

The Dollar Yesterday, Today, and Tomorrow *

I have discussed the dollar before, and not always with prescience. In 1950, after leaving government, I wrote a book entitled *The Dollar Shortage*,¹ attempting scientifically to justify the assistance programs of the U.S. government of the postwar period with which I had been associated. In the decade or so thereafter, as the shortage was transformed into what most economists regarded as glut, I received a certain amount of persecution from chairmen presiding at my lectures and seminars. If I had called the book “persistent disequilibrium in balances of payments,” I should have earned less derision, and sold fewer copies. That was, however, the message: that equilibrium is not instant and continuous, a truth that seems slowly to be gaining some believers three and a half decades later. Another volume appeared in 1966 under the title *Europe and the Dollar*,² a collection of papers and essays on the U.S. balance of payments. That same year, Emile Despres, Walter Salant and I wrote a paper for *The (London) Economist*, “The Dollar and World Liquidity: A Minority View”,³ in which we asserted that the dollar was not, as most economists believed, in deficit in a meaningful sense, since the United States was in effect a bank, not like other countries, an industrial or commercial firm. Banks differed from non-banks and were not in deficit when they lent long and borrowed short, as a non-bank would be. We cried in the wilderness. And the cogency of that position has been thoroughly undermined by the fact that the United States has now developed a real deficit.

* Slightly abridged from the “George W. Stocking Memorial Lecture”, given at Vanderbilt University, Nashville, Tennessee, October 17, 1985.

¹ New York: The Technology Press of Massachusetts Institute of Technology and John Wiley and Sons, 1950.

² Cambridge, Mass.: M.I.T. Press, 1966.

³ Reproduced as Chap. 4 of my *International Money: A Collection of Essays*, London: George Allen & Unwin, 1981.

Finally in this dismal record that undermines whatever status I might claim as an expert on the dollar, in 1976 I wrote:

At the present time the world economic system is plagued with uncertainty and uneasiness. The dollar is finished as an international money, but there is no clear successor...⁴

I am perhaps right on the first and last of these three pithy pronouncements, but must admit to being clearly wrong on the notion that the dollar is finished.

I say all this to warn you against betting the family firm or farm on any predictions you may extract from what follows. But let me proceed more or less systematically to yesterday, to be followed by today, and in due course, tomorrow.

Yesterday

My explanation for dollar shortage right after the war, was not that of, say, Thomas Balogh, that the United States was about to dive into a deep depression,⁵ but rather that relative to the rest of the world which was deeply engaged in programs of reconstruction and economic development, the United States would be less expansionary. This meant that we would have an export surplus that would in normal times have called for a large capital outflow from this country. As it happened, private capital markets were still in a state of shock from the defaults of the 1930s. With an export surplus to be financed, and no private financing, the shortage had to be made up — some people thought I said forever, but that is a base canard — by governmental assistance and loans from such institutions as the World Bank.

I will admit to failure to anticipate the speed with which the private capital outflow was resumed and its generous volume. It rose to meet the export surplus, and went on beyond it as the rest of the world borrowed dollars to hold. This disturbed many observers. Walther

⁴ In "Systems of International Economic Organization", reproduced in *ibid.*, p. 314.

⁵ THOMAS BALOGH, *The Dollar Crisis*, Oxford: Blackwell, 1949.

Lederer in the Department of Commerce redefined a deficit to include any increase in foreign dollar holdings.⁶ Robert Triffin thought the trouble lay with the gold-exchange standard that made it possible for the U.S. to buy goods and investments and continue merely to owe for them.⁷ Despres, Salant and I thought otherwise: that the U.S. was acting like a bank, lending to the rest of the world which wanted to take part of its loan in goods and services, part in increased liquidity. The U.S. was acting like a bank: it was normal for banks to lend long and borrow short, and this constituted neither a deficit as Lederer thought, nor an absurdity as Triffin claimed.

