



The Daily Dish

## December 7th Edition

DOUGLAS HOLTZ-EAKIN | DECEMBER 7, 2015

The U.S. Supreme Court [has agreed to hear Puerto Rico's appeal](#) to restructure \$20 billion in debt. Puerto Rico is also asking Congress to pass an amendment giving them access to bankruptcy court. The Commonwealth of Puerto has [long struggled with economic growth](#) and policy options that would put Puerto Rico on a sustainable path and promote much-needed growth may be difficult to implement, but they are necessary to get the island back on its feet financially.

This week [Congress will be negotiating](#) the omnibus spending bill which lawmakers have until Friday to pass. The massive bill includes provisions that would [reauthorize the No Child Left Behind law](#), which would reduce the federal government's role in public education.

### *Eakinomics: A Reserve Currency Remnimbi*

China scares people, and it should. It has a threatening combination of undisguised ambition and indifference to human freedom. The [announcement](#) that the International Monetary Fund (IMF) has designated the remnimbi (the general term for Chinese money, or yuan which is a specific denomination) to join the dollar, euro, pound, and yen in the fund's Special Drawing Rights (SDRs) reserve-currency basket raised the specter of Chinese economic domination, displacement of the dollar as the dominant global currency, and other fears.

The IMF lends by allocating SDRs, which are based on the weights of the existing currencies in the basket — 42 percent dollars, 37 percent euros, 9 percent yen, and 1.3 percent pounds — which member states can swap for their component currencies. The yuan will be added to the list and is expected to be roughly 10 percent of SDRs. What good does this do China?

Nothing. Oh, there is definitely some prestige and this is important to the Chinese. (Former Fed Chairman Ben Bernanke equates it to getting a [gold star](#) in school.) Sure, a country borrowing from the IMF could redeem in yuan, but it could also choose the dollar, euro, yen, or pound. It will only choose remnimbi if there is a genuine economic advantage to doing so. More generally, being designated a reserve currency does not make Chinese exports of higher quality or lower price. it does not improve the productivity of Chinese workers or augment the productivity capital stock with which they do their work. It does not change any of the fundamentals that generate a strong economy, and — as a byproduct — an attractive currency.

The U.S. dollar is a genuine global reserve currency. Governments hold dollars (or dollar-denominated assets like Treasury securities) as their reserves. Commodity contracts, like oil, are priced in dollars. All of this happens not because of some edict, but because the U.S. is the globe's most powerful economy. A reserve currency does not create economic power, it reflects it.

### *From the Forum*

[Why An Infrastructure Bank Is A Lose-Lose Proposition For Taxpayers](#) by Gordon Gray, AAF Director of Fiscal Policy

[The U-6 Fix](#) by Douglas Holtz-Eakin, AAF President

***Fact of the Day***

The United States and the EU account for a third of all world trade and nearly half of global economic output.