

Donald Trump and the U.S. Piggy Bank

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*Justifying his imposition of tariffs on major U.S. trading partners, including Canada, **Donald Trump** angrily pointed to the rest of the world:*

“The United States has been taken advantage of for decades and decades... we’re like the piggy bank that everybody is robbing and that ends.”

It is hard to see how other countries have been robbing the American piggy bank and taking its savings. In fact, the U.S. takes in savings from other nations: it must borrow to make payments on what it owes abroad.

At the beginning of 2018, the U.S. [owed the rest of the world](#) about \$7.7 trillion. This is the difference between U.S. investments abroad of \$ 27.8 trillion and U.S. assets held by non-nationals of \$35.5 trillion.

U.S. borrowing to cover current debt payments is only a sidebar to the main story. The rest of the world routinely holds U.S. dollars and owns debt securities denominated in U.S. dollars. By accepting the U.S. dollar as world money, the rest of the world is lending to the U.S.

This lending has given the U.S. the ability to spend abroad without having to worry about earning foreign currency to pay for its overseas investments and consumption.

This “exorbitant privilege” was acquired by the U.S. because its currency has been the main “reserve currency” since prior to the end of the Second World War.

In 1944 the U.S. invited 43 allied nations to meet in Bretton Woods, New Hampshire. The conference gave birth to the International Monetary Fund (IMF) and the World Bank, both headquartered in Washington, D.C.

The 730 assembled delegates were anxious to prevent the kind of “beggar thy neighbour” policies the U.S. and others had pursued that culminated in the disastrous 1930s Great Depression (similar to policies that Donald Trump has initiated 74 years later).

The U.K. championed its own plan — designed and named after its author, **John Maynard Keynes** — for a monetary clearings union run by central banks.

It would have made surplus nations automatically re-cycle funds to deficit nations, forcing the strong creditor nations to assist weak debtor nations, and discourage them from trying to run deflationary economic surpluses with the rest of the world.

Instead, the U.S. delegation prevailed, and when the Bretton Woods meetings adjourned, private commercial banks remained at the centre of world trade.

Wall Street bankers dominated profit-making foreign exchange markets and were anxious their foreign currency desks continue to be agents for international finance, which is why U.S. delegates made sure the Keynes plan was scrapped.

As world trade and finance gradually recovered after the 1939-45 war, countries needed to buy or borrow U.S. dollars from banks in order to expand trade with each other.

World commercial expansion became dependent on payments made in the U.S. dollar, a currency that all nations — except the U.S. — had to earn through export surpluses, or go into debt.

From Bretton Woods until this day, nations, corporations, and even individuals have been induced to build up reserves of U.S. dollars.

Across the world, prices for traded goods like oil or gold or wheat continue to be mostly set in U.S. dollars, international payments are denominated in U.S. dollars, and wealth is held in U.S. dollar assets.

The U.S. dollar is the main reserve held by central banks, banks make U.S. dollar international loans and register U.S. dollar deposits, and international bonds are issued in U.S. dollars.

China alone holds over \$1 trillion in U.S. Treasury bills, which did not stop the Americans from announcing \$50 billion in new tariff protection against Chinese imports.

The Chinese have created the Asian Infrastructure Bank as an alternative source of lending to the U.S.-dominated IMF and World Bank, and as an outlet for placing their own U.S. dollar reserves.

The Chinese and the Russians have expressed interest in developing a super reserve currency to replace the U.S. dollar.

The IMF did create such a currency: the poorly named Special Drawing Rights (SDR) in 1969. But, it remains a small supplement to official central bank reserves. About 20 billion in SDRs were held by central banks until an additional 180 billion SDRs were allocated in 2009 following the global financial crisis.

Unhappiness with the use of the U.S. dollar as the world currency is felt by many nations. Since it gives the U.S. ability to borrow from the rest of the world to finance its economic expansion abroad and at home, American authorities are not looking to change a system that works to their advantage.

The U.S. has a low savings rate, about 1.5 per cent of GDP currently, and it imports the savings of other countries.

The U.S. has been a net borrower from the rest of the world since the mid-1980s. You might say the U.S. has been using the rest of the world as a piggy bank ever since.

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