Extended Book Review On Exorbitant Privilege: The Rise And Fall Of The Dollar And The Future Of The International Monetary System

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Abstract. As the world's only international currency, the US dollar continues to solidify the United States' position in world finance and trade despite no longer contributing to the majority of industrial production as it once did. This has been referred to as the United States' exorbitant privilege and plays into US exceptionalism. Evaluating Barry Eichengreen's: *Exorbitant Privilege: The Rise and Fall of the Dollar and the future of the International Monetary System* an argument is made for a future with multiple international currencies or at least regional currencies. Such currencies would be able to counter the supremacy of the US dollar in international trade and affairs, resulting in a safer international financial system less susceptible to external critical conjunctures, which could bring world markets into a tizzy. The prospects for the internationalization of the Euro and the Renminbi are explored in keeping with Eichengreen's postulations.

Introduction

The economy of the United States has, for decades, been the world's largest. While many factors have aided this, one may be less obvious than the rest – the pervasiveness of the US dollar in world trade and finance. It could very well explain why the United States has kept its spot as the largest economy in an ever-changing and competitive economic landscape. According to Eichengreen (2011: 2-4), The United States holds an exorbitant privilege due to the universality of its US dollar. As the world's monetary lingua franca, the United States maintains a significant advantage in world trade. It can engage in trade without worrying about losses due to exchange rate fluctuations; American tourists can travel the world without fear of whether their currency is accepted or not, and most importantly, other countries have to forego real resources to obtain US dollars (Eichengreen, 2011: 2-4). This privilege is a geopolitical tool as the US does not rely on any other country's currency, while a majority of world trade is conducted using its currency. Over 50 years have passed, and the hegemony of the US dollar has had no real challengers; it remains the international reserve currency. This hegemony is one of the United States greatest tools for continued ease of access in world economies and control of the international system

To present an accurate yet succinct review and adequately place this discourse within the context of the book, a brief, non-exhaustive summary of *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* by Barry Eichengreen is presented. This summary will chronicle the rise of the US dollar and go on to highlight potential alternatives to this currency, as proposed by Eichengreen. The paper then proceeds to examine and highlight the hegemony of the US dollar in keeping with the postulations of the author. This will show how advantageous the US dollar is to the continued propagation of US influence not only in international trade but the global sphere as a whole. Moreover, an argument will be made for the need for various reserve currencies alongside the US dollar, and their faults will be highlighted. Then, the conclusion will be made.

Barry Eichengreen is a Political Science and Economics professor at the University of California, Berkley, who has written extensively about the financial system (Yale School of Management, 2014). He is a research associate at the National Bureau of Economic Research and a Research Fellow for the Centre for Economic Policy Research (Yale School of Management, 2014). In *Exorbitant Privilege: The Rise and Fall of the Dollar and the future of the International Monetary System*, Eichengreen (2011) presents a comprehensive history of the US dollar's rise to prominence. He states that conventional knowledge on the international use of one's currency has cause and effect wrong. The use of a country's currency internationally does not contribute significantly to the military and economic power of that country, but instead, it is the great power status of the country that results in its currency becoming an international currency.

Eichengreen presents a history of the world's monetary system. Within this system, the UK's sterling remained quite competitive even after the United States had surpassed the British economic might. At the time of the sterling, other currencies ranked higher than the US dollars internationally despite the United States having the largest economy. The United States was able to assert the US dollar at the forefront of international trade and finance. This was done through policy changes to its monetary system, which stabilized the dollar. The devastation of Europe after both world wars also significantly aided the rise of the US dollar. The reconstruction efforts of the Marshall Plan had a significant role to play in the internationalization of the dollar. It fortified the United States' hegemonic status by the end of the Second World War. The period of the gold exchange standard was said to have destabilized the Bretton Woods system and led to various attempts to change the configuration of the international monetary system. This culminated in the Nixon government's delinking of the US dollar from gold and the continued prominence of the US dollar, even after the exchange rates were allowed to float. By the late 1990s, the US dollar dominated international transactions.

