Review of International Political Economy 15:3 August 2008: 354–378 Routledge Taylor & Francis Group

Political determinants of international currencies: What future for the US dollar?

Eric Helleiner

Department of Political Science, University of Waterloo, 200 University Ave. West, Waterloo, Ontario N2L 1G3, Canada

ABSTRACT

In recent years, the economic determinants of international currency status have attracted growing attention among economists. But what about the political determinants? This paper proposes a framework or taxonomy for thinking about this question. It identifies two distinct channels – one indirect and one direct – through which politics can influence the international standing of a currency. In the former category, politics is important through its impact on three key economic determinants of international currencies: confidence, liquidity, and transactional networks. In the latter category, politics matters more directly when a currency's international status is supported by states for reasons unrelated to these economic determinants. The paper explores briefly how these two channels of political influence might influence the dollar's future as an international currency. This exploration is not designed to provide a new definitive answer to the question of the dollar's future, but rather the goal is to highlight the various ways that political scientists can widen analyses of this topic.

KEYWORDS

International currency; US dollar; Bretton Woods 2; euro; yen; sterling.

What is the future of the US dollar as an international currency? Any examination of this topic raises a prior question: why does any national currency come to be used extensively at the international level as a means of exchange, unit of account, and store of value? This question has recently attracted growing attention among economists who have highlighted various economic determinants of international currencies. Using these determinants, they have generated various predictions about the dollar's future, predictions that to date have been characterized more than anything else by their diversity. This economic work

Review of International Political Economy
ISSN 0969-2290 print/ISSN 1466-4526 online © 2008 Taylor & Francis
http://www.tandf.co.uk
DOI: 10.1080/09692290801928731

is very useful, but even casual observers of the international monetary system know that politics also plays an important role in determining the rise and decline of international currencies. Is it possible to develop a succinct account of the political determinants of international currencies to complement the growing economics literature in this area? And how might this account influence predictions of the dollar's future?

This paper proposes a framework or taxonomy for thinking about this topic. Political scientists have often been more interested in how international monetary power is expressed and what it can accomplish than in its sources.[1] But there is some important work – including the contributions to this journal issue – relating to the latter theme that I draw on, and attempt to synthesize, in this paper. This work is rarely referenced in economists' writings, but I argue that it complements their analyses in useful ways that deserve more attention. Building upon the pioneering work of scholars such as Benjamin Cohen and Susan Strange, I suggest that it is useful to identify two distinct channels – one indirect and one direct – through which politics can influence international currency use. After summarizing insights from the economics literature, the importance of each channel is highlighted. In each case, special reference is made to the ways in which these channels might help us to understand the dollar's future as an international currency. This analysis of the political determinants of dollar's position is not designed to provide a new definitive answer to the question of the dollar's future. This task would require a much more detailed analysis of each point. Moreover, as I shall show, attention to the political determinants of the dollar's global position does not lead to any more consistent predictions than those generated by the analyses of economists. But it does highlight various ways that political scientists can widen the debate on this topic.

THE INDIRECT ROLE OF POLITICS

Any discussion of the determinants of international currencies must begin by recognizing the diverse ways in which a currency can assume an 'international' status. In an early important contribution to the literature on this topic, Cohen (1971) usefully highlighted six distinct ways which corresponded to the three basic functions of money as well as a distinction between public and private use. As a medium of exchange, a currency could be used as by the private sector to settle international economic transactions, or by governments to intervene in foreign exchange markets. As a store of value, a currency might be held as an asset by either foreign private actors or by governments in the form of their official foreign exchange reserves. Finally, as a unit of account, a currency might be used by market actors to denominate international financial instruments and trade, as well as by governments for either this purpose or as an anchor for pegging the national currency.

In all of these respects, the dollar has been by far the world's most important international currency throughout the postwar period, and it remains in a preeminent position today. As a medium of exchange, one indicator of its dominant role is the fact that the dollar continued to be used on one side of about 89% of all foreign exchange transactions at the time of the last BIS survey of foreign exchange trading (Bank for International Settlements, 2005) – whereas its nearest rivals, the euro and yen, have shares of only 37% and 20%, respectively. As a store of value, the dollar still made up two-thirds of the world's official foreign exchange reserves in 2006, compared to about one-quarter for the euro and below 5% for the yen. The dollar's shares in 2006 of international bank deposits (48%) and the stock of international debt securities (44%) also remained above those of the euro (28% and 31%) (with the yen again very far behind) (Bertuch and Ramlogan, 2007; European Central Bank, 2007). In addition, the dollar continues to be by far most popular currency in which to denominate international trade, with the euro used prominently only in trade with the euro area itself. As an official unit of account, the dollar is used as the anchor currency in almost two-thirds of all the countries in the world that peg their currency in various ways, while the euro is the anchor in only about one-third (and they are almost all in Europe or French-speaking African countries) (Bertuch and Ramlogan, 2007).

One further indicator of the dollar's global role is its use *within* many countries' domestic monetary systems. Earlier literature on international currencies often assumed that all states maintained an exclusive national currency within the territory they governed and that 'international' monetary transactions took place largely between these 'territorial currency' zones. In the contemporary age, however, the lines between domestic and international have become increasingly blurred as territorial currencies have eroded in many parts of the world. In this context, Cohen (1998) and others have increasingly highlighted how the dollar's international status today stems from its role as a medium of exchange, store of value, and unit of account not just in 'international' economic activity but also at the domestic level in 'dollarized' countries such as Russia or many parts of Latin America. The phenomenon of 'euroization' is largely restricted to countries on the geographical edges of the euro-zone (European Central Bank, 2007).

The economic determinants of international currencies

Given the various possible functions of an international currency, it might seem difficult to make any concise generalizations about the factors that lead a currency to assume international status. It is certainly true that different dynamics can encourage a currency to take on one international function vis-à-vis another. At the same time, each of the functions tends to reinforce the others in important ways (e.g. Chinn and Frankel, 2005; Krugman, 1984). For this reason, economists have felt justified in developing relatively succinct accounts of the sources of international currency standing in aggregate terms. Specifically, they have identified three key economic determinants of international currencies.[2]

To begin with, currencies are more likely to achieve an international standing – particularly as a store of value and unit of account – if foreigners have confidence in their stable value. This kind of confidence is inspired if a currency has a proven stable value over time, an attribute that is usually linked, in turn, to sound macroeconomic fundamentals in the issuing country. British sterling inspired confidence abroad for these reasons during its nineteenth century heyday, and this confidence eroded gradually in the twentieth century as British economic troubles prompted a serious of devaluations from the 1930s onwards.

In the contemporary context, economists predicting the US dollar's decline as an international currency suggest that a similar fate awaits the greenback if its value continues to depreciate in the face of growing US external debts and current account deficits (e.g. Eichengreen, 2005b). The dollar has of course already depreciated at various moments since the early 1970s without its international status being challenged in a major way. The current cycle of depreciation, however, is taking place in an environment where a credible alternative currency exists in the form of the euro, a currency which is managed by a central bank with a much stronger mandate than the US Fed to pursue price stability as its central objective.

