FUTURE OF US DOLLAR IN INTERNATIONAL POLITICAL ECONOMY

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ABSTRACT

International Monetary System during the Cold War shifted from gold standard to US dollar. Since then global economy depends not only on USA but also its designed financial system. White House controlled the world economy by valuing and devaluing its own green bucks. Other economic powers are unable to break the hegemony of the USD because United States is the major customer of their trade goods as well as it has strict control on paper currencies of other nations. Some of them try to control it by purchasing gold to renew commodity-based standard but they fail to challenge the dollar. IMF approved four other paper currencies, as reserve cash, as an option for the world in case of any misconduct by US regime, but the global trade is not ready to trust any other option. On the other hand digital cash is also introduced to counter paper cash but it is more ambiguous for the world than paper money. The dollar situation since past 10 years is very uncertain and threat of its sudden collapse is possible, yet the world is not ready for it.

KEYWORDS; Commodity-based standard, Coinage, Britten Wood System, Paper Currency, Greenbacks, Recession, Virtual Cash.

INTRODUCTION

Currency plays four customary functions in global monetary system; firstly, it is a medium of exchange, secondly, it is a unit of account, thirdly it is standard of deferred payment and lastly it is a store of value. Officially there are 164 state currencies circulating in the world. The US dollar is the chief provider of these services globally, as well as the most-traded currency with nearly 47% share of global payments and 87% of the daily market's turnover. It is used as standard global reserve currency as well as the international medium of exchange, particularly in a trans-border trade & fiscal transactions (including bank and debt funding). It became the basic international unit of account, in other words it played a very important role in creating international financial system during 2nd half of the 20th century and developed as a the leading currency in 21st century. In a capitalist society financial openness is happen when a huge state is in the power and the system is become less liberal with the decrease in state's power in relevance to other states. Its common use as a store of wealth, accounting for more than half of the foreign exchange reserves of central banks and about half of the external assets of non-US countries is the recognition of its global role which means it achieved the 'reserve currency' status and beat the gold.

BRIEF HISTORY OF DOLLAR REACHING AS WORLD STANDARD CURRENCY

In a primitive age the concept of money was used in terms of stock of animal skins, livestock, beads, shells, corn, olive oil, tobacco, salt etc, and their exchange was known as barter system. The discovery of metal brought the concept of money or cash, copper, silver and gold gradually started being used as money in terms of coins, but the barter system never ended in the world. When Western colonizers arrived in Massachusetts in 1620, the first official colony of British Empire in USA; they carried British currency with them. Their stock was ended after a while and they faced difficulty in finding an alternate due to the prohibition of English coin exchange outside from the British soil by royal regime. In such circumstances the barter system again became authorized method. Trade with local tribes contained the exchange of furs, skins and other merchandises. After a while they acquired Spanish coins from the Caribbean Islands, through unlawful means. The fondness for coins banished when the British controlled US colonies declared freedom. After forming government, the Continental Congress of USA issued paper money due to the inadequate supply of gold and silver. Initially paper currency was not accepted by colonies although individual states issued their own bills which resulted in a baffling range of multiple prices, inflation, and the withdrawal of circulation of gold and silver. The bills were accepted after assurance of the Continental Congress by paying each bill in value of

silver coins. After resolving initial problems, the Congress also passed a resolution and declared that anyone who rejected to receive credit bills would be assumed an adversary and ostracized by the public. Despite of all efforts of Congress in support of paper cash, the market response was not very encouraging. At last the continentals presented very consuming offer to those who were interested paper cash instead of gold and silver by increasing the debt on those who paid in paper money and finally achieved its worth.

Whereas, in 1871 German Empire authorized gold as standard for foreign payment and otherwise. United States made the decision the same in 1873. By 1878 France demonetized silver and after a while rest of the Europe. Since then gold was become the standard of global expenditures between the prominent nations until World War I. Most nations acquired the gold standard to fix their currencies value. They legalized the flow of gold across their regions and approved to establish a standard price of conversion of their currency. In return, currency conversation rates easily fluctuated as the demands of the market response.

