

# US Dollar's Status Lurks In G20 Meeting Background

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WASHINGTON -(Dow Jones)- Mounting questions about the U.S. dollar are likely to put pressure on Barack Obama's administration to explain exactly how it plans to deal with the soaring U.S. deficit when world leaders meet in Pittsburgh next week.

The U.S. is hosting the summit, where headlines will likely focus on leaders rallying around the need to keep shoring up the global economy and rewrite the rules of global finance. While there may be few signs of public discord, a drumbeat of criticism of the greenback and U.S. fiscal policy will provide a dramatic subplot to the Sept. 24-25 G20 summit.

"What the Chinese and the rest of the world would like to see is a plan for the U.S. to bring its deficit down over the medium-term," said Eswar Prasad, trade policy professor at Cornell University and a senior fellow at the Brookings Institution. "So at the G20, the rest of the world is going to be pushing very hard for the U.S. to articulate a plan for bringing down the deficit once the recovery is firmly in place."

The flood of U.S. government red ink and Obama's likely-expensive domestic health-care and energy agenda have sparked worries among the U.S.'s creditors - particularly its largest, China - about the safety of their dollar-denominated holdings and continued global imbalances.

French President Nicolas Sarkozy, Chinese Premier Wen Jiabao and Russian President Dmitry Medvedev have all raised doubts about the dollar's reserve- currency dominance. Others, including Nobel-winning economist Joseph Stiglitz, blame it for helping create the instabilities that fueled the world financial meltdown. And last week, the U.N. grabbed headlines by calling for an entirely new global currency system.

In the short-term, not much can change. Simply put, there aren't many viable alternatives to the dollar. And countries that drain their vaults of greenbacks risk devaluing their own portfolios. Furthermore, an exodus from the dollar could drive inflation and interest rates sharply higher.

For those reasons, economists say any change will happen gradually.

"All the squawking is going to lead to something, but it's way, way down the road," said Andrew Busch, global foreign exchange strategist at BMO Capital Markets in Chicago.

The dollar fell to a nine-month low against the euro and a seven-month low against the yen last week. Analysts expect the weakness to continue as investors reallocate resources to increasingly attractive overseas markets, and as the U.S. maintains the stimulative measures that are pumping dollars into the economy.

The most dramatic call for currency reform came in a 200-page report last week from the U.N. Conference on Trade and Development. UNCTAD became the first multinational institution to not only question the dollar's role but propose a new system of managed exchange rates designed to curb imbalances, speculation and currency crises. The report provoked explosive speculation but isn't likely to become reality.

Larry Summers, the head of Obama's National Economic Council, said the U.S. will look to ease concerns about the economy at next week's summit.

"What is crucial to the United States and crucial for the health of the United States is that we assure that there are strong fundamentals for our economy," Summers said Friday. "That goes to establishing a firm foundation for recovery ... and it goes to the importance of a strong currency."

Uri Dadush, director of the international economics program at the Carnegie Endowment for International Peace, doesn't expect Obama's counterparts to walk away from the G20 satisfied that the U.S. has a solid fiscal plan.

"I don't think they will be reassured, except in the sense that they will get the message that the administration is very

aware of their concerns and doing their very best to work in that direction. But even there, I think it would be very easy for foreign leaders to interpret the healthcare plan - to take the most obvious example - as actually trying to have your cake and eat it too," Dadush said. "I think a lot of leaders around the world are going to be scratching their heads."

The Pittsburgh Summit is scheduled for Sept. 24-25. The G20 comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the U.K., the U.S. and the E.U.

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