# Is the US Dollar Losing It's Punch?

## A White Paper produced by The Centre for Personal Sovereignty

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What establishes the value of the US Dollar? Not simply FOREX trading. At least that's according to ***The Economist*** magazine. Using its euphemistically titled “Big Mac Index”, ***The Economist*** has calculated the relative value of currencies in various nations based on their relative purchasing power, in this case, by their ability to purchase a McDonald's Big Mac sandwich. And according to the Big Mac Index, the Dollar still has solid purchasing power versus the Euro. Yet the FOREX markets say otherwise. Why?

Think of the US Government not as analogous to an individual with assets, but as a cash flow conduit. Imagine a bank that would give a client a huge line of credit, even though that client had a negative net worth. Why would they do that? Imagine that that same client was writing checks like crazy, and that people accepted them without worry! Why would they?

Because the client's debt consisted of demand notes, with expiration dates fairly evenly staggered, that the public is confident won't be called. And if some are called, the public is confident that other people will certainly buy new ones. But why would they?

Because this client has a killer “job”, with a killer salary, and the public and the bank both know that the client can make as much money as he needs, practically speaking, whenever he needs it. Yes, it's a 'Ponzi' scheme, and yes it's risky, but people are participating in it every day nevertheless.

As long as the US Government can tax, or can control the purchasing value of the Dollar through inflation and interest rates, and as long as the world is confident that the citizens of the US will tolerate that level of taxation and currency manipulation, the Dollar is solid. The current actual net worth of the US Government as an entity really doesn't matter. It is investor confidence in that taxing and currency manipulating ability that counts.

Why is the world so confident in the US Government's ability to freely tax and manipulate the Dollar?

1. There is no sign of a serious political/cultural climate of tax revolt among US taxpayers. These taxpayers either believe that they are getting good value from their tax dollars or have been well brainwashed to accept their tax burden. Moreover, investors who buy dollars have not had serious alternative currencies as investment options.

2. Compared to Europe, a culturally similar economy, the US tax burden is mild, and yet the Europeans show no signs of starting a tax revolt. Though there are cultural differences in the willingness of Europeans versus US citizens to tolerate varying levels of taxation, essentially, the current purchasing power of the US Dollar versus the Euro tends to prove that citizens of the US will likely tolerate a lot more taxation or government manipulation of inflation and interest rates before serious grumbling arises.

Does FOREX trading have any relevance to the true value of the US Dollar?

Using the Big Mac Index as a guide treats goods and services as commodities, assumed to be of equal value regardless of where purchased. As a practical matter, any unique item that a US buyer wishes to purchase from overseas, or any item incorporating such a component, will have its real cost ultimately determined in some way by FOREX. Presumably, if commodities cost a buyer using US Dollars more when imported, that buyer will simply buy locally with Dollars.

What does all of this mean to the individual investor? Should she be worried about her Dollar denominated investments?

If the investor ultimately intends to spend her wealth in Dollar-denominated transactions on products solely produced in a Dollar-denominated environment, then the risk to Dollar-denominated investments comes solely from US Government manipulation of inflation and interest rates. If the investor is a US citizen, then potential tax increases are also a threat to future wealth.

To head off these possible threats to future wealth, investors should avoid citizenship and/or residence in nations where the political and cultural climate allows the easy utilization of taxation to meet national financial obligations. According to the Big Mac Index this would include the US and most European countries. Investors should also avoid denominating their wealth in a single currency, and should diversify their wealth across currencies and other mediums of exchange such as precious metals, to minimize the impact of FOREX fluctuations on their portfolios.

In this way, the savvy investor leaves the prison of serf-like national citizenship and becomes, financially speaking at least, a true citizen of the world.