A bank to be sure must maintain depositor confidence, and the lamentations of presidents from Eisenhower to Nixon did not help in this regard. Banks, too, must preserve some reserve ratio. United States gold holdings were running down in this period, — with newly-mined gold being accumulated elsewhere and some countries, notably France, converting dollars to gold. The excess of lending and foreign aid over the export surplus was running at \$ 2 to 4 billion a year in the fifties and sixties, which would have been comfortable had reserves been rising in proportion. They were not. The Treasury finally agreed to the creation of the Special Drawing Right (SDR) or paper gold, not because of the world's need for liquidity — that could be solved by borrowing more dollars, — but to increase U.S. reserves.

The situation deteriorated on two scores: Vietnam and the Nixon election of 1972. Vietnam produced inflation because President Johnson felt unable to ask the Congress for new taxes, as his economists wanted him to do. He feared that such a request would open a Pandora's box of Congressional discussion of the Vietnam war. The war was thus financed through budget deficits in an inflationary way. Then President Nixon sought re-election in all sorts of ways, as we know, but including an attempt to juice up the U.S. economy to have it going full blast in the fall of 1972. In the spring of 1970 under the leadership of chairman Arthur Burns, the Federal Reserve Board started to expand the money supply to lower interest rates. The awkward fact was that at the same time the Bundesbank in the Federal Republic of Germany was tightening its interest rates to restrain the inflation spilling over from the United States. The New York and Frankfurt money markets were

⁶ See his articles in various issues of the U.S. Department of Commerce, *Survey of Current Business* from the late 1950s on.

⁷ ROBERT TRIFFIN, *Gold and the Dollar Crisis*, New Haven, CT: Yale University Press, 1958.

joined through the Euro-dollar market. Funds poured from New York to, say, London, and there were borrowed by German business, interested in refinancing its debt at lower rates. The dollars were sold to the Bundesbank for Deutschmarks, and redeposited in the Euro-dollar market. Instead of cooperation between central banks there were inconsistent policies. The United States finally won, but at the cost of flooding the world with dollars. The "deficit" that had been running \$2 to \$4 billion a year jumped to \$20 billion in 1971 and \$30 billion in 1972. The consequences were widespread, including not only the halt to the conversion of dollars into gold and the import surcharge of August 1971, but also the start of dangerous competitive lending to Third World Countries well before the OPEC price hike of November 1973.

There is an analytical problem whether the abandonment of Bretton Woods implicit in the Nixon August 1971 shock was due more to the adverse trade balance left over from the inflation of the late 1960s, plus perhaps some slow-down in American ingenuity, or to the capital outflow. Whatever the causes, the dollar looked weak and this led to increased borrowing to go short of it. Prior to that time, people had been borrowing dollars to spend or hold dollars. In due course they borrowed dollars to spend or hold yen, Swiss francs, Deutschmarks, Italian lire. The weakness of 1970 and 1971 was not corrected by the abandonment of Bretton Woods, or the new exchange rate cobbled together at the Smithsonian Institution in December 1971. In the spring of 1973, it was clear that there had been no improvement, and the dollar was cut loose altogether from gold, SDRs, other currencies, with the adoption of flexible exchange rates.

Many economists had recommended flexible exchange rates for reasons ranging from high principle to low expediency. The views based on principle were that markets are equilibrated by price movements, that abandonment of convertibility gave the monetary authorities autonomy to give priority to domestic objectives. It was maintained that capital flows would dry up, as risk averters turned away from foreign-exchange risk. This would mean that the current account would automatically balance. It had been observed that when Canada adopted a freely-fluctuating exchange rate, capital movements had continued to surge back and forth, but it was felt that between a U.S. dollar and a Canadian dollar, a dollar was a dollar and that the benchmark of unity led money managers and investors to ignore changes in the exchange rate. It was thought that this was a special case. It proved to be rather the rule. Capital flows continued after the adoption of floating, first

