

## Extra Feature Story

### Sliding U.S. Dollar Packs a Wallop to Wallets Worldwide

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**The dollar, once one of the world's strongest currencies, has fallen dramatically in recent years -- a development impacting attitudes from corporate boardrooms to the sets of music videos where artists are choosing to flash the euro over American cash.**

When measured against a collection of other leading worldwide currencies -- like the European euro, the Japanese yen and the Canadian dollar -- the U.S. dollar has lost a quarter of its value over the last five years, according to the Economist magazine.

The euro and Canadian dollar both used to be worth less than the American dollar. Travelers who once paid 82 cents for each euro must now pay \$1.40 to buy a euro, while the Canadian dollar is approximately equal with its American counterpart.

While this makes it more expensive for Americans to travel outside the country and to buy goods from foreign nations, it makes it easier for U.S. companies to sell their goods overseas, because now they are cheaper.

#### **Deficits harm the dollar**

The dollar is losing value because of several factors: the federal deficit, the trade deficit and most recently, the weakening economy due to the housing and mortgage crunches.

For several years, the dollar has fallen due to the large amount of money the federal government borrows to pay its bills. In addition, America buys more goods from other countries than it makes and sells -- creating a trade deficit that sucks money out of the country.

This worries currency traders, the people who decide how much currencies like the dollar and euro are worth, because they wonder how long the United States can borrow money and how long it can continue to send its dollars to manufacturers in China and other countries.

#### **Pop culture spurns the dollar**

But currency traders aren't the only folks concerned about the fate of the dollar. Rapper Jay-Z recently released a new video in which he flashes euros, not dollars.

And one of the world's richest supermodels, Gisele Bündchen, said she wanted to be paid in euros because of the dollar's weak outlook.

"Contracts starting now are more attractive in euros because we don't know what will happen to the dollar," Patricia Bündchen, the model's twin sister and manager, said, according to the Brazilian magazine *Veja*.

#### **Housing slump hurts the dollar**

Meanwhile, the U.S. central bank, the Federal Reserve, has been trying to fix problems in the U.S. housing market in ways that weaken the dollar even further.

Over the past decade, a large number of Americans purchased expensive homes due to low interest rates and the ease of obtaining a large home loan. In some cases, banks loosened their rules on who they loaned money to and encouraged people to buy bigger and bigger houses because the prices kept going up, making it seem like a good investment.

But now that prices have started to go down, many Americans face the prospect of losing their homes to the banks, and the banks will not be able to sell them because the market is in a downturn. Other home buyers have adjustable loans, which means their monthly mortgage payments may reset to a higher amount after five or seven years.

This recent development has threatened to send the entire U.S. economy into a recession and has also spurred the Federal Reserve to cut the interest rate for borrowing U.S. dollars.

The Federal Reserve also released more money to the banking system to encourage banks to keep lending money.

#### **Concerned currency traders**

Because currency traders would rather hold currencies with high interest rates, this has further lowered the value of the dollar.

Various countries that hold American dollars as an investment now have more of an incentive to sell those dollars, creating a larger supply of U.S. dollars in the worldwide market, which decreases their value.

"U.S. housing data are sure to show further deterioration," Masanobu Ishikawa, of Tokyo Forex & Ueda Harlow, Japan's largest currency broker, told Bloomberg News. "The housing market won't improve any time soon, and this is a dollar-selling factor."

#### **Possible worldwide shift**

The weak dollar and jittery U.S. economy has experts concerned about the dollar's future, considering it accounts for 65 percent of all currencies held worldwide, according to the Economist.

Countries like China and Japan, which both hold trillions of dollars worth of U.S. currency, could dump their investments and send the dollar plummeting.

This would cause prices to rise, called inflation, making it more expensive for Americans to buy groceries and gas.

The lack of confidence is spreading to countries that use the dollar as the basis for the value of their own currency. Earlier this year, Kuwait and Syria rejected the dollar and pegged the value of their currencies to a "basket" of other currencies.

-- **Compiled by Quinn Bowman for NewsHour Extra**

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