

[The Seigniorage Curse](#)

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Much has been said the last few decades about the Oil Curse. The idea that countries with a large petroleum inheritance actually devolve over time, failing to diversify their economies. The result is often a stagnant culture and a dysfunctional political structure. Amidst the arrested development, these countries are of course deeply vulnerable to swings in the price of oil. Writers who have looked at the Oil Curse will often compare Indonesia (discovered oil) to South Korea (no oil) from the time after the Korean War ended. Indonesia of course remained a mess for decades, while South Korea became an economic supergiant, based on its promotion of education, innovation, and engineering.

Another country that now looks quite arrested in its development is the United States. But not because of an Oil Curse. Rather, the United States appears to have finally succumbed to its multi-decade “advantage” via dollarization. In dollarization, the US Dollar has been the world’s reserve currency, and the United States economy has “enjoyed” the freedom to borrow and print *ad infinitum* without the usual penalties. In this regard, the United States has functioned as the King, who issues coinage with your bullion, but takes a small shaving in the process. In return, US citizens and those holding dollars enjoyed the purchasing power premium of a currency backed by the King. That’s the power of Kings. The power of Seigniorage.



A problem develops internally, however, when the King or the King’s economy no longer offers as much value for the premium charged. And that’s exactly what’s been happening to the US economy over the past 30 years. Oh, not all parts of the US economy. Innovators have rolled onward as the dysfunctional and shoddy parts of the economy took greater hold. But what happened eventually is that the shoddy parts—especially the financial sector—ran out of things to

monetize. In fact, the US economy stopped making things to monetize.

The Seigniorage Curse appears to hollow out the economy by the following manner: First, the premium charged to holders of dollars becomes a new source of accrued, aggregate revenue. This extra capital flowing into the economy is initially seen as a global honoring of our economy's strength, and innovation. But when innovation falters and less value is created, seigniorage is maintained—and thus the unhealthy dynamic begins. From this point forward, whether the US economy either leads in innovation, or lags in innovation, the Dollar advantage grows regardless. It then becomes clear that manufacturing Dollars, rather than manufacturing goods, is a better value proposition. Once that dynamic is in place, then a long cycle of financialization ensues, in which innovation and talent moves from design and manufacturing to the financial sector. The financial sector then becomes rapacious, as it scours what's left of the economy to monetize. Whereas manufacturing and innovation were once monetized, the financial sector begins to monetize itself.

The final hurrah was seen this decade, when the financial sector, unable to monetize other US based streams of income, decided to monetize housing. That was all that remained. Seigniorage had allowed us to stop earning our living, and eventually we “bundled up and packaged” our real estate. Interestingly, it's only in the aftermath of the burst housing bubble that we observe how many Americans are being ‘forced to sell’ their homes. In fact, Americans had already sold them.

Every inheritance starts out as a gift. Just as oil-cursed nations remain ever vulnerable to swings in the price of oil, the United States is now vulnerable to its own number one export—the value of the US Dollar and by extension the value of US Treasury Bonds.

-Gregor

Photo: Calabar Rod Currency (African). More photos here: [Ethnographic Monies](#).

Update: there are several acceptable spellings of *seigniorage*. After review of their various publishing histories, I have changed the spelling in this post to the most common form.

Further Reading: [Dollarization, Seigniorage, and the Demand for Money](#). Thomas J. Sargent. April 1981