Other economists are less certain that confidence in the dollar will erode so quickly. Tavlas (1997), for example, argues that foreign confidence in the dollar in the past has been linked less to its actual value at any given moment than to deeper structural economic factors that contribute to the relatively stability of its exchange rate over the longer term, such as the fact that the US is subject to relatively few external economic shocks and is able to adjust easily to these shocks. Gourinchas and Rey (2005) also suggest foreign confidence may be affected by deeper structural aspects of the US's external position. Despite its record external debt, they argue that confidence in the dollar has been sustained because the US continues to earn a higher return on its gross external assets than it pays in external liabilities (primarily because it enjoys a risk premium on borrowing). If, however, the US began paying more for its gross liabilities than it was earning on its assets at some point in the future, they suggest foreign confidence could begin to erode.

The second determinant of international currency standing identified by economists is the existence of well developed and open financial markets within the issuing country. These markets make the currency an attractive one in which to hold assets and in which to transact. In the nineteenth century, the liquidity of London's financial markets played a major role in boosting sterling's international standing as a store of value, medium of exchange and unit of account. Similarly, in the last few decades, the unparalleled depth and openness of US financial markets have been a central pillar for the dollar's international role. The fact that Japan and Germany were unwilling during the 1970s and 1980s to transform their financial systems along US lines also provides much of the explanation for why the yen and DM did not from challenge the dollar's international role in a significant way in that period. The underdeveloped and regulated nature of Chinese financial markets today ensure that the renminbi is very far away from becoming an international currency today (Cohen, 2007).

Many economists argue that the euro today poses more of a challenge to the dollar because it is backed by an integrated European financial space that increasingly rivals US financial markets in size, depth and sophistication. At the time of the Maastricht Treaty, economists with the European Commission (1990: 182) predicted that European money markets would very quickly be 'the largest in the world', a development that they believed would ensure euro's attractiveness to international investors. This prediction has not yet been realized partly because the deepest and most innovative European financial markets are in a country – the UK – which has chosen to stay outside of the euro-zone. Equally important, euro-zone financial markets remain quite fragmented and decentralized, and, in the absence of a single fiscal authority, there is no central European equivalent to the all-important US Treasury bill market (Bertuch-Samuels and Ramlogan, 2007; Cohen, 2007; Galati and Wooldridge, 2006; Schinasi, 2005).

The third key economic determinant of international currency standing relates to the extensiveness of the issuing country's transactional networks in the world economy. The more extensive the networks, the more likely foreigners are to use the country's currency in their international trade and investment activities, or as a monetary anchor.[3] Even when foreigners do not have direct links with the issuing country, they will be tempted to use its currency because the country's worldwide transactional networks guarantee the currency's broad acceptability.

Kindleberger (1967: 11) was among the first to highlight this link, arguing that the choice of an international currency was made 'not on merit, or moral worth, but on size'. Some economists have since shown empirically how changes in a country's share of the world product and trade influence the international role of the country's currency in areas such as reserve holdings (Chinn and Frankel, 2005). More generally, others have argued that the most important reason for the dollar's enduring international role is the overwhelming size of the US within the world economy (Bergsten, 2005) or the global reach of its corporations (Frank, 2003). Flandreau and

Jobst (2005) also find evidence from the late nineteenth century that trade size is a powerful driver of currency leadership.

These empirical studies focusing on country size in fact understate the significance of transactional networks. As Krugman (1984: 272) has noted, there is a kind of 'circular causation' encouraging a leading international currency to become even more prominent over time because people find benefits in using a currency that is used by others. These network externalities mean that an international currency can assume a global role that is well out of proportion to the issuing country's size in the world economy. They may also lead a currency to retain its international standing for a long time after the issuing country's position in the global economy has contracted. A number of economists have cited this inertia of incumbency to explain why sterling's decline as an international currency was so slow and prolonged (e.g. Bergsten, 2005; Krugman, 1984).

Will the same inertia slow the erosion of the US dollar's international standing? Some believe it will (Bergsten, 2005: 34; McKinnon, 2005: 247), but others have suggested that the possibility should not be overstated. Eichengreen (2005b) notes that network externalities may be influential in preserving the dollar's international role as a medium of exchange in realms such as foreign exchange trading, but they are less relevant to the dollar's function as a store of value where economic incentives in fact encourage diversification for risk aversion purposes. He also argues that the power of network externalities may be diminishing as financial markets become ever more sophisticated in ways that reduce the costs of using many currencies and switching between them (Eichengreen, 2007: 153).

Even if inertia is significant, there could come a point when the continued usefulness of the dollar's international role is suddenly questioned. Krugman (1984: 272) notes that this was the experience for sterling and he predicts that the dollar too could reach a 'critical point, leading to an abrupt unraveling of its international role'. In an analysis of the determinants of official reserves, Chinn and Frankel (2005) argue that such a point could be reached if the euro-zone expanded well beyond the US's economic size by including all EU members, particularly if this development coincided with a further depreciation of the dollar. In the East Asian region, others have suggested that the persistence of what McKinnon (2005) has described as the 'East Asian dollar standard' may be increasingly challenged as countries' economic dependence on the US erodes (e.g. Kwai, 2007: 105).

In sum, economists have identified three factors – confidence, liquidity and transactional networks – to be key economic determinants of international currencies. This is not to say that their analyses have generated any kind of consensus about the dollar's future. Some economists predict that the dollar's international role is about to decline dramatically, while others foresee little change in its status in the coming years. These disagreements often reflect the different weighting placed on the relative importance of each of the three key determinants. The lack of consensus is also sometimes a product of the fact that analysts are focusing on different functions that the dollar plays as an international currency. Predictions focusing on the dollar's role as a store of value usually anticipate greater change than those concentrating on the currency's role as a medium of exchange or unit of account (Kenen, 2002).

The influence of politics on confidence, liquidity and transactional networks

In what ways can political scientists contribute to these debates? Economists are certainly correct that these three economic factors can be crucially important in explaining why a currency comes to be used internationally. But each of these factors is itself heavily influenced by politics. Here we find the first channel – an *indirect* one – through which politics can act as a determinant of international currency use.

Confidence in a currency, for example, may be derived not just from economic fundamentals but also from the broader international security power of the issuing state (e.g. Strange, 1971). At the domestic political level, Walter (2006) notes that monetary power can also be cultivated by a consistent conservative monetary policy that is credibly embedded within domestic politics and institutions. In the nineteenth century, for example, he highlights how the stable value of sterling, which inspired such confidence abroad, was linked to Britain's limited government, the narrow electoral franchise, and a conservative financial clique's control of the Bank of England.

If we try to assess how these international and domestic political sources of confidence might influence the dollar's future as an international currency, they seem to pull in different directions. On the one hand, the dominant military power of the US no doubt boosts foreign confidence in the dollar, particularly at moments of international political instability when the dollar has consistently been seen as a 'safe haven' currency. On the other hand, the strength of anti-inflationary domestic political forces within the US at the moment is questionable, given the high levels of personal and public debt within the US. If there was a flight from the dollar similar to 1978–1979, foreigners have good reason to ask whether US policymakers would be as willing to endorse, and stick with, the kind of 'hard money' policy that Paul Volcker successfully introduced at that time to boost confidence in the currency.