The gold standard was organized in a classified mode with the states from bottom to the top. The top position held by the Britain, therefore when London increase its bank rate, it directly affected other currencies on the next fiscal tier. That process transferred from countries to their colonies, protectorates, as well as underdeveloped financial markets of third world. The global monetary conversion pressure of that era was controlled by great powers and its supervision was not neutral. The world had seen the instability in the capital importing economies before 1914, therefore efforts were made to form international monetary system before WWI. The forthcoming system had to face two challenges; one was by the classical theory of operating gold standard and second was the issue of the equal availability for all. The conventional gold standard need the constant consent of weak countries to reserve an impression of stability as well as, the continued domination of UK in the world's economic affairs. The reconstruction of monetary system was discussed by British and American executives during WWII and planning for post-war monetary reforms was initiated.

REASONS OF INCREASE IN US ROLE & CHANGE IN MONETARY SYSTEM

The world powers convinced the need to articulate rules and accepting to guide national polices after the WWII by facilitating mutual objectives because of five main reasons as

1. Global economic disparity was a key source in rise of repression in Germany, which resulted in a collapse of the international system.

2. WWII happened due to divided economic system between two competing factions which ended with the destruction of system therefore there was a need to liberalize trade between states in other words need of open access for all states in trade.
3. War increased the massive unemployment in every part of the world and workers would need to be accommodated otherwise world would ready to face another calamity.
4. League of Nations arrangements was fail to provide any security to the world thus any kind of monetary provisions would require more effective security therefore, countries would need to be ready to combat on a financial podium immediately.
5. One of the major reason of WWII and the collapse of world economy was the limited role of US in the world politics and there was a need of more robust international role of US then it played before.

Above mention reasons played a main role in outbreak of war and increase its severity. World powers reached to the conclusion that some kind of setup would be required to sustain a stable global monetary system. This view steered to the formation of the International Monetary Fund (IMF), the World Bank and the Marshall Plan (O'Brian & Williams, 5th Ed 2016: 87). They also agreed on establishment of a multifaceted trading system as, the General Agreement on Tariffs and Trade (GATT). The issue of unemployed labor were also need an appropriate policy according to the demands of every region but most importantly every region need proper security which resulted in a series of military pacts such as NATO, SEATO, CENTO in a post WWII period and in the Cold War. World reliance shifted on WMDs to avoid wars between the World powers. Besides the security measures the US role was widen and it became a leader of the Western bloc. Certainly, the era from the mid-20th to the mid-21st century may well be recognized as the American century (Ibid, 87).

THE RISE OF THE DOLLAR AND THE BRETTON WOODS SYSTEM

The IMF and the World Bank was propelled as the two pillars of the new transnational financial system (McKinnon, 2013: 36). Both was originated in the United Nation Monetary and Financial Conference at Bretton Woods, New Hampshire in 1944, with the participation of 44 nations (Steil, 2013:03). This conference determined the future of International economy and created a strict codes of succeeding devaluation of one-sided currency. World powers initially didn't accept the funding system and any kind of worldwide trade constraints that produced more harm than benefits in the confrontation

time. It was also suggested a mechanism that would facilitate the states in fiscal crunch to come out from the severe financial failure. It was also aimed to evade the external limits forced on national frugalities by the gold standard, which performed worse during the interwar period. The world was needed a flexible system to support internal and external policies that provided enough stability to avoid viable deflations.

The Bretton Woods System has been provided a “much diluted form of a gold exchange standard” (Ibid, 14). The US dollar continued to be fixed to gold at \$35 an ounce, this price were permitted by Bretton Wood but most observers seen it as adverse, abutted and inconceivable (Wallace, 2013:16). While United States was the only country at that time whose reserves were contained in its gold stock, while other nations had an option of holding assets either in gold or dollar, thus gold performed several unified roles in the post war era. The structure that appeared from Bretton Woods based on the strength of the US capital, and the hegemony of the United States assisted system.

