

## Strong dollar mantra devalues

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For 14 years US Treasury secretaries have taken up the mantra as though it were an essential part of the office. So, sure enough, Tim Geithner, like his recent predecessors, believes "in a strong dollar".

But if one thing has been devalued over that time, it is not so much the currency itself but the impact of the phrase.

After a week that saw the dollar reach a 14-month low against a basket of currencies and a fervour of Republican fretting about the value of the currency, the accusation is doing the rounds that maybe Mr Geithner does not "believe" hard enough.

There are reasons for entertaining this doubt. His commitment to a rebalancing of global trade could be accomplished by higher domestic demand in surplus countries such as China and Germany but it is not hurt by a weaker greenback.

For US business, the picture is mixed. But the large manufacturing groups such as General Electric and Caterpillar are expected to benefit, even if some smaller companies reliant on importing components are less happy.

However, Frank Vargo, of the National Association of Manufacturers, says there is no simple division between great and small: "When I talk to [some of] our smaller, more mid-sized companies, they are very happy as the dollar declines."

Eswar Prasad, a professor at Cornell University and former IMF official, said the dollar needed to decline to rebalance the world economy away from its dependence on US consumption.

"It is not the US but the rest of the world that should really be concerned about dollar weakness," he warned. "None of the other economies is really in a position to wean themselves off the US export market."

While politicians pontificate about the waning strength of the currency, the Treasury notes internally that the dollar on a trade-weighted basis is in a similar place to two years ago.

Marc Chandler, senior currency strategist at Brown Brothers Harriman, said the recent flap over the dollar was a "tempest in a teacup" and the US administration should be unconcerned. He added that a signal that Beijing was unhappy would be serious.

Mr Prasad said that the US was highly unlikely to intervene to support the dollar, but may well keep "talking it up".

Larry Summers, chief economic adviser to the White House, reiterated the strong dollar policy on Thursday night but it was another speech that provoked an increase in the dollar.

It took Ben Bernanke, chairman of the Federal Reserve, to stem the decline. In a fairly technical address about the central bank's balance sheet, he remarked that eventually, when the economy had recovered enough, the Fed would tighten monetary policy to head off inflation.

It was hardly groundbreaking, but the dollar rose when the comments hit the news agencies.

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