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## Dollar's Slide Gives Rise to Calls for New Reserve

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The U.S. dollar continued its six-month slide Tuesday amid a growing international chorus that wants the dollar replaced -- or at least supplemented -- as the world's reserve currency, a move that would end the greenback's six decades of global dominance.

The [dollar has come under attack](#) from abroad as the economic crisis has played out, thanks to the Federal Reserve's decision to flood a seized-up financial system with liquidity last fall. The central bank's moves likely staved off deflation, but the massive influx of new dollars has devalued existing ones. Foreign nations are worried that the massive U.S. national debt and rising deficits are not being addressed. And though inflation is not yet a concern in the United States, a prolonged slide in the dollar's value could lead to higher prices for consumers.

Further, large emerging economies -- such as China, Russia, Brazil and India -- are tired of kow-towing to the American buck, and sense an opportunity to knock a weakened dollar off its imperial perch.

"The U.S. dollar is headed for also-ran status, and it will continue to lose its value against many other currencies and assets," Miller Tabak equity strategist Peter Boockvar said. "The rest of the world wants the U.S. dollar to lose influence, but no one wants it to be abrupt, as it's in no one's interest. An evolutionary process is what is wanted."

The question is: When will that happen?

"In the next two to three years, it is highly unlikely to see the dollar replaced," said Eswar Prasad, an economics professor at Cornell University and a senior fellow at the Brookings Institution in Washington. "Over the next decade, though, we would expect to see other currencies play a much more significant role."

The dollar fell to nearly its lowest point of the year against the yen and euro on Tuesday, which sent the price of gold surging to a record intraday high above \$1,045 per ounce, as investors sought a hedge against inflation and foreign nations continued to stockpile the precious metal.

For the American consumer, a falling dollar means U.S. exports sell better overseas, which can lead to more jobs here. But it also means imports costs more, which means higher prices at U.S. stores.

"For the average Joe, the implications of a crisis of confidence in the dollar could end up in higher borrowing costs, lower government expenditures -- so that means reduced services -- and higher taxes," Prasad said. "Most likely, some combination of all of the above."

Stocks, which typically move opposite of the dollar, staged a strong rally on Tuesday, continuing their fast Monday start. The [Dow Jones industrial average](#) and the broader Standard & Poor's 500-stock index both gained 1.4 percent, while the tech-heavy Nasdaq surged 1.7 percent.

The U.S. dollar has been the world's reserve currency since World War II. Central banks and financial institutions in other nations hold dollars to pay off foreign obligations, or to influence their currency's exchange rate. Commodities, such as oil, are priced in dollars, which spreads the dollar's influence around the world.

But the dollar's dominance is being challenged, thanks to the crisis.

China was the first major power to attack the greenback, calling in March for the dollar to be replaced as the world's reserve currency. China holds [more U.S. debt](#) than any other country -- about \$800 billion -- and the further the dollar drops, the less the value of the U.S. debt owed to China.

Other nations have followed China's criticism. In March, Kazakhstan criticized the dollar and called for the creation of a new currency it calls the "acmetal" (a coinage combining "acme" and "capital"). Last month, Iran shifted its reserve currency from the dollar to the euro, a move that is likely more political than economic and a response to harsh U.S. criticism of Iran's nuclear moves.

But major powers have spoken against the dollar, as well. In September, Russia said it remains satisfied with the dollar as a reserve currency but said others are also needed. At an international investment summit last month, Russian Prime Minister Vladimir Putin criticized the United States -- and implicitly, Federal Reserve Chairman Ben S. Bernanke, who controls the money supply -- for "uncontrolled issue of dollars."

Both China and Russia have called for a new "global supercurrency," similar but larger in scale to the euro, that would replace the dollar.

Even the world's big financial institutions are piling on.

"The United States would be mistaken to take for granted the dollar's place as the world's predominant reserve currency," World Bank President Robert Zoellick said in a speech last week.

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