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# Inevitable End to Dollar's Reserve Role?

By DENNIS K. BERMAN



Decades from now, the crisis of 2008 mightn't be remembered as the last days of Bear Stearns and Lehman Brothers, but as the moment the dollar lost its undisputed No. 1 ranking among world currencies.

It seems like a pipe dream now. But not to a Malaysian human-rights activist; a Filipino congressman; Zhou Xiaochuan, the head of China's central bank; and French President Nicolas Sarkozy.

For each of them, the dollar's role as the world's so-called reserve currency presents inherent economic instabilities, with dangerous consequences. In both the run-up to the crisis and the crisis itself, an obsession with holding dollars roiled economies around the world. Today, those foreign countries are fearful of dollar inflation, which could decapitate their own bank reserves.

These are more than technical arguments. America lost credibility in the financial crisis. That has opened a path to questioning its primacy.

There are plenty of reasons to doubt the dollar's dethronement. But one also begins to see -- far off -- the kind of change that takes a generation to build. Some first broached going off the international gold standard during the stock-market panics of the 1870s and 1880s. It didn't happen for 50 years.

"What was true in 1945 can no longer be true today," Mr. Sarkozy said last week. "The dollar cannot claim to be the only currency in the world."

In Malaysia, peace activist Dr. Chandra Muzaffar has talked repeatedly about phasing out the dollar as the world's sole reserve currency. "It's one of the pillars of U.S. hegemony," he said in an interview. "The signs indicate that we are on the cusp of major change."

The change was on stark display in March, when the governor of China's central bank suggested a move away from the dollar as reserve currency.

As the Chinese well know, the practical implications of dislodging the dollar are immense, and rife with unintended consequences. It could take a huge toll on the U.S. economy, raising our borrowing costs and

crimping our overall borrowing capacity. A sudden lurch away from the dollar could also devalue China's own immense dollar holdings.

The approach favored by China's Mr. Zhou is to rely more heavily on something called the SDR, a "special drawing right" created by the International Monetary Fund. The SDR is a synthetic currency, comprised of a basket of the dollar, euro, yen and the pound, and contributed to central-bank reserves.

The SDR remains heavily tied to the dollar. But since the end of the gold standard, it is the closest the world's gotten to an international currency. Just last week, the IMF released its largest supply of SDRs ever, \$250 billion dispersed into central banks globally. And though it has been around for 40 years, the SDR remains largely irrelevant.

"It's not going to be easy," says Walden Bello, a globalization critic and a member of the Philippines House of Representatives, who estimates it could take as long as 15 years to push out the dollar. "There's a whole new balance of power that has emerged. You could have a critical mass of countries that say they can no longer subject our economies to U.S. economic and foreign policy."

All of this is wishful thinking in the eyes of Michael Pettis, a professor at Peking University's Guanghua School of Management. He sees the dollar only growing more entrenched in the years ahead. To make the Chinese yuan a reserve currency would require that China run trade deficits -- a highly unlikely outcome. "My guess is that three or four years from now, the whole discussion will disappear," he says.

And yet, something has been triggered by the panics of 2008. The moment an inevitable thing must defend its inevitability is the moment it isn't.

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