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Financial markets nervously await the first hint that US Federal Reserve Chair Janet Yellen will begin raising interest rates

Is the buck passing?

The implications for Israel of a declining dollar are serious; does the government have a contingency plan?

What would happen if, worldwide, meteorologists all went on strike and economists were called in to replace them?

Economists' forecasts would almost always be "cloudy, with showers, hail, lightning and risk of flooding. More bad weather ahead."

I should know. In 2005, I wrote an opinion piece for the business daily *Globes*, titled "Is the US ship sinking?" The article detailed danger signals in the US economy, especially in financial services, and warned Israelis to be prepared.

At the time, a lot of Israelis, who made money from manipulating money, attacked my reasoning. In the end, US and global markets did collapse, because of sub-prime mortgages, not exactly for the reasons I gave, and only three years later.

So, a decade later, I am back again with the same dreary message. Is the global dominance of America's dollar, and its financial markets, about to end? Is the buck really passing? And will its 70-year reign end with, heaven forbid, a bang rather than a whimper, to paraphrase poet T.S. Eliot?

One reason for my concern is the total inability of our political leaders, government and opposition, to chew gum and walk simultaneously – to focus on more than one issue at one time. Attention at present is on the kitchen-knife intifada, which has brought tragic bloodshed. While this is taking place, dramatic changes are occurring in the global economy and geopolitics that deserve close attention. But, is anyone listening? I think back to some four decades ago.

In September 1973, prime minister Golda Meir flew to Vienna and met with Austrian chancellor Bruno Kreisky. After a terrorist attack, in which hostages were taken, on an Austrian refugee camp that housed Jewish migrants fleeing from the USSR, Kreisky decided to close the camp. Meir tried to dissuade him, appealing to his Jewish origins. She failed. Some observers believe that this incident drew Israel's attention away from preparations by Syria and Egypt to attack Israel on October 6. The consequences were disastrous.

The implications for Israel of a declining dollar are serious. The US is Israel's

best export market; a declining dollar makes Israeli exports more expensive and less desirable. Israel gets much of its venture capital from the US. The Bank of Israel probably holds much of its foreign exchange reserves as dollar assets.

THE IMPLICATIONS FOR ISRAEL OF A DECLINING DOLLAR ARE SERIOUS. THE US IS ISRAEL'S BEST EXPORT MARKET; A DECLINING DOLLAR MAKES ISRAELI EXPORTS MORE EXPENSIVE AND LESS DESIRABLE

Despite the mutual antipathy between US President Barack Obama and Prime Minister Benjamin Netanyahu, the US remains one of Israel's only supporters in the political arena. If Israel were a millionaire investor, experts would advise it to diversify its portfolio, perhaps toward Asia, in anticipation of the dollar decline. This is no time for Israel's leaders to pass the buck, if the buck is indeed passing.

Israel buys 12 percent of its imports from the US, double that from China, and the US purchases 28 percent of Israel's exports, making it Israel's perennial best customer by far. Israel's trade surplus with the US is a major source of economic growth.

Since signing a Free Trade Agreement in 1985, US-Israel trade has grown eightfold. Since 1995, nearly all trade tariffs between the US and Israel have been eliminated. US imports from Israel were \$23 billion in 2014, \$22.8 b. in 2013 and \$22.1 b. in 2012. These exports were crucial for Israeli high-tech companies, at a time when European demand was declining.

In the first half of 2015, Israel's exports of goods and services declined nearly 9 percent, contributing to a serious slowdown in economic growth. If, indeed, the dollar is sinking, Israel must have a

contingency plan in place.

Here, then, are the main reasons for believing that after 71 years, since the Bretton Woods conference in July 1944, the reign of the US dollar in world markets is ending.

There are far too many dollars sloshing around in world markets.

The US money supply today totals more than \$12 trillion, up from \$8.5 trillion five years ago. That is a 7.3 percent annual growth rate, more than three times the rate of growth of the gross domestic product. Under Federal Reserve chairman Ben Bernanke, and now under his successor Janet Yellen, the US engaged in "quantitative easing" (massive credit creation) to spur its sluggish economy.

The resulting mountain of dollars has spread throughout the world and helped fuel property bubbles abroad, in China, Singapore and perhaps, indirectly, in Israel, and ultimately will shake confidence in the dollar. We are unlikely to see an end to this policy soon; US economic growth slowed to 1.5 percent in the third quarter, down from 3.9 percent in the previous quarter.

"The dollar is our money – and your problem," US Treasury Secretary John Connolly said to foreign reporters in 1971, when the US stopped backing the buck with gold. That is America's policy to this day. Other nations' well-being demands a stable dollar and moderate credit expansion because world trade and finance requires a secure solid currency. America perceives its interest lies in credit expansion. The world be damned.

America has for decades been under-saving, under-investing and over-borrowing. The piper will eventually have to be paid.