down for an extended period, and then up and down, up and down. Instead of stability produced by stabilizing speculation, one got overshooting from the slowness of the adjustment in merchandise trade, the so-called J curve, going down before going up, getting worse before it got better. And the overshooting proved inflationary in the 1970s. In a world poised on the edge of inflation, depreciation raises prices, appreciation leaves them unchanged. As the dollar went down, U.S. prices rose; when the dollar went up again, they held steady. With the exchange rate moving up and down in a sine wave, prices were caught in a ratchet. The action finally slowed down in 1982 when the Federal Reserve Board under Paul Volcker's leadership applied the monetary brakes to curb the inflation which was hotting up under the impact of the 1979 OPEC price hike and the Reagan deficit from the tax cuts. Interest rates in the United States tightened, and attracted capital from all over the world unfrightened by exchange risk.

Permit a short digression to provide a compressed lesson in balance-of-payments adjustment. There are three approaches to balance-of-payments equilibrium in the current account. The first emphasizes elasticities, that is, the response of exports and imports to changes in the exchange rate. The second, which has the uncommunicative name of the absorption approach, focuses on spending and non-spending, the latter being saving. The balance of payments on current account is in equilibrium when domestic spending equals domestic output. If spending exceeds output, there is an import surplus; if it falls short, an export surplus. The third, the monetary approach, starts out with the domestic demand and supply for money. If demand exceeds supply, production is increased and spending decreased to obtain money from abroad through an export surplus; if the money supply exceeds the demand at some going price, the unwanted money is spent on imports or loaned abroad to bring the demand and supply of money back into balance. In the long run, all three markets must clear, the elasticities market for goods and services, the market for income and spending, and the market for money. In the short run, however, one or another market may take the lead. I happen to be dubious that the monetary approach is very general. It seems to me anti-intuitive. Most of us adjust our holdings of money to our streams of income and spending, not income and spending to some rigid demand for money. And one can always lend a monetary surplus or borrow to make up a deficiency, without changing output or spending.

It is well to note that one notion that was brought to the 1970s has been abandoned, the monetarist, flexible-exchange rate view that not only was the balance of payments always in balance under flexible exchange rates, but that prices were always in equilibrium. An exchange rate, some thought, could not be overvalued or undervalued; prices adjusted immediately to keep purchasing-power parity always in line. Some of these theorists went further to assert that the forward exchange rate was an accurate forecaster of the future exchange rate that would obtain, or at least an unbiased estimator of that rate. Economists may not know much about exchange markets these days, but they are ahead now of where they were then because they used to know things that were not so.

On the eve of "today", there is a puzzle whether the balance-of-payments deficit of the United States belongs to the elasticities or to the absorption explanation. The elasticities explanation runs like this: the budget deficit requires the monetary authorities to run a contractionary policy, raising interest rates which attracts capital, which leads to appreciation of the dollar, overvaluation, and thereby to an import surplus. The absorption approach short-cuts a lot of this mechanism and focuses on the fact that savings are low in the United States, high in Japan, so that Japan repels goods, the U.S. attracts them, and prices are not needed in any important way to explain the deficit. On personal savings alone, the Japanese save more than 20 percent of personal income, the American people 3 to 5 percent. Add to this a \$200 billion federal deficit, it is no wonder that in a boom that encourages investment, the U.S. attracts capital from abroad.

Today

This question whether the balance of payments is being dominated by the overvaluation of the dollar or the undersavings of the American people and their government is relevant to what happens next. If the absorption model is the basic explanation and the exchange rate were to decline without a change in the U.S. budget deficit, the balance of payments deficit would remain. If the elasticities model is in the driver's seat, the deficit would be corrected after a time. The exchange rate could come down because European and Japanese capitalists became