The euro's situation is the opposite. As noted already, foreign confidence in the euro is certainly boosted by the fact that it has been embedded by its creators in a very conservative 'domestic' institutional context. Not only has the European central bank has been explicitly mandated (unlike the US central bank) to pursue low inflation, but its ability to fulfill this mandate has been strengthened by its legal independence (again, different from the Fed) from the influence of governments. These provisions, in turn, reflect some deeper European political realities including historical German monetary preferences and ideational trends across the region (e.g. McNamara, 1998). At the same time, confidence in the euro is undermined by the broader uncertainties about the strength of European political cooperation and the inability of Europe to project its power in a unified manner at the international level not just in monetary affairs but also in political and security affairs more broadly (Cohen, 2004, 2007; Henning, 1997, 2000; McNamara, 2008).

Political factors also influence whether a country is likely to house the kind of highly developed, liquid domestic financial markets that help to boost the international standing of a currency. In a long historical context, political scientists have highlighted how financial markets of this sort are most likely to emerge in a political context characterized by limited, constitutional government and pro-creditor legal frameworks (e.g. Stasavage, 2003b; Walter, 2006). Seabrooke (2006) has also recently argued that the kind of domestic financial liquidity required for global financial leadership is related to the political legitimacy of a domestic financial order in the eyes of low-income groups. Both of these structural factors should bode quite well for the US dollar's international role (although Seabrooke cautions that US policy trends since 2000 may work in the other direction). They also help to explain why China's rising economic power is unlikely to extend to the development of a financial system that boosts the yuan's international position any time soon.

This kind of structural political analysis should not blind us to the role that political agency can play in the construction of financial systems that support international currency leadership. Broz (1993) has highlighted how, in the early twentieth century, US policymakers actively cultivated the dollar's international role through the creation of the Federal Reserve System, a system that was able to boost liquidity in dollar-based New York financial markets through activities such as rediscounting and open market purchases. We have also already noted how the *absence* of this kind of political agency in Japan and West Germany during the 1970s and 1980s was crucial in allowing the dollar to remain largely unchallenged as an international currency in those years. Both countries had distinctive political reasons for deliberately refraining from cultivating the kind of open and deep domestic financial markets that would have boosted the internationalization of their currencies.

Beginning in the 1990s, Japanese authorities have begun to show more interest in this kind of financial reform for a variety of political reasons. But it is in Europe where policymakers have taken up the task of challenging the dominance of US financial markets in a more serious way. If the euro is to challenge the dollar as an international currency, European officials know they must take a more active role in cultivating more integrated, efficient and deep European financial markets. This role will need to involve the creation of more uniform financial regulations, the consolidation of exchanges across the euro-zone, as well as less ambiguous rules about how financial crises across the euro-zone are to be prevented and resolved in the coming years (e.g. Schinasi, 2005). Whether political constituencies across Europe can be mobilized sufficiently behind these reforms is a question of crucial importance to the future of the dollar's international position (Cohen, 2004, 2007; Henning, 2000; McNamara, 2008; Walter, 2006).

Finally, in what ways can political factors influence the extensiveness of the issuing country's transactional networks in the global economy? Most obviously, the issuing state can use its power to extend trade and financial networks by opening foreign markets for its firms in ways that might boost the attractiveness of its currency (e.g. Frank, 2003). Government authorities can also help create efficient payments and clearing systems which boost the country's position in the international monetary and financial system. For example, the public Bank of Amsterdam acted as clearing system for much international commerce in the seventeenth and eighteenth centuries, a phenomenon that encouraged its 'bank money' to become a key international currency. In the current age, European political initiatives to make euro-based clearing and payments systems as attractive as their dollar-based counterparts will play a significant role in influencing the euro's ability to challenge the dollar's international position.[4]

More generally, the international political reach of the issuing state may also boost the country's economic transactional networks. In the nineteenth century, sterling's global role was promoted not just by Britain's trade and financial networks (which were themselves often linked to British imperial power), but also by the economic activities of the increasingly far-flung official posts of the British empire. After the Second World War, the dollar's global role was boosted not just by the rapid growth of private US trade and investment abroad but also by the dramatic growth of US overseas aid, technical assistance and military spending. In many countries, these activities of the US state left a considerable economic footprint that served to cultivate wider transactional networks for the dollar. And they continue to do so today in the various regions of the world where what Peter Katzenstein (2005) calls the 'American imperium' continues to hold sway.

It should be clear, then, that politics can help determine international currency standing through these indirect channels of influencing confidence, liquidity, and transactional networks in ways that influence the economic choices of both market and state actors. It should also be apparent that attention to these indirect channels of political influence does not lead to a more consistent prediction of the dollar's international future than the writings of economists. This is hardly surprising given the number of variables to consider, the relative weighting that scholars can place on each one, and the fact that different analysts may focus on distinct international functions of the dollar.

THE DIRECT INFLUENCE OF POLITICS

These indirect channels of influence do not, however, exhaust the topics that political scientists can address in exploring the political determinants of the dollar's international position. Politics can influence international currency standing more directly. In some instances, a dominant or imperial state may impose its currency on subordinate countries or colonies. In her pioneering 1971 work on the politics of international currencies, Susan Strange suggested that this kind of international currency be called a 'Master' currency to contrast it with 'Top' currencies which achieve their international position because of their inherent economic attractiveness to both market actors and foreign public authorities.

In other instances, the influence of politics can be direct but more subtle. A state may choose to back a foreign currency's international position not because it is forced to but for other political reasons that do not relate to the inherent economic attractiveness of the currency. This support might, for example, be encouraged by inducements offered by the issuing state in the form of aid packages, promises of market access, or military protection. For this reason, Strange suggested that this kind of currency be labeled a 'Negotiated' one.[5] But the label was not meant to suggest that foreign state support for the currency always resulted from explicit diplomatic negotiations. It might, she noted, simply emerge from 'an implicit understanding' among the relevant parties (Strange, 1971: 5). Inclusive of wider circumstances such as these, I employ the term here to refer to any context where a currency's international role is supported by foreign governments for reasons that do not stem from the currency's inherent economic attractiveness (i.e. the factors relating to confidence, liquidity and transactional networks discussed above).[6]

Strange (1971: 6–7) did not intend her categories of international currencies to be rigid ones. Indeed, in her view, any international currency could assume different roles *simultaneously* in different contexts. Even during its heyday as an international currency, sterling was never solely a Top currency. It assumed this status in many parts of the world where market actors and foreign governments recognized the economic attractiveness of sterling's international role. But within British colonies, Strange highlighted that sterling was a Master currency whose status reflected the fact that British authorities during the late nineteenth and early twentieth centuries had systematically – and often with considerable coercion – replaced indigenous forms of money in their colonies with either sterling or new colonial currencies that were tied tightly to sterling. And by the interwar and early post-1945 years, sterling increasingly acted also as a Negotiated currency among independent countries that were members of the sterling area. Many foreign governments in the sterling area came to see their enduring support for sterling's international role as linked to specific benefits they might derive from their relationship with the British state.

Economic analyses of international currencies with at least some Master or Negotiated status will be incomplete because they make one or both of the following assumptions. The first is that market actors, driven by profit-maximizing goals, play a major role in conferring international currency status. The second is that, when public authorities are significant, their policies too are driven primarily by the kinds of economic considerations described in this first part of this article. While these assumptions hold true in a Top currency context, they are much less useful for an analysis of currencies with some aspects of Master and Negotiated status. In these instances, political authorities play at least some form of a *direct* role in determining the international standing of currencies. And they are motivated at least in part by various goals beyond those relating to confidence, liquidity and transactional networks.