Eichengreen (2011) goes on to speak of currencies that could rival the US dollar soon. All these currencies (which include Europe's euro, China's renminbi, and the International Monetary Fund's Special Drawing Rights artificial currency) have issues severely hampering their ability to become formidable rivals to the hegemonic US dollar. As a result, Eichengreen (2011) sees the US dollar keeping its status as an international reserve currency due to advantages such as its superior liquidity. He also projects catastrophic outcomes were the US dollar to collapse entirely. The international monetary system would be better served by other currencies countering the US dollar as opposed to its collapse, as the US dollar is still very much a powerful currency. The resilience of the US dollar is seen during the 2007-2008 financial crisis. Despite assertions for the need to move away from the dollar and scrutiny of the US financial system, which allowed the recession to occur in the first place, the US dollar remained competitive throughout the recession. The US dollar was a haven for investors around the world, with central banks the world over stockpiling US treasury and agency securities.

The Internationalization of The US Dollar

The hegemonic power of the United States has kept the US dollar at the forefront of world finance despite issues such as the 2008 recession. Eichengreen (2011: 122) speaks of a particular logic whereby after World War II, when the United States had stationed troops in Europe and Asia, allies saw supporting the US dollar as quid pro quo. Later on, due to extensive meddling on the part of the United States, there was a diminution of the American security umbrella in these countries, and it was not as welcomed as it once was. Cox (2004: 311) speaks of the decline in US influence. He states that while the influence of the United States was welcomed in the decades following World War II, it is now regarded with great suspicion. Nonetheless, during the period when the United States was able to assert it is hard and soft power effectively and with a little suspicion, it was able to institute what Susan Strange (as cited in Cox, 2004: 312) referred to as the 'structural power' of the United States. Due to its strategic power and military capacity, it shaped both international relations and institutions to support the dollar (Eichengreen, 2011: 135).

The shaping of international relations and institutions around the dollar aided the United States in its efforts to internationalize the US dollar and gave it the salience it now has in international trade and finance. The dollar has given the United States leverage, in that it is "able to borrow from foreigners its currency, which means that any depreciation of that currency will both reduce the value of the US debt and increase the competitiveness of US exports" (Cox, 2004: 312). This flagrant example of American exceptionalism has allowed the United States to do as it pleases in the international arena. The United States' hegemony has also given it the ability to move in seditious ways. Green Revolution rice in the Philippines and elsewhere is an example of this. There the United States attempted (with varying success) to replace and change the practices of indigenous farmers by introducing rice that would result in higher yields. It required US seeds, US fertilizers, and of course, US dollars. This practice redirected capital towards the US and was a strategic counter to the spread of communism (Stone & Glover, 2016: 90-92). The American Empire has turned terms such as 'democracy' and 'liberation' into buzzwords for open markets and military occupation (Cox, 2004: 312). This structural power is somewhat synonymous with the United States' exorbitant privilege highlighted throughout Eichengreen's book. This power is so embedded in the international financial system that a collapse of the US dollar is believed to have the potential to result in catastrophe.

Alternatives to The US Dollar

Given the proposed catastrophic impacts that the collapse of the US dollar could have, an argument will now be made for an international monetary system that includes the US dollar but sees the prominence of other currencies as well. While the US dollar itself did not lose its status as the leading international currency even after the recession, it does not mean that a single international currency is best for our current global configuration. As such, it is felt that there is a need for multiple relevant, which would not only lessen potential crises but also affect the United States' hegemonic potential. The lessons from the Asian financial crisis show that a system less reliant on the United States can insulate itself from the ravages of crises. An international currency to go along which such a system, already embedded in a highly regulated financial environment, could change the current financial situation — moving away from a system that is very volatile and US-dominated.