less willing to invest in the United States. Part of that willingness on the part of Europeans comes from discouragement about the economic prospects for growth in that Continent, and even strategic uneasiness in the Cold War. Change in these prospects could divert lending from the U.S. to Europe. But there is another question, whether the upward drive of the dollar that culminated several years of boom and ended in an overvaluation of the dollar estimated at about 40 percent was or was not a bubble, and like bubbles, liable to burst. The matter can be put another way: what determines the price of the dollar, speculative market forces or deep-seated fundamental economic factors? Economists and market traders tend to differ on these issues, with economists emphasizing fundamentals like balances of payments, budgets, interest rates, national income and the like and such traders as Charles Coombs, who used to buy and sell foreign currencies for the Federal Reserve Bank of New York, swearing by market psychology. In his book, *The Arena of International Finance*, Coombs twice says that people who bet on fundamentals lose their shirts,⁸ and it has happened that many economists in the field, and foreign-exchange consultants, kept counselling their clients, or taking independent positions themselves, to sell dollars as it rose for two years prior to February 1985 at the peak.

Fundamentals change slowly. Psychology can reverse itself (be reversed?) overnight. During the spring and summer of this year, there was unanimity that the dollar was coming down, or had to come down, but a wide difference between those who thought it could drop suddenly — fall out of bed, indulge in a free fall, or collapse like the one-hoss shay — and those that thought the decline must wait for correction of the budget deficit and a decline in interest rates. The gentle decline of the dollar from its peak at the end of February, when psychology seemed to turn around somewhat to bring the earlier continuous rise to a halt, to July, favored the fundamentals school. In September, the new Secretary of the Treasury, James Baker, abandoning benign or malign neglect for psychological factors, sought to convey the impression that the major central banks had agreed that the dollar must come down, and that they were prepared to sell dollars to achieve that result. A big drop occurred the first day, on September 23, scoring one for the psychological school. Since then, the European

⁸ CHARLES A. COOMBS, *The Arena of International Finance*, New York: Wiley-Interscience, 1976, pp. 116, 235.

currencies have backed and filled, while the dollar continued down against the yen, with the Japanese striving to bring the yen up to ward off American protectionism against Japanese goods.

The slow descent of the dollar from February to July, and the reversal of the brief drop of September 23 do not prove the fundamentals case. The jury is still out. While there are plenty of cases on record, where a market keeps moving in a certain direction slowly halts, and slowly reverses direction; there are others where change is sudden. We have seen in the Mexican peso depreciation what a market looks like when a panic starts, and everyone heads for the exits *en masse*. Expectations are clearly more volatile than they were under the gold standard in its heyday. The recipe for steadiness in expectations is steadiness, just as the recipe for an English lawn is to mow it and roll it every Saturday afternoon for six hundred years. Some econometricians have decided on the basis of their models and regressions that a free fall was impossible, that the overvalued rate exactly mirrored the expected response to interest rates here and abroad and other macro-economic variables, and that a decline in U.S. interest rates would bring about a slow decline in the exchange rate. Perhaps. I am not an econometrician, but I know enough financial history not to be certain of much in the field. I would like to know the extent to which foreign dollar holders are leveraged, *i.e.* have borrowed in local currencies to buy dollars, and have debts to be repaid. Reversal is likely to be sharper if they owe money at home than if they own the capital placed here. But even in the latter case, if they became certain that the dollar would not go higher and might go lower, they might readily try all at once to take the money and run.

The possibility of a sudden reversal to take profits and/or to pay down maturing debts abroad raises the question whether governments through central banks or exchange stabilization funds should intervene in exchange markets, or not, and if intervention is not proscribed, whether it should be limited to the prevention of free falls, as in October 1978 under the Carter administration, or be extended to "leaning against the wind", *i.e.* to counter trends. The Reagan administration has tended to stay out of the market altogether on the theory of "benign neglect", being committed ideologically to leaving markets to their own devices. Yet in cases of bank failures, like the near-miss in Continental Illinois, when the chips are down, the dogma was put aside in the interest of stopping the spread of liquidation, — the typical action of a lender of last resort.

