



Written by [Thomas R. Eddlem](#) on July 29, 2009

Dollar Values Plunge Worldwide

Just call it irony. The same day the value of the dollar plunged to a current-year low as measured against six other major currencies, and the same week in which the U.S. Treasury is in the midst of a record \$106 billion debt auction, Federal Reserve Chairman Ben Bernanke fielded a question on PBS's "News Hour" from a man who touched on the problem:

"How are you going to protect the U.S. dollar against other major currencies so that the depreciating dollar does not cause inflation just when you need to keep interest rates low?"



Bernanke was either perplexed by the questioner's Indo-Pakistani's thick accent, or pretended to be confused, replying: "So the question is about the debt, the dollar, monetary policy?"

The gentlemen replied: "The mounting national debt will probably cause the U.S. dollar to become weaker versus other major currencies. So what are you going to do to protect the dollar, so that all the imports we consume don't become too expensive (inaudible) the inflation." It wasn't that complicated a question. With the U.S. government borrowing at record rates, floating \$2 trillion in new debt this year alone and \$500 billion annual deficits on the foreseeable horizon, the credit-worthiness of the U.S. government and its dollar-based debts is bound to be questioned by markets eventually. That's going to hurt the dollar.

Bernanke answered by saying the deficit wasn't in the Fed's bailiwick. "That part of it is the responsibility of the Congress and the administration."

Huh?

Bernanke has repeatedly claimed that the Fed is responsible for "monetary policy." But apparently preparing the dollar for a crushing devaluation based upon the deficit is not among the "monetary policies he's got an active plan to thwart. He did say to a subsequent questioner, an elderly woman concerned about the plunge in value of the dollar, that "we're going to be watching very carefully to make sure inflation stays low." That's a simple way of saying the Federal Reserve is doing nothing to make sure the value of the dollar doesn't weaken. And it's why Bloomberg.com [reported](#) July 28 that "The dollar touched the lowest level this year against the currencies of six major U.S. trading partners as speculation the global economy is emerging from the recession reduced demand for a refuge."

Bernanke is not just taking flak from powerless "town hall" questioners out in the heartland at PBS events, he's also taking criticism from U.S. debtors abroad for [doubling the U.S. money supply over the past year](#). "As a major reserve currency-issuing country in the world, the United States should properly balance and properly handle the impact of the dollar supply on the domestic economy and the world economy as a whole," Chinese Vice Premier Qishan Wang [said](#) at a U.S.-China summit July 28 with U.S. Treasury Secretary Timothy Geithner.



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Meanwhile, this week's auction of new U.S. debt is going poorly, and the U.S. government is having to raise discounts and yields in order to push its paper debt. "It was a very weak and poor auction," George Goncalves of Cantor Fitzgerald LP [told Bloomberg.com](#). "Yields were not compelling enough to bring investors in today, relative to where they were in the recent auction."

The dollar is losing value in the markets and inflation is already here. The PBS viewers in Kansas City already know this. Bernanke can "watch" all he wants, but his doubling of the money supply over the past year means the Consumer Price Index will eventually catch up with the mounting supply of money. And June's [1.8 percent growth in the Producer Price index](#) may be the first sign of that inevitable rise in prices that follows a doubling of the money supply.

Photo: PBS Newshour with Jim Lehrer



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