When the Dollar Talks Back

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Talking up the dollar is a tradition among government officials, who always want to prevent an exchange-rate swing from accelerating into a dollar plunge — an economic nightmare that would be marked by spikes in prices and interest rates. As the dollar fell over the past two weeks, Treasury Secretary Henry Paulson Jr. played his role, saying that "a strong dollar is clearly in our nation's best interest." And Ben Bernanke, the Federal Reserve chairman, gave a speech in which he was cautiously optimistic about economic growth and signaled that he would not cut interest rates anytime soon.

Growth and relatively high rates — if they came to pass — would be a good combination for the dollar. But as of yesterday, the dollar hadn't moved up much from its recent lows against other major currencies. Investors remain largely focused on economic weakness in the United States and gathering strength in Europe — which portend a weaker dollar, no matter what anyone says.

A weaker currency is inevitable for a country as indebted as the United States is. During the Bush years, deficits have mushroomed — in the federal budget and in trade. Anything that affects foreign investors' willingness to finance enormous deficits pushes the dollar down — including better investment opportunities elsewhere, as there are now.

The great unknowables are the timing and steepness of a sustained dollar decline. Over the past few years, investors who bet on a weakening dollar have lost money. But the current swoon is a reminder that no nation, even the United States, can borrow forever without facing up to economic consequences.

The government has been assuming — correctly, so far — that the United States is too big to fail. Administration officials seem confident that the Chinese, in particular, will continue to finance the nation's deficits, because doing so helps their exports. They also assume that China and other countries won't sell off chunks of their huge dollar holdings, lest they drive the dollar down, and with it, the value of their remaining dollar-based assets.

That's more like a standoff than stability, and it puts way too much of the nation's well being in the hands of foreign central bankers. But it's the best the Bush crowd has had to offer, because true stability in global finance is grounded in fiscal responsibility at home, something the administration lacks.

Global balance requires cooperation. When Mr. Paulson travels to China this month, he will no doubt seek ways to adjust American and Chinese currencies in an orderly fashion. But there is no substitute for getting one's own financial house in order.

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