

Directions:

1. Demonstrate evidence of close reading.
2. Highlight your confusion.
3. Answer the two questions at the bottom of the page.
4. Write a 1+ page reflection in your WN.

The Sinking DollarSource: *The Week* 9/12/08**What does it mean to say the dollar is ‘weak’?**

In the realm of currency values, everything is relative. A currency is described as weak if it purchases fewer goods or services than other currencies. By that standard, the U.S. greenback is far weaker now than it was in the 1990s. The Economist has a clever way to gauge the relative purchasing power of the world’s major currencies: Its “Big Mac index” measures how much currency is needed to buy the signature McDonald’s sandwich in various countries. Eight years ago, it took roughly the same number of dollars to buy a Big Mac in Rome or London as it did in the U.S.—in other words, the dollar’s purchasing power was about equal to the purchasing power of the British pound or the euro. But now, a Big Mac in the U.S. costs \$3.57; in London, the same sandwich costs the equivalent of \$4.57, while in Rome, it costs the equivalent of \$5.34.

Why the plunge in value?

There’s no simple answer. Currency values, which are determined in trading among banks and other large institutions around the globe, reflect everything from a nation’s interest rates to its budget deficits to its political climate. But in general, the dollar’s value reflects the degree of confidence that foreigners have in the U.S. economy. The housing crisis, the long and costly Iraq war, the soaring budget deficit, and the exploding national debt have shaken that confidence. “I should not presume to tell the U.S. how to manage its fiscal house,” says Canadian politician Barry Campbell, whose own country’s dollar is now worth slightly more than the American version, after years of being worth about 80 American cents. “But you can’t cut taxes and fight a war and balance the books.” Indeed, economists say the U.S. government can’t keep living beyond its means without eventually paying the bill.

When will that bill come due?

In a sense, it already has—in the form of higher prices for imported goods. It now takes more dollars than it did just a few years ago to buy the same amount of Italian balsamic vinegar, Chinese T-shirts, or Japanese electronics. Shig Chiba, owner of a Los Angeles sushi restaurant, now pays \$60 a pound for imported fatty tuna that cost \$38 a pound a year ago. He has raised menu prices 10 percent and is trimming costs, but it’s tough. “I’m doing what I can,” Chiba says. “I don’t know how long I can hold out.”

What else does the dollar affect?

Nearly everything, because the decline in its value has pushed up U.S. interest rates. Foreigners every year buy billions of dollars of U.S. Treasury bonds, which finance everything from the Iraq war to the recent round of federal tax rebates. China alone holds \$700 billion of Treasury debt. Those bond buyers are starting to demand higher interest payments from the U.S., to compensate them for the dollar’s declining purchasing power. That means that American taxpayers must pay higher interest rates on the national debt, as well as higher rates on mortgage and other consumer finance loans. Economist Robert

Barbera, for one, finds it alarming that China now can determine U.S. interest rates. “It is not a U.S. call,” he says, “and that is a profound change.”

Does a devalued currency help anyone?

It sure does. In fact, the weak dollar may be what’s been keeping the U.S. out of recession. American-made goods now look cheap to foreign buyers, and that’s good news for the sector of the U.S. economy that relies on exports. The Commerce Department recently revised upward its estimate of second-quarter economic growth, precisely because foreigners are flocking to buy bargain-priced U.S. exports. James Griffith, CEO of Timken, an Ohio manufacturer of ball bearings, says the jump in foreign orders has more than offset a decline in business from U.S. auto companies. “When China decides they want to build a car,” he says, “somebody runs a steel mill with coal and iron ore out of Australia, and they mine it with Caterpillar dump trucks, which are full of Timken bearings.”

Can Washington do anything to strengthen the dollar?

There are no quick fixes. The best thing the U.S. could do in the long term is get its fiscal house in order, which means reducing the budget deficit and enacting policies that encourage Americans to save money rather than spend it on imports. In the short term, the Federal Reserve could intervene in world currency markets, buying the dollar and selling pounds, euros, yen, and other currencies. But the currency markets are the world’s largest, with \$1 trillion changing hands every business day, and it would require hundreds of billions of dollars to move currency exchange rates even a little.

Will any of that happen?

Not in the near future. For now, Washing-ton seems disinclined to intervene, in part because in the last several weeks, the dollar has recovered about 20 percent of the value it lost against the world’s major currencies since the beginning of the year. But that likely has less to do with optimism about American economic prospects than with pessimism about the state of the global economy. Says Harvard economist Kenneth Rogoff, “It’s the rest of the world going down, not the United States going up.”

The soaring price of oil

It’s usually assumed that high oil prices encourage oil-producing countries to drill more oil—after all, the more they pump out of the ground, the more they’ll earn. Yet, while oil prices have been rising steadily and rapidly since 2002, drilling in the Middle East has expanded only modestly. The reason? Blame the weak dollar. The dollar is the global oil industry’s currency of choice—wherever oil is sold in the world, it’s paid for in dollars. That means oil producers have an expanding supply of dollars, but the value of those dollars is rapidly shrinking. In addition, just like American consumers, those countries need more dollars to buy the same amount of goods—the definition of inflation. With less real wealth, oil-producing countries are faced with the choice of investing in oil exploration, or spending their wealth to meet other national needs. In many cases, they’re investing their money elsewhere. “Drilling activities would be higher if current oil prices were associated with a stronger dollar,” says economist A.F. Alhajji of Ohio Northern University. “Dollar depreciation reduces oil supply,” he says—just one more bit of bad news for already beleaguered American consumers.

What is the author’s purpose?

Who is the intended audience?