The United States, during the East Asian crisis of 1997 to 1998, rejected a Japanese initiative that attempted to create a regional solution to the crisis (Cox, 2004: 313). The US did this to allow for both European and American firms to buy out cheap Asian assets, totally disregarding the dire conditions of the populations of these countries due to this financial disaster (Cox, 2004: 313). Not only did this reduce confidence in the hegemonic power of the United States, but it inspired the creation of a regional economy in Asia fitted with protections against reliance on US financial dominance (Cox, 2004: 313). This has been done through a diversification of capital flows and trade, which now includes heavy flows towards other Asian countries and in 2000, the creation of a virtual Asian monetary fund aimed at guarding these countries against a plight akin to the crisis of 1997-1998 (Cox, 2004: 313). The only thing missing has been a regional currency. The structural issues meant to insulate Asian countries and by extension, their currencies from critical financial shocks may actually be the factor reducing the mass appeal of the renminbi as a regional currency there. The stockpiling of US dollar reserves to insulate the economy has also been a factor.

Eichengreen makes little mention of recovery in Asia during the 2008 recession. However, as a result of these measures, many Asian markets were immune from the devastating effects of the recession on the rest of the world. While Asian countries, particularly China, remained quite reliant on US dollar assets (Eichengreen, 2011: 135), what they have been able to do is institute systems that have reduced the impact of the United States on their fiscal policies. Since US hegemony has not allowed other countries to be as immune from the influence of the United States on their fiscal policies, there is a need for other reserve currencies to counter the influence of the United States economically. These currencies would not only be a way of reducing potential crises due to a reduced reliance on one currency but also a way to counter the hegemony of the United States and, by extension, its exorbitant privilege.

Helleiner (2011: 76) saw the pre-crisis lowering of regulations as a US-driven process resulting from its fundamental importance in world finance. This allowed the US to veto international initiatives they did not like and implement unilateral deregulatory moves, which had no significant impact in averting the 2007-2008 Global Financial Crisis (and arguably exacerbated it) (Helleiner, 2011: 76). It can be argued that were there other international reserve currencies, the United States, despite its superpower status, would not have had the wide-scale impact that it did on the world financial system. A crisis that started in the United States would not have spread to virtually all corners of the world. Due to the high profile status of the US dollar in international trade and finance, during times of crisis, central banks felt their only hope would be to stockpile dollars to pay off short term foreign liabilities. This stockpiling of US dollars invariably benefitted the dollar during the crisis (Eichengreen, 2011: 114). Other reserve currencies would limit this advantage, forcing the US to be more fiscally responsible. There would be a lessening of foreign capital denominated in US dollars, helping to fund current accounts and fiscal deficits in the United States (Helleiner, 2011: 77).

A move from the status quo, which has maintained the US dollar as the only reserve currency, is necessary. The post-crisis environment has made such movements away from the status quo more likely as many countries have moved away from principles of synchronization and homogenization in their fiscal policies for more regulatory competition and difference (Nesvetailova, 2014: 562). History and theory both point to the possibility of a 'tipping point effect,' which might delay the potential of a currency such as the renminbi or the euro becoming international currencies, but when it does, it could happen quite rapidly (Agnès, 2015: 11). There has also been more serious recognition of seemingly minute factors such as complexity, diversity and fragility of global finance (Nesvetailova, 2014: 563). This is fundamental as there is no reason why the US dollar "the currency of an economy that no longer accounts for a majority of the worlds industrial production, should be used to invoice and settle a majority of the worlds international transactions" (Eichengreen, 2011: 121), despite the structural power of the United States.

An international system with multiple currencies is not impossible, and the supremacy of one currency is more of an anomaly than anything else. History points to various international currencies. At one point, the French Franc, British Sterling, and German Mark all played an active part in world finance (Eichengreen, 2011: 14). While the United States had prohibited its banks from having branches internationally and, in some cases even along state lines (Eichengreen, 2011: 17). France, Germany and the UK through foreign branches of their banks, were able to concurrently have international currencies, although the UK comparatively had the most extensive empire (Eichengreen, 2011: 17). This was dismantled not only through a weakening of these countries but also the United States' emergence as the only superpower and a very successful internationalization of the dollar. It is important to note that France and the UK were colonial powers and were able to distort the economies of the colonized forcing them to produce commodities, thus advancing the status of their economies and their currency (Helleiner, 2016: 81). The post-World War II recovery of Western Europe and Japan, the contemporary rise of China and the emergence of Brazil and India have reduced the economic domination of the United States but have not yet destabilized the US dollar's current status in world finance and trade (Eichengreen, 2011: 121).