When it comes to leaning against the wind, however, opinion is more divided. The argument in favor of intervention is that markets tend to get carried away and overshoot the equilibrium level. This tendency is well established in the corn-hog cycle: one year's excess supply of corn leads to next year's glut in hogs, and *vice versa* for shortages. In foreign exchange, capital switches direction faster than merchandise trade can adjust, leading now to undervaluation, later to overvaluation. This is not perhaps a dangerous tendency when the world is more or less balanced about steady levels in commodity and security prices. In a world of deflation, however, it would be deflationary, as in the 1930s; in a world of inflation, like the 1970s, inflationary. In the 1980s we have just passed from an inflationary period to a better-balanced one, so that the ratchet is not likely to work consistently in one direction. But there is still a case to be made for not allowing the exchange rate to move so far in a single direction that it produces irreversibilities in price movements, a sharp upward movement from dollar depreciation or a downward one from appreciation.

Let me finish "today" by saying that I for one am dissatisfied with the theory of benign neglect, the notion that the country does not care what happens to the dollar, that the market will probably get it right, and if it gets it wrong, who cares. This seems to have been abandoned under Secretary Baker, an outcome that I regard as a good thing. The exchange rate of the dollar is important to this country and to the world. If our political masters harm the economy through ideological choices, we can vote them out, but the rest of the world cannot. Summit discussions of these subjects are not serious, but merely ceremonial. What's worse, when the European central banks in February 1985 sold several billion dollars in an operation to bring the dollar down at a time when it was rapidly rising, the United States largely stood aside, selling only a few hundred million dollars when the European central banks sold billions, showing disdain for the operations and signalling the speculators that nothing serious was going to happen. This came close to sabotage. I am not sure I would go as far as Scott Pardee, who in September 1984 suggested that the United States accumulate a stockpile of foreign currencies as large as \$30 billion — to hold the dollar down then, and to hold it up later when needed.⁹ I do recognize, however, the exchange market, so as not to allow the machinery of intervention to silt importance of maintaining central-bank contact with the foreign-

⁹ Press release of the Discount Corporation, September 1984.

up or rust out, or whatever the appropriate metaphor may be. If it be granted that there may be a need for a lender of last resort in crisis, it follows that the means of intervention must be kept operational, and in the hands of experienced people. It is one of life's dilemmas, that quiet trends make it difficult to hold the interest on the job of people of intelligence and decisive character such as are needed in crisis. This applies as much to the foreign-exchange market as it does to Three Mile Island and the Pearl Harbor radar station.

Tomorrow

I have in mind two tomorrows, one when the fundamentals catch up and the rest of the world changes its view of the creditworthiness of a country that piles up deficits at home and abroad; and another in a generation or more when all that is behind the world and a new system evolves. I hope it is obvious that I think a "new Bretton Woods" is a waste of time and largely a frustration. When there is no meeting of minds, it is a mistake to have a meeting of bodies. Constitutions follow consensus rather than precede it.

On the near-term tomorrow it is obvious that a system in which the United States borrows \$200 billion a year cannot last. The dynamics of the termination of that system are hard, nay impossible, to predict. An enlightened economic leadership plus a docile political followership might halt the deficit in the budget, go far to close the gap in the balance of payments, even run budget surpluses if necessary to offset the lack of personal savings and enable business investment in excess of retained profits to continue. The chances of docile political followership look slimmer than those of enlightened economic leadership. Vested interests are dug in everywhere and the result is economic decline as explained by Mancur Olson's *Rise and Decline of Nations*.¹⁰ Accordingly I expect to see the dollar no longer as central in the world economy in the future. The length and steepness of the path to decline are uncertain, but unless a miracle supervenes, I contend that the direction is certain.

¹⁰ MANCUR OLSON, *The Rise and Decline of Nations: Economic Growth, Stagnation and Social Rigidities*, New Haven, CT.: Yale University Press, 1982.