A much more political form of analysis is thus necessary for any effort to understand the future of Master and Negotiated currencies. When analyzing Master currencies, the focus can be primarily on the politics of the issuing state because of its coercive power over subordinate territories. In the case of Negotiated currencies, however, analysts must examine politics in both the issuing state and that of the 'followers' as well as the interplay between the two parties. Strange herself did not attempt to develop a systemic approach for analyzing these complicated politics. Because of their potential importance today, however, it is worthwhile exploring this subject in a little more depth.

Beginning with the politics in follower states, Strange (1971: 5) suggested that a currency with Negotiated status is 'usually a currency in a weakened position, in decline' from a position as either a predominantly Master or Top currency. In this context, the follower states must weigh the costs and benefits of their continued dependence on the weakened currency. Strange focused primarily on their choice of whether to hold such a currency in their foreign reserves. But follower states may also be able to influence the international standing of a currency by choosing to keep their national money pegged to that currency, or by invoicing key aspects of their international trade in the currency. The attitude of follower states towards the private use of the dominant foreign currency *within* their domestic borders may also be significant. Decisions of various states in the nineteenth and early twentieth centuries to end the domestic circulation of foreign currency undermined the international role of currencies such as the Mexican peso and sterling in that era (Helleiner, 2003a).

What kinds of factors might influence follower states' decision-making *vis-à-vis* these policies? The economic considerations highlighted in the first section of this paper will clearly be significant, but they rarely tell the whole story. Work by various political scientists has shown that political factors often play an important role. In some instances, support for policies that continue to back an international currency may come from private domestic interests with close ties to the issuing state. Various state-level political factors – ranging from the ideational beliefs of key policymakers to various bureaucratic and institutional logics – can also play a role. And as Strange (1971: 18) has noted, the most influential political variables are frequently systemic-level factors, particularly those relating to the country's security position within the inter-state system.

One such key factor is the country's political relationship – especially its high politics dimensions – with the issuing state. But just as important may be the relationship of various follower states to each other. Providing backing to a Negotiated currency can be a risky venture for follower states if the value of the currency is dependent on many other follower states offering their support as well. In such a situation, individual states may be prompted to free ride on the support provided by the others. And the more that everyone's commitment is suspect, the more each state will be tempted to defect from the coalition first and reap the maximum financial rewards of 'cashing out' while the value of the currency is still high (e.g. Eichengreen, 2005a). Thus, the support from follower states may be more fragile than it appears at first. There may be 'tipping points' beyond which support erodes rapidly in a kind of bandwagon effect.

The decisions of the issuing state will be equally important in determining the fate of currencies with some Negotiated status. As Strange (1971: 17) noted, the issuing state is often in a 'defensive' posture of considering whether to offer inducements to foreign states to continue to support the international standing of their weakening currency. Its choice to do so or not may be dependent once again on political influences at all three levels. At the domestic level, internationally-oriented economic actors in the issuing state have often pressed their own government to take an active role in promoting the use of its currency abroad in order that they can minimize currency-related transaction costs or earn 'denomination rents' (Helleiner, 2003b; Stasavage, 2003a). At the same time, more domestically-oriented actors often resent the costs associated with the maintenance of an international currency in terms of the constraints imposed on national policymaking, the competitive threats stemming from an overvalued currency, and/or the direct costs of sustaining a Negotiated currency.

At the state level, Cohen (1998, 2004) has comprehensively discussed how policymakers in issuing states might take into consideration a number of factors relating to seigniorage, transaction costs, macroeconomic goals, political symbolism and diplomatic influence. Policymakers in issuing states also may be influenced by systemic-level variables relating to the position of their country within the global political economy. The nature of their state's broader political relationships with follower states will likely play a significant role in encouraging or discouraging the offer of inducements to support the currency's international standing. The decision to take an active stance of defending a currency's international standing might also be influenced by the actions of other issuers of international currencies. If, for example, another issuing state was aggressively courting support for *its* international currency, the pressure to follow suit might increase.

Following Strange, the discussion above has focused on Negotiated currencies that are in a state of decline from a Top currency status. But a Negotiated currency may also be a currency on the rise.[7] It may be issued by an emerging power in an 'offensive' posture of wishing to see its currency assume an international standing more quickly than a market-led process might produce. By offering special inducements to other states to use its currency, this emerging power may seek to offset the incumbency advantages that accrue the established monetary power. Whether this strategy is successful of pursuing what Cohen (2004, 2007) has called 'formal leadership' – to contrast it with 'informal' leadership aimed at influencing market actors – will depend on the responses of the targeted follower states. Their motivations to switch their monetary allegiance can be influenced by various economic considerations but also by the kinds of domestic, state, and system-level political factors discussed above.

In sum, any effort to predict the future of the international standing of a currency with some Negotiated status is bound to be much more complex than for that of a Master currency where the focus can be on the issuing state's decisions. It is also much more difficult than predicting the future of a currency with exclusively Top status. The latter can be analyzed with reference to the economic criteria of confidence, liquidity and transactional networks. The messy world of politics enters into the story only indirectly insofar as it influences these criteria. By contrast, political analysis must be more front and center in any effort to understand the future of currencies with some Negotiated status. The position of this kind of international currency is much more directly dependent on the political choices of the issuing state and following states, as well as the political relationships between them. For this reason, their fate is less predictable and can be subject to more rapid change.

What kind of international currency is the dollar?

To date, economists have dominated discussions of the dollar's future and they have understandably focused attention on the economic determinants of the dollar's international standing described in this first section of this paper. If the dollar is exclusively a Top currency, this focus is entirely appropriate. In this context, the main contribution that political scientists can make to the debate will be to explore the *indirect* influence of politics on these economic determinants in the ways already discussed. But if the dollar has some aspects of Negotiated currency status, political scientists have more to contribute.[8] The dollar's future would then be increasingly dependent on politics in the US and in the other states supporting the dollar's international position. Analyses of the politics underlying state choices in this context could make a significant contribution to our understanding of the dollar's future.

That the dollar is a Top currency in many contexts is clear from its enduring economic attractiveness to many market actors and governments around the globe according to the criteria discussed above. But are some governments also influenced to back the dollar's international role by other more political considerations? As far back as the 1960s, the dollar's international standing was already partly a Negotiated one. When growing US external deficits in that decade undermined confidence in the dollar, support for the currency increasingly came from foreign monetary authorities and they were often motivated to provide this support by broader political objectives. In some cases, foreign support for the dollar stemmed from an implicit understanding that this would preserve US goodwill and access to the US market. In other countries – such as West Germany – dollar reserve holdings were linked explicitly to broader bilateral security relations with the US (e.g. Calleo, 1982; Gavin, 2004; Zimmermann, 2002).

After the US suspended the dollar's convertibility into gold in 1971, many questioned the dollar's future as an international currency and assumed that it could only be maintained with more explicit political support. To be sure, US officials did seek to preserve the dollar's international role through some diplomacy, such as with Saudi Arabia after the oil shock of 1973 (Spiro, 1999). But the need for such diplomacy diminished as the growing globalization of financial markets in this period bolstered the US dollar's economic attractiveness because of the unique depth, breadth and efficiency of US financial markets. In this way, the dollar's international standing shifted from a partly Negotiated currency to more predominantly Top currency because of the unique structural power held by the US within the more market-based international monetary order that was emerging in that era (Helleiner, 1994; Strange, 1986). The significance of foreign political support for the dollar's international status diminished further in the wake of the Volcker shock of 1979 which provided new economic incentives to back the dollar's international status.