The Chinese renminbi is poised for international status if it can remedy its inconvertibility issues and develop liquid securities markets (Eichengreen, 2011: 144-145). A lot of structural measures would need to be put in place for such a currency to garner international status. Eichengreen (2011: 145) felt that China's inability to reconcile financial stability with full freedom to buy and sell domestic assets would significantly diminish the likelihood of the renminbi becoming an international currency by 2020, as set out by the China Banking Regulatory Commission in 2008. Nonetheless, since 2009 Chinese authorities have gradually removed restrictions to the use of the renminbi in current account transactions (He, 2014: 3). A pilot scheme to use the currency in trade settlement began in July 2009 (He, 2014: 4). In 2011 administrative rules were drafted for Chinese enterprises to conduct overseas direct investment in renminbi and for foreign firms to conduct foreign direct investment in China in renminbi (He, 2014: 4-5). China has also begun following the path of the United States, using its economic might to create and potentially manipulate markets abroad. China has had an increasing role in resource extraction in Africa, along with other developing nations such as Brazil and India (Power, et al., 2016: 12).

This increased role of the renminbi has resulted in it added to a basket of currencies accepted as legal tender in Zimbabwe after an episode of hyperinflation, which resulted in the collapse of the Zimbabwean dollar (Mukeredzi, 2014). The Bank of Ghana has begun using the renminbi as a settlement and reserve currency (Mukeredzi, 2014). There have been talks of adopting the renminbi as a reserve currency in more African countries (Tham, 2018). The spokesperson for the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), Gladys Siwela-Jadagu (as cited in Tham, 2018) made her case for the adoption of the renminbi as a reserve currency by African central banks, saying that "most countries in the MEFMI region have loans or grants from China and it would only make economic sense to repay in renminbi." Visibly the renminbi has a long way to go; its issues with liquidity and convertibility will invariably affect its international position. To increase the adoption of the currency, it could first focus on becoming a regional reserve currency within Asia. This would be aided by the fact that China already permits neighbors such as Mongolia and Hong Kong (to name a few) to use the renminbi in cross border trade, albeit through select trustworthy companies allowed to settle transactions in renminbi (Eichengreen, 2011: 144). If Eichengreen's (2011: 6) postulations that a country's great power status and the fact that it is large, rich and growing results in the mass appeal of its currency, then the renminbi should in the coming decades garner more importance internationally.

The euro is currently the closest rival to the US dollar. While it ticks most of the boxes for a first-class international currency, it is plagued by the fact that the Eurozone has no single government (Eichengreen, 2011: 130). The lack of a single government controlling the institutions of the currency is believed to be the sole reason preventing the euro from matching the US dollar's international significance (Eichengreen, 2011: 130). When financial issues arise, solutions require cooperation from member countries (Eichengreen, 2011: 130-131), which can make the process a cumbersome and lengthy one. When budgetary issues requiring international assistance arises in one country, Eurozone members must negotiate burden-sharing agreements, which must then be ratified domestically (Eichengreen, 2011: 131). These are the issues that arise when a supranational organization creates a currency.

The Greek crisis exemplifies the struggles the Euro faces. When the austerity measures advanced by the Greek government riled the Greek public, there was no European authority to lend money to the Greek government. This task was left to the national governments of the EU states (Eichengreen, 2011: 131). Germany refused to participate in a bailout, and after much back and forth, national leaders agreed to a $1 trillion fund to guaranty national debts (Eichengreen, 2011: 132). This lack of fiscal authority on the part of the European Union is said to be what has hindered it from developing a financial market that could rival the US treasury bills market as the "key fulcrum of global financial markets" (Helleiner, 2011: 81). As a result, Eichengreen (2011: 132) believes that there is a need for a proper emergency financing mechanism, an institution that would be run by technocrats, which would pool together resources to loan money to countries with strong policies experiencing financial issues. This is especially important, as some countries in the EU use the euro as a common currency, yet have diverging fiscal policies (Helleiner, 2011: 81). Other countries are members of the EU yet do not use the common currency, and this diversity further complicates the complex. This did not allow European regulators to rein in European banks and restrict them from creating structured investment vehicles (Helleiner, 2011: 72). Nonetheless, despite a lack of central political authority, the euro area and Asian economic regionalism are sustained and propelled forward by experiences of US unilateralism (Cox, 2004: 314). Both of these regional integration projects perfectly fit into a potentially new post-crisis order of cooperative decentralization with "greater national and regional autonomy within the context of still-integrated global markets" (Nesvetailova, 2014: 563).