OF 60 globally competitive nations, the US ranks 46th in capital formation as a percentage of GDP and 55th in domestic saving. Mainland China ranks first in both. As a result, America's infrastructure is worn and frayed. The US ranks 29th (out of 60 nations) in road infrastructure, 27th in bandwidth speed and 31st in railroads. The US continues to borrow heavily abroad, mainly from Asia, not to invest in the future but to consume in the present, further undermining the credibility of the dollar.

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Again, the US Congress staged an 11th-hour showdown, on October 30, before raising the legal debt ceiling, barely avoiding another government shutdown like that of 2013. US government debt is today equal to GDP; in 1974, the ratio was only 31 percent. The same ratio in Israel is 67 percent – an all-time low. In contrast, Spain, regarded as a country in fiscal trouble, has a lower debt-to-GDP ratio than the US.

There is a strong disconnect between America's dominance in financial markets, which has actually grown, and its ever-weakening economy. No country's money has remained a key world currency without a strong underlying economy.

US stock markets trade shares with a market value of \$24 trillion, six times larger than that of China. US financial markets powerfully impact on markets in Europe and Asia. American fund managers run well over half the world's total assets under management, up from 44 percent a decade ago, according to the UK magazine *The Economist*. Some 60 percent of world output is produced in a dollar zone, in countries whose currencies are tied to the dollar.

Meanwhile, the US imports nearly \$800b. more than it exports annually, and has been doing so for decades. Only a country that can freely print (and borrow) the world's currency could do this.

In history, no nation's currency has remained dominant when that nation's economy was weak. Britain's pound sterling ruled the world for more than a century, until 1920, as Britain led the Industrial Revolution. But between 1920 and 1945, Britain lost its empire and the pound gracefully gave way to the dollar. This transition was smooth, partly because Britain and the US were strong allies, and because Britain facilitated it. But, today, the US, European Union and China act more like rivals than allies as each pursues its own self-interest. Thus, the transition to a new world currency is likely to be rocky.

There is a quiet but fierce currency war underway, as major countries (Japan, Europe, China) try to solve their economic maladies by devaluing their currencies. While this has temporarily strengthened the dollar, it is very bad in the long run for the world economy.

I can hear critics saying, if the dollar is



The world should have listened to British economist J.M. Keynes who proposed a world currency

so weak, how come it is so strong? Since mid-2011 the trade-weighted dollar index (the value of the dollar measured against six other key currencies) has risen nearly 40 percent. Once, the euro was worth \$1.45 (in mid-2011); today it is worth only \$1.09. (The shekel-dollar rate has been on a roller coaster ride; the dollar strengthened from 3.40 shekels per dollar in mid-2011 to nearly 4 in 2012, fell to 3.40 shekels in mid-2014, rose back to 4, and is now around 3.86.)

Why is the dollar so strong? Largely because other major moneys are weak.

Japanese Prime Minister Shinzo Abe launched an economic blitz to devalue the yen and spur Japan's economy in 2012; the yen did fall by a third relative to the dollar, but so-called "Abenomics" has not worked so far.

In August, China made its renminbi depreciate by about three percent and, in Europe, European Central Bank head Mario Draghi has promised to do "whatever it takes" to spur Europe's economy, including massive credit creation, zero interest rates, and a falling euro. Europe and the US seem to be in a losing competition to see who can print money fastest.

Despite a World Bank study showing that devaluing a country's currency does little for its economy, nations continue to attempt it. Some countries, like Greece, locked into the euro, wish they could. One reason currency devaluation fails is that, today, trade is one big global value chain. If your currency falls, your exports are cheaper but your imports are more costly, and if you import components, that soon makes your exports more costly, as well.

There is a fatal flaw in the architecture of the Bretton Woods agreements, signed in 1944 – the dollar cannot be simultaneously America's money and the world's money.

The world has not yet addressed a crucial design flaw originating in 1944. At the 1944 Bretton Woods conference, held at a lovely New Hampshire resort, Hotel Mt. Washington, British economist J.M. Keynes proposed creating a world central bank and a world currency. That made sense. A lot of mischief would have been prevented had he been heeded.

But the chief US representative Harry Dexter White insisted that the dollar would be the world's currency. At the time, much of the world's economy had been destroyed by World War II while the US economy had doubled twice during the war. In 1945, the US produced fully 75 percent of the total world GDP. Hence, America called the shots.

Today, US monetary interests diverge from the rest of the world. A weak US economy seems to need piles of money and near-zero interest rates. So, this is what the US Federal Reserve does. And it has been doing so for seven years. Financial markets nervously await the first hint that Yellen will begin raising interest rates – a bullet she has repeatedly refused to bite.

If the resulting money mountain shakes world confidence in the dollar – well, as Connolly said, "That's your problem." And, indeed, it is Israel's problem, as well. If the buck is indeed passing, the whole world has a problem. I hope somewhere at the Bank of Israel and Finance Ministry, there is a well-designed contingency plan. ■

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