With the creation of the euro in 1999, and the growth of the US external debt and current account deficits since then, the economic appeal of the dollar as an international currency has become less distinctive. To be sure, the unparalleled liquidity of US financial markets and the important global position of the US economy ensure that the dollar's Top currency standing will not disappear soon. But market sentiment has certainly become much less bullish on the dollar, particularly *vis-à-vis* its role as a store of value, as is evidenced by the downward pressure on the dollar's value since 2001–2002. To date, the dollar's depreciation has been cushioned by a number of foreign monetary authorities which have stepped in to support its value through dollar purchases. Governments in East Asia have accumulated particularly large dollar reserve holdings in this period with China holding over $1 trillion in mainly dollar-denominated foreign currency reserves and Japan acquiring over $800 billion. Also significant in this supporting role have been governments in the Middle East and Russia.

The levels of official dollar reserve holdings abroad have reminded many scholars of the situation in the 1960s when the dollar became increasingly dependent on foreign political support. For this reason, some have even described today's international monetary system as a kind of 'Bretton Woods 2' (Dooley *et al.*, 2003, 2005), suggesting a return to the dollar's partial Negotiated status in that period. But the term 'Negotiated' currency in this context only makes sense if the official dollar holders have accumulated these reserves for motivations unrelated to the kinds of economic considerations highlighted in the first section of the paper. The proponents of the Bretton Woods 2 thesis suggest that this is indeed the case. From their standpoint, the central motivation of the key dollar holders in East Asia has been a broader strategic one of trying to maintain an export-oriented growth strategy that relies on undervalued currencies and a buoyant US market.[9] The US is also portrayed as upholding its end of the bargain by keeping its markets open to East Asian exports, a position that is said to reflect the lobbying influence of US businesses with plants in China as well as a broader recognition of the benefits stemming from cheap imports and low cost foreign funding for its deficits.

If parallels are being drawn to the 1960s, scholars have produced little evidence so far of any explicit deals between the US and dollar supporting countries in this recent period. But this is not to say that implicit understandings are not in play. Some of the key official support for the dollar in East Asia comes from countries – most notably China, Japan and South Korea – whose structural position in the world has left them highly dependent on the US as an external market for their products. In the case of Japan and South Korea, this economic dependence is compounded by their reliance on the US for military protection.[10] The support for the dollar coming from key Middle Eastern oil producing countries is reminiscent of the role they have played before, a role that was often linked to their broader geopolitical relationship with the US.

The durability of political support for the dollar?

Political science research that examines empirically the precise motivations for the current large reserve holdings of dollars remains very limited to date.[11] But if the Negotiated currency label makes some sense in this context, does this necessarily imply that a more political analysis of the future of the dollar's international role as a whole is in order? Not everyone thinks so. Truman (2005: 63fn17) cautions that the dollar's overall status as an international currency may not be influenced very much by reserve policies: 'It is important to appreciate that the choice of an international currency today is made by the private sector via market forces, not by the public sector by government decisions or fiat. The dollar's private international role is much more important than its reserve role'.

While Truman is correct that the dollar's various international roles certainly need to be separated out, his argument may understate how they can be inter-related. An erosion of the dollar's reserve role could influence private confidence in the dollar's stable value which in turn could affect other international functions of the dollar. The likelihood of such a scenario is only increased if the dollar's international position is being sustained to a considerable degree by the inertia of incumbency mentioned earlier, and if private confidence in the dollar is already fragile. Indeed, while the scale of daily foreign exchange trading in the private markets today ($1.9 trillion) surpasses the size of any one state's official reserves holdings, even simple rumors that prominent foreign monetary authorities are considering diversifying their reserve holdings away from dollars have recently undermined market confidence in the US currency (e.g. Click, 2006; Galati and Wooldridge, 2006; Murphy, 2006).

Moreover, it is worth noting that the Negotiated status of the dollar may extend to some of the dollar's other international functions as well. Some suggest that OPEC member governments can influence the dollar's role as an international unit of account through their choice of currency for oil pricing (although others point out that pricing decisions in this area are increasingly market-driven – Looney, 2004; Momani, 2006). Foreign governments can also play a role of encouraging or discouraging the domestic use of the US dollar as a store of value and medium of exchange. The case of Russia is particularly interesting in this respect since it became, in the post-Soviet era, one of the most 'dollarized' countries in the world. Johnson (2008) notes that Russians recently held between $40 and $80 billion in US dollar cash and deposits, a figure was not far below the Russian government's official dollar holdings (roughly between $90 and $100 billion). A successful initiative by the Russian government to 'de-dollarize' the domestic monetary system could thus be as significant to the dollar's international role in that country as the government's decision to diversify its reserves away from dollars.

For these various reasons, those interested in the future of the dollar's international role do need to explore the durability of the support it receives from foreign governments. Some believe that this support is quite solid. With respect to the reserve role, for example, advocates of the Bretton Woods 2 hypothesis argue that neither the US nor the official dollar reserve holders abroad have reason to upset the existing arrangement given the mutual benefits it provides.[12] They predict that Bretton Woods 2 could last at least another decade or more.

But there are important reasons to be more skeptical of the political longevity of the current official support for the dollar's international role. To begin with, Kirshner (2008) notes that one key difference from the 1960s is the fact that support for the dollar no longer comes exclusively from countries that are close military allies of the US. Given the historical affinity between security and monetary ties, this fact may be significant. Put bluntly, the dollar's position may be less secure in a context where the largest holder of dollar reserves – China – is considered by many as more of a geopolitical rival than ally of the US. Political scientists can certainly cite many historical examples when official reserves have been used as a weapon by their holders for geostrategic purposes (e.g. Kirshner, 1995).

While such rivalry has not yet influenced Chinese policy towards the dollar (see Bowles and Wang, 2008), there are signs that geopolitical tensions are already influencing some other dollar supporting countries. Johnson (2008) shows how resurgent nationalism in Russia has prompted Russian officials to take a number of measures to lessen their dependence on the dollar. These have included initiatives not just to diversify the country's official foreign exchange reserves away from dollars but also to 'de-dollarize' the domestic monetary system and eliminate the role of the dollar in domestic oil trading. In linking their challenge to the dollar with the push for greater political independence from the US, Russian officials are following in De Gaulle's footsteps.

Dissatisfaction with dollar dependence may even be growing among countries that have long been loyal supporters of the currency. Some of this reflects economic concerns about the depreciating value of the US dollar, but broader political considerations may also be playing a role. Katada (2008) highlights how Japanese officials have increasingly promoted the yen's international role since the late 1990s and she suggests that a key motivation has been to reduce the dependence of Japan and East Asia on the US policy preferences, a dependence that was blamed partially for Japan's bubble economy of the 1980s and for the severity of the 1997–1998 East Asian financial crisis. Several scholars have also suggested that concerns about recent US policy towards the Middle East could encourage some key countries in that region to reconsider their support for the dollar (Eichengreen, 2004; Momani, 2006). As Cohen (2007) highlights, this shift could accelerate if the EU chose to promote the euro's role more actively in the Middle East.

