



## U.S. DOLLAR HURTING TOURISTS AND GLOBAL BUSINESSES

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*The dollar, once one of the world's strongest currencies, has fallen dramatically in recent months, making travel more expensive and increasing the possibility that prices could go up at your local Target and Wal-Mart.*

So, you've graduated from high school and you're traveling across Europe for your last summer of freedom before college. During a sunny day in London, you and a friend sit down for a slice of pizza and a drink.

When the bill comes you realize you have no money and dash across the street to the currency exchange booth. You ask the clerk to change a \$20 bill but when she returns your cash, you're left with only £10.32 -- not even enough to cover lunch.

This scenario and many like it are playing out in shops and restaurants across Europe as the value of the U.S. dollar drops to historic lows against the European euro, the British pound and the Japanese yen. Travelers who once paid 82 cents for each euro must now pay \$1.34.

"If you take your dollar to a bank and ask for say euro or yen, you get less than you would have otherwise," said Kenneth Rogoff, a professor of economics at Harvard University. "It also means that if somebody from Paris or Berlin comes to New York, they think everything is pleasantly cheap. But if one of us goes over there, it suddenly looks really expensive."

### **What is driving the dollar's decline?**

According to analysts, the decline in the U.S. dollar is due to two deficits -- one between the amount of goods Americans buy from other countries and the amount other countries buy from us, and one between how much money the government collects in taxes and how much it spends on roads, military, social programs and other expenses.

Currently, the federal deficit, the amount the government borrows to cover its spending, is \$413 billion. This means the federal government is \$413 billion in debt.

The U.S. finances its debt by selling bonds, and because mostly foreign countries buy those bonds, much of the money is borrowed from countries like China and Japan.

As the deficit continues to grow and the United States falls further into debt, these countries have begun to worry that when the time comes, the United States might not be able to pay the returns on its investment. Because of this, several countries have begun to place less value in the dollar.

"[T]he United States has been borrowing and borrowing and borrowing," Rogoff, said. "[T]he United States is allowed to put the rope around its neck several times, but it's coming to an end. And that's why the dollar is starting to go down, because everybody is sort of seeing it coming to an end."

## **Trade**

According to Irwin Stelzer, director of economic policy studies at the Hudson Institute in Washington, D.C., American trade policy is another reason for the decline in the dollar's value.

"It's happening primarily because we are buying more stuff from the rest of the world than the rest of the world is buying from us. As long as that goes on, we're shipping over to other countries pictures of American presidents on little bits of paper and they're sending us automobiles and T-shirts."

"At some point, they don't want any more of our pictures of American presidents," Stelzer said.

## **The impact of a weak dollar**

The impact of a weak dollar is felt on a national and global level.

A declining dollar spells trouble for countries that export goods to the United States. Those countries, like Mexico and Honduras, who once got top dollar for their goods, now are being paid in U.S. dollars that aren't worth as much.

On the other hand, according to Stelzer, American goods seem cheap to other countries, which could increase demand and help U.S. manufacturers.

At home, the impact of a weak dollar overseas could mean an increase in prices at the store since products from countries like China now cost more to bring in.

Americans won't feel the pinch this holiday season, Rogoff says, because "importers bought things a while ago, it takes time. But next Christmas, they'll feel it."

"We'll feel a little poorer," Rogoff said. "Prices will go up at Wal-Mart, prices will go up elsewhere. We're used to seeing prices go down; we'll see a period where [for] a lot of things we buy, the prices go up."

## **Changing travel plans**

In addition, many Americans won't be able to afford European vacations.

Twenty-year-old Joanna Qualls, who recently visited London on her first trip to Europe, said she would not be going back any time soon.

"It was too expensive," Qualls said. "If you gave them \$180, they gave you 89 pounds and change. I was out of money in like three days."

Qualls said everything from food to hotels to clothes to traveling on the British subway system, or tube, is expensive.

"I wanted to [shop] but I knew I couldn't because of the money. I didn't have enough. I did a lot of window shopping."

--Compiled by Kristina Nwazota for NewsHour Extra