This leads me to the second tomorrow, perhaps in 2010 or 2015, long enough ahead so that I won't be around to be chided for the obtuseness of my prediction. I opine that the world will move unevenly back to a system of stable exchange rates, that the dollar is unlikely to be the pivot of the future system (fulfilling my premature pronouncement of 1976), that gold will drift out of the system. I suspect that the key currency on which others pivot in a world of N-1 monies will not be taken by a synthetic unit such as the SDR or the European Currency Unit (ECU). It is likely to be a national currency. Let me discuss *seriatim* gold, the artificial currencies, and then, very briefly, the dollar, Deutschemark and yen.

Stability: experience with the present system of flexible exchange rates is judged disparately by different players in world trade and finance. While some banks have been undone by currency speculation, notably the Herstatt and Franklin National Banks that failed in 1974, most banks like the system which affords them profits from currency trading. Corporations for the most part dislike it. It undermines planning in trade and investment, and it produces artificial profits and losses quarterly because of accounting rules. U.S. exporting and import-competitive corporations have suffered from overvaluation of the dollar, though European and Japanese firms, plus American tourists, have benefited. Less developed countries with large debts in dollars are torn between the difficulty in meeting debt service on overvalued currency, and the help in selling exports to the United States. At present, there are no strong forces for change because there is no dominant interest dedicated to reestablishing an orderly system. In due course, however, it will be realized that the case for money is as strong at the international level as it is at the national.

Money is a medium of exchange, unit of account, store of value and standard of deferred payment. The medium-of-exchange function can be discharged internationally under flexible exchange rates, one transaction at a time. Streams of payments and receipts can theoretically be converted from one currency to another by forward contracts; in actuality forward contracts stretching beyond nine months or a year are difficult to conclude because of the uncertainty that such contracts are secure. But the other functions need international money. The Hicks' theorem that two goods with a fixed price between them can be considered a single good applies to currencies, so that a fixed-exchange-rate system is equivalent to the existence of a single international money: useful for calculating where goods can be bought cheaply and sold dear,

for maintaining international liquidity — the store-of-value function, — and for long-term contracts.

I recognize, of course, that fixed exchange rates require coordinated monetary and fiscal policies. This does not mean that all countries in the world must act together. I envisage a system of key currencies, fixed in relation to one another, and with their macro-economic policies converging. Other countries can attach their monies to one of the key currencies and maintain them fixed or flexible as they choose or are able. A number of economists used to favor a system of fixed regional systems floating against one another. My predilection is for the opposite: an overarching system of fixed rates — dollar, yen, Deutschemark or Ecu, perhaps the Brazilian cruzeiro, — to which other currencies would attach themselves.

Gold: today gold is a commodity, not money. By definition, money is something which is stable in terms of its various forms. The price of gold goes up and down in dollars, as high as \$850 an ounce in 1982 and most recently fluctuating between \$280 and \$320. The recent stability around \$300 may lead some to think the price is being stabilized. The fact, however, is that there are no sizeable transactions. The Soviet Union and the Union of South Africa hold newly-mined gold largely off the market. Any country that tried to unload a considerable amount of gold from its reserves would knock the price far down. The French, for example, have painted themselves into a corner by taking surpluses in gold and borrowing dollars to meet deficits. They now own some \$30 billion in gold at these prices, and owe \$40 billion abroad. But they cannot cancel the one against the other, or sell gold in the international market for dollars to pay off debt. The gold market is too thin, like the present market for oil. Gold still retains a certain mystique in wide circles. It is easy to transport and store. It remains a commodity, not money.

Artificial Currencies: some years ago I suggested that language was like money to the extent that it was a medium of exchange and a store of value, and the subject of proposals for reform. To return to gold was the equivalent of urging the adoption of Latin as international language, and the analogue of recommending world adoption of, say, the SDR as international money would be like calling for world adoption of Esperanto. Worldwide use of the dollar was the equivalent of worldwide use of English, or perhaps American.