If foreign support for the dollar may be less solid than in the past, the possibility of an unstable future for the dollar could grow in another way. Under Bretton Woods 1, 'free riding' behavior and 'bandwagon' dynamics *vis-à-vis* reserve holdings were partially kept in check by the binding agent of a military alliance and various international policy networks among Western officials in the financial and monetary realm.[13] Under Bretton Woods 2, this glue is much less present. The risk of defections generating a herd-like momentum away from a depreciating dollar may thus be higher, particularly given that there is now a credible alternative to the dollar in the form of the euro (Eichengreen, 2004, 2005a; Goldstein and Lardy, 2005: 9). We have today, in other words, a more fragile political equilibrium among dollar supporting states in which a sudden change in expectations could perhaps generate quite rapid change. In this context, it is worth recalling the size of the financial losses being incurred by countries such as China and Japan on their enormous dollar holdings whenever the dollar depreciates.[14]

One further trigger for a change in expectations could come from the US itself. According to its proponents, Bretton Woods 2 depends for its durability on the US acting as an attractive market for imports from East Asian dollar supporting countries. If a US recession reduced the ability of the US to purchase these imports, dollar holding countries might reconsider the benefits of their reserve holdings.[15] Growing protectionist pressures in the US today also call into question the *willingness* of the US to act as this kind of open market. Bretton Woods 1 was brought down by similar pressures which culminated in Nixon's sudden imposition of import surcharges in August 1971. There is now considerable support within the US for unilateral protectionist measures against countries that are deemed to be keeping their currencies artificially low, with China now as the main target. Back then, US allies responded to the Nixon shock by largely accepting US policy preferences and the move to a pure dollar standard. But if the US was to repeat this kind of policy today, might the Chinese government and others be prompted to reevaluate the benefits of their support for the dollar?[16]

If there was to be a serious run on the dollar, the dollar's fate as an international currency could be influenced enormously by US policy choices. A Volcker-like reaction could of course help to restore confidence, but I have suggested already why this course of action may be less likely in the contemporary context. Another strategy to defend the dollar's international position would be to strike more explicit bargains with other states to sustain the dollar's international role. This was the strategy that Britain pursued for much of the twentieth century, a development that helps explain sterling's longevity (De Cecco, 1974; Eichengreen, 2005b). Is it likely that the US government would follow in the British government's footsteps?

The political context is obviously quite different. Many members of the sterling area were British colonies, forced to embrace and support sterling by their subordinate status. By contrast, members of the informal US 'dollar area' today have more autonomy to make their own choices to support the greenback and might require significant inducements to encourage them to back the greenback's international position. The possibility of the US offering such inducements was in fact raised at the time of the euro's inauguration. In 1999–2000, there was an active debate within the US about promoting formal dollarization abroad more actively, particularly in the Americas, through US promises to share seigniorage or lender-of-last-resort support with dollarizing countries. While the debate reflected a renewed interest in explicit 'negotiation' as a tool to sustain the dollar's international position, it also highlighted that US policymakers were not yet willing to bear the formal costs – even quite small ones – that might be associated with maintaining a Negotiated international currency. The proposals failed to win much support, even from internationally-oriented domestic economic groups, and they were shelved (Cohen, 2004; Helleiner, 2003b).

For much of the postwar period, the dollar's international role buttressed US power and policy autonomy within the global system. It helped loosen the financial constraints that US policymakers encountered in pursuing various domestic and foreign policy goals. When US policymakers consider offering foreigners inducements to maintain a Negotiated currency, however, the tables are suddenly turned. The dollar's international role becomes more of a burden and something for which US power, economic resources, and diplomatic influence must be mobilized to defend. Given the sheer scope of these capabilities, the US state could certainly defend the dollar's international role very effectively if it so chooses. And if the past is any guide, the easiest deals to strike would be with states within the 'American Imperium'. But whether American policymakers will be willing to embrace this option in the coming years is less clear.

CONCLUSION

What do political scientists have to contribute to analyses of the dollar's future as an international currency? Over 30 years ago, as the interest in the future of the international position of sterling and the dollar intensified, Susan Strange was prompted to write *Sterling and British Policy* because of the fact that the discussions were dominated by economists who did not acknowledge the central importance of politics to the issue. In contrast to economists' analyses of the economic determinants of these currencies' global position, she sought to develop what she called a 'political theory of international currencies' (Strange, 1971: 3). Her resulting distinction between the different varieties of international currency status was more of a taxonomy than a theory, but it still represented a pioneering effort to analyze the political determinants of international currencies.

The renewed interest in the dollar's future as an international currency in the last few years has once again prompted a flurry of writing by economists. This work has been successful in highlighting several key economic determinants of international currency status relating to confidence, liquidity, and transactional networks. Many of their analyses have also shown interest in the role of politics – witness some of the political issues discussed by the Bretton Woods 2 debate. But the work of political scientists is very rarely referenced in this literature. This is unfortunate because political scientists have devoted considerable attention to the determinants of international currencies since Strange's initial writings, and much of this work is relevant to the debate on the dollar's future.

In this essay, I have attempted to synthesize and build upon the insights of much of this work in a manner that highlights the different channels through which we can conceptualize the influence of politics on international currency status. As I have suggested, it may be useful to divide these influences into two categories. In the first, politics is important indirectly through its role in shaping confidence, liquidity, and transactional networks in ways that influence the economic choices of market and state actors. In the second category, involving currencies with at least some degree of Master and Negotiated status, politics matters more *directly* by prompting states – both those issuing an international currency and follower states – to support a currency's international position for reasons unrelated to their inherent economic attractiveness. This taxonomy expands upon Strange's initial model by incorporating the indirect channels of political influence and by refining her concept of the meaning of, and politics associated with, Negotiated currencies.[17] It also builds on Benjamin Cohen's (2004, 2007) more recent analyses of 'informal' versus 'formal' currency leadership, a distinction that highlights well how influence can be exerted over either market actors or states. My 'indirect-versus-direct' taxonomy embraces Cohen's wider vision of how monetary leadership can be exercised but it hinges less on the kind of actor being influenced than on the *motivations* of actors; that is, whether support for an international currency stems from the currency's inherent economic attractiveness (to both market *and state* actors) or not.

How does this discussion help us to analyze the dollar's future as an international currency? Like the writings of economists, political analyses are unlikely to reach a consensus about the currency's future given the number of variables involved and different relative weightings that can be assigned to each. But my hope is that this taxonomy may help future scholars to identify the sources of contrasting predictions, and even more importantly, to recognize the many angles through which political scientists can contribute to future debates about the dollar's fate. Because of the market-oriented nature of the contemporary international monetary system, analyses that focus on the first set of *indirect* influences are certain to be fruitful in highlighting how politics can influence the dollar's future. At the same time, the second channel of political influence may also deserve more attention if the dollar increasingly assumes, at least in part, more of a Negotiated currency status. In that event, scholars interested in the dollar's future will benefit from more detailed analyses of the various distinctive politics – domestic and international – that are driving decisions made by the US and other states to directly support the currency's international role.

ACKNOWLEDGEMENTS

Special thanks for their helpful comments to the four anonymous reviewers of this journal as well as to Jerry Cohen, Jonathan Kirshner, Chris Way, Hubert Zimmerman, and all the other participants in the Cornell workshops on 'The Future of the US Dollar'. For their research help and support, I thank Troy Lundblad and the Social Sciences and Humanities Research Council of Canada.

