

Willem Buiter warns of massive dollar collapse

Americans must prepare themselves for a massive collapse in the dollar as investors around the world dump their US assets, a former Bank of England policymaker has warned.

By Edmund Conway, Economics Editor
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The long-held assumption that US assets - particularly government bonds - are a safe haven will soon be overturned as investors lose their patience with the world's biggest economy, according to Willem Buiter.

Professor Buiter, a former Monetary Policy Committee member who is now at the London School of Economics, said this increasing disenchantment would result in an exodus of foreign cash from the US.

The warning comes despite the dollar having strengthened significantly against other major currencies, including sterling and the euro, after hitting historic lows last year. It will reignite fears about the currency's prospects, as well as sparking fears about the sustainability of President-Elect Barack Obama's mooted plans for a Keynesian-style increase in public spending to pull the US out of recession.

[Writing on his blog](#), Prof Buiter said: "There will, before long (my best guess is between two and five years from now) be a global dumping of US dollar assets, including US government assets. Old habits die hard. The US dollar and US Treasury bills and bonds are still viewed as a safe haven by many. But learning takes place."

He said that the dollar had been kept elevated in recent years by what some called "dark matter" or "American alpha" - an assumption that the US could earn more on its overseas investments than foreign investors could make on their American assets. However, this notion had been gradually dismantled in recent years, before being dealt a fatal blow by the current financial crisis, he said.

"The past eight years of imperial overstretch, hubris and domestic and international abuse of power on the part of the Bush administration has left the US materially weakened financially, economically, politically and morally," he said. "Even the most hard-nosed, Guantanamo Bay-indifferent potential foreign investor in the US must recognize that its financial system has collapsed."

He said investors would, rightly, suspect that the US would have to generate major inflation to whittle away its debt and this dollar collapse means that the US has less leeway for major spending plans than politicians realize.

<http://www.telegraph.co.uk/finance/4125947/Willem-Buiter-warns-of-massive-dollar-collapse.html>