One could argue that the Ecu is really the Deutschemark with a French name. This sort of window-dressing happened before in German financial history. In 1872 with reunification of the *Reich* under Prussian

leadership, the Prussian thaler was adopted as the pan-Germany currency but given the name of the Hamburg mark.

Many monetary reformers have hopes for the SDR and the ECU. These units have been used in denomination of bond issues — the standard-of-deferred-payment aspects of money, — but lag far behind the dollar, Deutschemark and, rising lately, the yen, in bond sales. From time to time there is a flurry of interest in denominating bank deposits to be held by the public in these units. Nothing much seems to come of it. Experience seems to show that the store-of-value function and the unit-of-account function of money are best served by the money used for payments. This avoids the necessity to convert from one unit to another. In the United States we recognize this saving in transaction nuisances when we contemplate the attractiveness of NOW accounts or the check-writing features of money-market funds and Super-NOW bank accounts. I can contemplate the possibility of the IMF metamorphosing into a world central bank that creates SDRs that the world receives in payments and spends. Perhaps not in 2015, but in 2050. For the next generation or two, however, the artificiality of the SDR and less surely of the ECU condemn them to second-rateness.

If a national currency, which? The history of international monies is that they successively wax and wane. First comes a flowering in trade, then domestic finance, and then international use of a state money. The Florentine florin, Venetian ducat, Dutch guilder and British pound served in turn as international money and then were superseded. The question is whether the dollar will suffer the same fate, and if so, what its successor will be.

The case for the continued functioning of the dollar is the need for a widely-used world currency, and the failure of a challenger to appear. A decade and a half of neglect and indifference, plus a series of years of large deficits and heavy borrowing, would seem to cut off the dollar's career, but thus far they have not.

Nonetheless, the long-run outlook remains negative, and for deeper-seated reasons than the policies of the last few years that might possibly be reversed. A financial center must be more than a set of institutions with innovative and experienced personnel. There must be a flow of savings to make markets in the instruments traded. The American economy may continue to grow on the basis of borrowed funds, but the role of the dollar is ordained to shrink unless U.S. savings pick up. I do not refer exclusively to the dissaving through the federal budget deficit, although that is more deep-seated than generally

accounted, reflecting basic political unwillingness to tax to meet expenditures that the public insists on. Beyond the federal budget, however, savings have consistently shrunk at the personal level. Personal savings today are mostly contractual, through mortgage payments, insurance and pension funds. The life-cycle consumption hypothesis of my colleague Nobel laureate Franco Modigliani postulates that households accumulate wealth during their early years and dissave in the golden seventh and eighth decades. The last is true so far as travel and medical expense are concerned among the retired. The rate of saving in the early portion of the cycle, however, is increasingly offset by borrowing on mortgages, installment loans, credit cards, unpaid bills. Americans don't save much anymore. In addition, the aging process of the American economy, repeating the experience of the British, is revealed in slowdowns in innovation, group insistence on preserving rents, a loss in flexibility and adaptability. I think I shall stick to my premature 1976 pronouncement that the dollar will end up on history's ashheap, along with sterling, the guilder, florin, ducat, and if you choose to go way back, the Levantine bezant, which has been called the dollar of the Middle Ages.

It is too late in the day, and too early in the next thirty to fifty years, to designate a successor national currency for the dollar as the center of a system of fixed exchange rates at the hub of world payments. The yen? the Deutschemark? perhaps the DM in its European dress as the Ecu? Although time remains for drastic change, Europessimism, and German preoccupation with domestic rather than world questions detract at this stage from the chances of the Ecu and DM. Japan, too, has lost some of its ambition for world leadership in the last fifty years, though some see signs of resurgence. Its style of decision-making by consensus, moreover, inhibits the positive leadership needed for crisis management in the world economy. Perhaps a dark horse? As a stab in the dark, could I suggest that presently-troubled giant, but ebullient and dynamic Brazil, and its cruzeiro?

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