Reflection

The US dollar, despite all the postulations above, remains the currency which commands the most clout in the international system. This has not only given the US a primordial position in the world economy but has enabled it to extend its power far beyond its territory. An increase in the number of international currencies would not only force the United States to remedy its fiscal issues but also present a check and balance to the hegemony of the United States. Could this increase the number of countries with a hegemonic status? Especially since the internationalization of the renminbi and euro can be seen to take on neocolonial forms. This is a question that will be clarified when more currencies begin to attain prominence vis-à-vis the US dollar. History though points to the vast empires and colonial might of the countries whose currency commanded international status. So much so, that the Pound sterling was able to temporarily regain its lead as an international currency in the 1930s due to practice by commonwealth members of holding their reserves in Britain, more as a sign of political solidarity than anything else (Eichengreen, 2011: 37). The colonies, on the other hand, did not have a choice in this regard (Eichengreen, 2011: 37).

Whether an increase in international currencies could result in more actors engaging in neocolonial relationships to extend the reach of their currency is beyond the scope of this paper and is something to consider. The reality of more currencies attaining international status in the near future is hard to foresee, given the current advantage of the US dollar and the structural hurdles other currencies currently face. If the rise of the euro and the renminbi have had issues, then the hope of other 'alternative currencies' from the developing world gaining international status too could be stifled. Especially since both the Brazilian real and the Indian rupee have similar issues of inconvertibility as the renminbi (Eichengreen, 2011: 151). Both countries also do not have investment portfolios as extensive as China. China has also been cautious in the internationalization of the renminbi. This has been due to 70% - 80% of its over 1.5 trillion reserves being denominated in US dollars (pre-crisis) (Helleiner, 2011: 79). While this has protected China from volatile capital flow, reliance on the IMF and allowed it to undervalue its currency, an undermined dollar would push down the value of China's US dollar assets (Eichengreen, 2011: 159). It would inflict financial damage on China and given the international reach of the US dollar, and this would cause markets to go in a frenzy (Eichengreen, 2011: 159).

Conclusion

Eichengreen presents a compelling narrative. It is believed though that his discourse revolved too much around the infallibility of the dollar, and the devastation that could occur were the dollar to lose its influence as an international currency. This sort of doom and gloom discourse prompted me to attach more importance to the dollar than I should have. Nonetheless, it allowed me to present a discourse where the balance of power was not drastically altered but shared amongst various actors for the propagation of the international financial system and a reduction of the hegemonic power of the United States. This conception of multiple international/reserve currencies was seen to be severely limited by several issues highlighted throughout the paper's analysis. Issues plague the US dollar as well, but its universal role seemingly understates these issues. The 2007-2008 financial crisis bought these issues to the fore. Realizing that the US dollar itself is flawed may be the conjuncture needed to realize that more than one international currency might do the global financial system good. Despite the previous critique of Eichengreen, he presented a concise narrative on a very complex issue.

Since the US dollar is so entangled in world finance, its influence seems unending. If history presents a prescription for the future, then multiple currencies will one day enjoy international status. As of now, despite a belief that multiple international currencies or more feasibly, regional currencies could counter US hegemony and insulate countries from the spread of crisis, the odds of the US dollar losing its influence internationally in the near future seems grim. Nevertheless, Helleiner, Eichengreen, and Nesvetailova see a post-crisis movement away from harmonization of financial policies around the world. Countries attempting to have their currencies enjoy the mass appeal that the US dollar has may have to institute policies which could alter the stability of their currency. This would especially be the case of the renminbi, where its highly structured nature would have to be dismantled if Eichengreen's postulations that such changes need to be done are correct.

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