NOTES

1 In the important Andrews (2006) volume, for example, the only chapter that focuses primarily on this issue is Andrew Walter's and he is concerned only with what I call in this paper the 'indirect' role of politics.
2 For surveys of recent writing about the economic determinants of international currencies, see Cohen (1998, 2004) and Lim (2006). This recent literature builds on earlier economic writings around the time of collapse of the Bretton Woods exchange rate system (e.g. Cohen, 1971; Kindleberger, 1967; Swodoba, 1969).
3 For the latter, see especially McKinnon (2005).
4 For an innovative study of the politics of clearing and payments systems, see Jeffs (forthcoming). The issue of the importance of these systems has also been raised in East Asia among those who are encouraging the region to reduce its dependence on the US dollar via the creation of the creation of an Asian Currency Unit (Eichengreen, 2007).
5 Strange also introduced one further distinction – 'Neutral' currencies – to describe a currency such as Swiss Franc which, like a Top currency, achieved its international standing because of its economic attractiveness, but which was not issued by a dominant economic power.
6 This definition of the term is perhaps a little wider than Strange herself intended, but I think it usefully includes a set of circumstances which do not otherwise fall easily into her categories. I am suggesting that a Negotiated currency's international position relies on the *voluntary* support of foreign states (in contrast to a Master currency) and that this support stems from reasons beyond the inherent economic attractiveness of the currency (in contrast to a Top currency).
7 I am very grateful to Benjamin Cohen for suggesting the line of argument in this paragraph.

8 The category of Master currency is much less relevant for the dollar today than it was for sterling.
9 Dooley and Garber (2005) also develop an argument that dollar reserves are being accumulated by foreign governments such as China's as a kind of collateral to encourage foreign private investment in the country. As Eichengreen (2005b) notes, however, there is little evidence for this thesis and it also does not apply well to large dollar holders such as Japan or South Korea where there is no real risk of expropriation of foreign assets.
10 Murphy (2006) explicitly links Japan's dollar support in the current period to the country's broader geopolitical dependence on the US.
11 Shih and Steinberg (2007) provide one recent exception with their attempt to develop statistical indicators of the determinants of reserve holdings in 2000–2005. They find some support for the Bretton Woods 2 thesis, but precision of some of the indicators employed might be questioned by critics of that thesis.
12 They also argue that the two largest dollar holders – China and Japan – are less concerned about the potentially inflationary consequences of holding such large reserves than dollar holders in the past. When US allies accumulated dollar reserves to stem dollar depreciation in episodes such as the late 1960s, late 1970s or the late 1980s, it often proved difficult to sterilize this currency intervention, with the result that the dollar purchases were soon curtailed in an effort to prevent domestic inflation. In the current context, however, Dooley and Garber argue that Japanese authorities have seen currency intervention as a way to help reverse the domestic *deflationary* pressures Japan has experienced for over a decade, while Chinese authorities are better able to contain inflationary pressure because of the heavily regulated nature of the Chinese financial system (Dooley and Garber, 2005: 159). The latter argument is challenged by many, e.g. Goldstein and Lardy (2005), Eichengreen (2005a), Roubini and Setser (2005).
13 Even in this context, Eichengreen (2005b) notes that collective action problems eventually undermined cooperation among dollar supporters.
14 Using the size of China's reserves at the end of 2004, Goldstein and Lardy (2005: 9) note that a 15% depreciation of the dollar against the renminbi would cause financial loss to China that are equivalent to 6% of China's GDP. The number is even higher today given the rapid growth in the size of its reserves.
15 Gray (2004) highlights the importance to the US dollar's standing of the US acting as the key locomotive boosting world aggregate demand.
16 Some think China's export dependence would preclude this, but Goldstein and Lardy (2005: 4) note that the US takes only one-third of Chinese exports at this point (Europe's share is roughly a quarter).
17 Strange's later writings (e.g. Strange, 1987) about the 'structural' power of dominant states in the international monetary system acknowledged the significance of the 'indirect' channel of political influence more effectively. For an overview, see Helleiner (2006).

NOTES ON CONTRIBUTOR

Eric Helleiner is CIGI Chair in International Governance and Professor in the Department of Political Science, University of Waterloo. He is also currently a Trudeau Fellow as well as co-editor of the book series Cornell Studies in Money. He is author of *Towards North American Monetary Union?* (McGill-Queen's University Press, 2006), *The Making of National Money* (Cornell University Press, 2003), and *States and Reemergence of Global Finance* (Cornell University Press, 1994), as well as

co-editor of *Economic Nationalism in the Globalizing World* (Cornell University Press, 2005) and *Nation-States and Money* (Routledge, 1999). He has also authored many articles concerning international monetary and financial politics, and is currently researching the dollar's international role as well as US financial advisory missions in the early postwar years.

REFERENCES

Andrews, D. (2006) *International Monetary Power*, Ithaca: Cornell University Press.

Bank for International Settlements (2005) *Central Bank Survey of Foreign Exchange and Derivative Market Activity 2004*, Basle: Bank for International Settlements. March.

Bergsten, F. (2005) 'The Euro and the Dollar', in A. Posen (ed.) *The Euro at Five: Ready for a Global Role?*, Washington, DC: Institute for International Economics.

Bertuch-Samuels, A. and Ramlogan, P. (2007) 'The Euro: Ever More Global', *Finance and Development*, 44(1): 46–9.

Bowles, P. and Wang, B. (2008) 'The rocky road ahead: China, the US and the future of the dollar', *Review of International Political Economy*, 15(3): 335–53.

Broz, L. (1993) *The International Origins of the Federal Reserve System*, Ithaca: Cornell University Press.

Calleo, D. (1982) *The Imperious Economy*, Cambridge: Harvard University Press.

Chinn, M. and Frankel, J. (2005) 'Will the Euro Eventually Surpass the Dollar As Leading International Reserve Currency?', *NBER Working Paper 11510*, Cambridge, MA: National Bureau of Economic Research.

Click, R. (2006) 'On the Composition of Asian Central Bank Reserves: Will the Euro Replace the Dollar?', *Journal of Asian Economics*, 17: 417–26.

Cohen, B. (1971) *The Future of Sterling as an International Currency*, London: McMillan.

Cohen, B. (1998) *The Geography of Money*, Ithaca: Cornell University Press.

Cohen, B. (2004) *The Future of Money*, Princeton: Princeton University Press.

Cohen, B. (2007) 'Toward a Leaderless Currency System', paper presented at workshop, 'Wither the Key Currency?' Cornell University, Ithaca, New York, 12–14 October.

De Cecco, M. (1974) *Money and Empire*, Oxford: Blackwell.

Dooley, M. and Garber, P. (2005) 'Is it 1958 or 1968? Three Notes on the Longevity of the Revised Bretton Woods System', *Brookings Papers on Economic Activity*, 1: 147–87.

Dooley, M., Folkerts-Landau, D. and Garber, P. (2003) 'An Essay on the Revived Bretton Woods System', *NBER Working Paper 9971*, Cambridge, MA: National Bureau of Economic Research.

Dooley, M., Folkerts-Landrau, D. and Garber, P. (2005) *International Financial Stability*, Deutsche Bank, Global Markets Research Group.

Eichengreen, B. (2004) 'The Dollar and the New Bretton Woods System', Henry Thorton Lecture delivered at the Case School of Business, 15 December.

