used in over 80% of all international commerce. Today that percentage is down to about 60% and still falling.

It is easy to understand why the use of the dollar around the world is declining, but that does not necessarily mean that the US dollar will soon lose its status as the de facto world reserve currency.

I see four major reasons why the US dollar is losing its domination as the unit of money for international trade.

First, the US government's commitment to incur multi-trillion dollar budget deficits every year, when calculated on the more accurate accrual basis of accounting, is one reason why other central banks and foreign businesses are becoming more leery about continuing to price transactions in US dollars.

Second, the massive inflation of the US money supply through the quantitative easing programs continues to drive down the future value of the dollar.

Third, growth of developing economies such as China, Brazil, Russia, India, and others is resulting in more nations using their own currencies for transactions.

Fourth, the US government's attempts to coerce other nations against trading with Iran by threatening to cut them off from the SWIFT system of settling international payments have pretty much backfired. China and other countries are instead preparing to develop a competing international payment system that does not use the US dollar at all.

Even though the US dollar may fall sharply in value in the next few years, it will still be used for a significant percentage of worldwide trade. Here's why.

The most important reason is that there is no other currency positioned to replace the US dollar as the world's reserve monetary unit. The euro is on shaky grounds, the yen issued by a Japanese government that has a huge overhanging level of debt. China's yuan is still in the early stages of being used in international commerce. No other country has a large enough economy to replace the US dollar on a global basis.

Also, the European Central Bank and Bank of Japan have already made commitments to devalue their currencies along with the Federal Reserve's intention to destroy the value of the US dollar. Other nations are just about guaranteed to follow suit. There will be no winning monetary unit in this race to the bottom.

What about gold, though? I fully expect gold to become more important at facilitating international transactions, through the use of gold clauses in contracts, if not outright payments in weights of pure gold. Gold will again become a trusted monetary unit because of its multi-thousand year track record of never failing. However, no politicians will be willing to

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surrender control of its domestic money system to the absolute external rigor of weights and purities of a commodity.

In sum, my basic advice is to plan for the continuing decline in value of the US dollar, but don't worry that it will cease overnight from being a major currency used for worldwide commerce.