Eichengreen, B. (2005a) 'Comments and Discussion', *Brookings Papers on Economic Activity*, 1: 188–94.

Eichengreen, B. (2005b) 'Sterling's Past, Dollar's Future: Historical Perspectives on Reserve Currency Competition', mimeo, April.

Eichengreen, B. (2007) 'Parallel Processes? Monetary Integration in Europe and Asia', in B. Eichengreen and Duck-Koo Chung (eds) *Towards an East Asian Exchange Regime*, Washington: Brookings Institution.

European Central Bank (2007) *Review of the International Role of the Euro*, Frankfurt: European Central Bank.

European Commission (1990) 'One Market, One Money', *European Economy*, 44.

Flandreau, M. and Jobst, C. (2005) 'The Empirics of International Currencies: Evidence from the 19th Century', mimeo, November.

Frank, E. (2003) 'The Surprising Resilience of the US Dollar', *Review of Radical Political Economics*, 35(3): 248–54.

Galati, G. and Wooldridge, P. (2006) 'The Euro as a Reserve Currency: a Challenge to the Pre-eminence of the US dollar?', *BIS Working Papers, No 218*, Basle: Bank for International Settlements.

Gavin, F. (2004) *Gold,Dollars and Power: The Politics of International Monetary Relations,1958–71*, Chapel Hill: University of North Carolina Press.

Goldstein, M. and Lardy, N. (2005) 'China's Role in the Revived Bretton Woods System: A Case of Mistaken Identity', Institute for International Economics, *Working Paper 05-2*, March.

Gourinchas, P.-O. and Rey, H. (2005) 'From World Banker to World Venture Capitalist: US External Adjustment and the Exhorbitant Privilege', CEPREMAP, August.

Gray, H. P. (2004) *The Exhaustion of the Dollar*, New York: Palgrave.

Helleiner, E. (1994) *States and the Reemergence of Global Finance*, Ithaca: Cornell University Press.

Helleiner, E. (2003a) *The Making of National Money*, Ithaca: Cornell University Press.

Helleiner, E. (2003b) 'Dollarization Diplomacy: US Policy towards Latin America Coming Full Circle?', *Review of International Political Economy*, 10(3): 406–29.

Helleiner, E. (2006) 'Below the State: Micro-Level Power', in D. Andrews (ed.) *International Monetary Power*, Ithaca: Cornell University Press.

Henning, C. R. (1997) *Cooperating with Europe's Monetary Union*, Policy Analyses in International Economics 49, Washington, DC: Institute for International Economics.

Henning, C. R. (2000) 'US–EU Relations after the Inception of the Monetary Union: Cooperation or Rivalry?', in C. Randall Henning and Pier Carlo Padoan (eds) *Transatlantic Perspectives on the Euro*, Washington, DC: Brookings.

Jeffs, J. (forthcoming) 'The Politics of Financial Plumbing: Harmonization and Interests', *Review of International Political Economy*.

Johnson, J. (2008) 'Forbidden fruit: Russia's uneasy relationship with the US dollar', *Review of International Political Economy*, 15(3): 379–98.

Katada, S. (2008) 'From a supporter to a challenger? Japan's currency leadership in dollar-dominated East Asia', *Review of International Political Economy*, 15(3).

Katzenstein, P. (2005) *A World of Regions: Asia and Europe in the American Imperium*, Ithaca: Cornell University Press.

Kenen, P. (2002) 'The Euro versus the Dollar: Will there be a Struggle for Dominance?', *Journal of Policy Modeling* 24: 347–54.

Kindleberger, C. (1967) *The Politics of International Money and World Language*, Essays in International Finance, No 61, Princeton: Princeton University Press.

Kirshner, J. (1995) *Currency and Coercion*, Princeton: Princeton University Press.

Kirshner, J. (2008) 'Dollar primacy and American power: What's at stake?', *Review of International Political Economy*, 15(3): 418–38.

Krugman, P. (1984) 'The International Role of the Dollar: Theory and Prospect', in J. Bilson and R. Marston (eds) *Exchange Rate Theory and Practice*, Chicago: University of Chicago.

Kwai, M. (2007) 'Dollar, Yen, or Renminbi Bloc?', in *Toward and East Asian Exchange Rate Regime*, Washington, DC: Brookings.

Lim, E.-G. (2006) 'The Euro's Challenge to the Dollar', *IMF Working Paper 06/153*.
Looney, R. (2004) 'Petroeuros: A Threat to US Interests in the Gulf?', *Middle East Policy*, 11(1): 26–37.
McKinnon, R. (2005) *Exchange Rates Under the East Asian Dollar Standard: Living with Conflicted Virtue*, Cambridge: MIT Press.
McNamara, K. (1998) *The Currency of Ideas*, Ithaca: Cornell University Press.
McNamara, K. (2008) 'A rivalry in the making? The Euro and international monetary power', *Review of International Political Economy*, 15(3): 439–59.
Momani, B. (2006) 'The Future of the Dollar and the Oil Connection', mimeo.
Murphy, R. T. (2006) 'East Asia's Dollars', *New Left Review*, 40: 39–64.
Roubini, N. and Setser, B. (2005) 'Will the Bretton Woods 2 Regime Unravel Soon?', February.
Schinasi, G. (2005) 'Financial Architecture of the Eurozone at Five', in A. Posen (ed.) *Euro at Five*, Washington, DC: Institute for International Economics.
Seabrooke, L. (2006) *The Social Sources of International Financial Power*, Ithaca: Cornell University Press.
Shih, V. and Steinberg, D. (2007) 'Institutional Constraints, Mercantilism or Free Riding? The Political Economy of Changes in Global Dollar Holdings, 2000–2005', paper presented to the ISA, Chicago, 28 February–3 March.
Spiro, D. (1999) *The Hidden Hand of American Hegemony*, Ithaca: Cornell University Press.
Stasavage, D. (2003a) *Political Economy of a Common Currency*, Aldershot: Ashgate Publishers.
Stasavage, D. (2003b) *Public Debt and the Birth of the Democratic State*, Cambridge: Cambridge University Press.
Strange, S. (1971) *Sterling and British Policy*, Oxford: Oxford University Press.
Strange, S. (1986) *Casino Capitalism*, Oxford: Blackwell.
Strange, S. (1987) 'The Persistent Myth of Lost Hegemony', *International Organization*, 41(4): 551–74.
Swodoba, A. (1969) 'Vehicle Currencies in the Foreign Exchange Market: The Case of the Dollar', in R. Aliber (ed.) *The International Market for Foreign Exchange*, New York: Praegar.
Tavlas, G. (1997) 'The International Use of the US Dollar: An Optimum Currency Area Perspective', *The World Economy*, 20(6): 709–47.
Truman, E. (2005) 'The Euro and Prospects for Policy Coordination', in A. Posen (ed.) *The Euro at Five*, Washington, DC: Institute for International Economics.
Walter, A. (2006) 'Domestic Sources of International Monetary Leadership', in D. Andrews (ed.) *International Monetary Power*, Ithaca: Cornell University Press.
Zimmermann, H. (2002) *Money and Security.Troops and Monetary Policy in Germany's Relations to the United States and the United Kingdom,1950–71*, Cambridge: Cambridge University Press.

Copyright of Review of International Political Economy is the property of Routledge and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.