END OF GOLD HEGEMONY

15th August 1971, US President Richard Nixon stated that they would close the gold window, it was known as “the Nixon Shock” (Ibid, 21). By his action USA canceled the conversion of dollars to gold or other reserves by foreign central banks and also declared that United State will not interfere in the market to uphold the value of the dollar against gold. Central banks clogged overriding in the markets to maintain any particular exchange rate by July 1973, and as a result all major currencies were start fluctuating. The IMF affirmed the end of Bretton Woods, which “officially ended the role of gold in international finance and left currency values to fluctuate against one another at whatever level governments or the markets desired” (Ibid, 21). In spite of the downfall of gold exchange, the dominance of dollar was sustained because Nixon was transform the whole system and assured that US\$ would not use only as paper money. His decision ends the dark era of macroeconomic policies of 60s.

GLOBAL FUNCTIONS OF THE US DOLLAR

Emergence of dollar as world standard is a historical event that greatly facilitates international trade and exchange. Since 1945, dollar has been the prominent currency for international payments among banks, intercessions by governments to set exchange rates; invoicing trade in key merchandises; and as official exchange reserves (McKinnon, 2013:03).

The leading feature of dollar standard is to allow the United States to finance extremely large current account deficits by marketing debt implements to its trading associates in place of repaying for its imports with gold (Duncan, 2005: 11). Therefore it allowed the world to open trade with United States on credit and as a result rapid economic growth was seen, particularly in the developing world. At the same time it also laid descending stress on user prices and by fluctuating markups in the USA by controlling cost price by hiring very low-cost labor from other countries.

Thus, since the decade of 70s, US dollar was used as a reserve, funding and invoicing currency by non-US savers and borrowers, it also use in external trade transactions between other countries. Due to these overall uses further networks were formed for maintaining persistent worth of the US dollar. As a result America achieved beyond standard external trade benefits but for other countries they reached below-average growth which goes against the classical trade channel therefore, the world was needed increase in import demands and decrease in export competition by USA. Financial experts suggested some measures for such issues, according to them;

- People should be realized the possible contrary effects on international growth during persistent period of US dollar and use models according to the dynamics of the era.
- The described channels may not essentially related to times of fiscal distress. Instead local susceptibilities or extraordinary dollar activities could also activate crunches and the effects on progress might be greater than valuation for example rise of dollar instigating a trend of steady failures due to a sheer growth in their foreign exchange responsibilities.
- There was a need of clear understanding that the US dollar is more than just the currency of the biggest economy in the world which means that the implications of changes in its value need to be assumed and examined properly.

However, it is becoming increasingly deceptive that the dollar standard has also caused a number of unwanted, and possibly terrible, implications such as; countries that hold large amount of worldwide assets through current or fiscal account surpluses turned into serious financial crisis in asset costs and eventually resulted in financial breakdown such as Japan and East Asian states crisis of 1997-98.

GLOBALIZATION AND CURRENCY WARS

Modern Economic means are change in 21st century so as the fiscal issues; the GDP of the US, the EU and China conjointly constitute almost 60% of global GDP. There are presently three major currencies in the world: the dollar, the Euro, and the yuan. Any fluctuation in

these three currencies outburst the economy of the world particularly its effects on third world economies are unbearable. They can boost or default small economies by one action of increasing the value of their currency. The other action related with investment institutes like IMF and World Bank who majorly invested by rich nations. These organizations increase or decrease the interest rate on their loans and crush the economic growth of any country of global south. Therefore the current financial problems and effects are global in nature. One country cannot handle it without assistance of others. Instead of control of large economies on currency, the role of small economies cannot be eradicate because they are the provider of big markets, cheap labor and raw material.

Moreover, China authorized British stockholders to transfer \$13.1 billion on October 16, 2013, into its strongly controlled financial system and London become the first Yuan trading hub out of Asia (Amadeo, May 4, 2020). Such kind of Chinese efforts can becoming the major possible threat to the US buck because it embolden central banks to escalate their yuan's assets. It also proven that Beijing intended to change the world's reserve currency. Since then, PRC has been devaluating the yuan against the US\$ to improve the slow growth of its economy. At the same time Chinese central bank buys dollars to contain the gap in balance of payment which keep it strong against the yuan showed confusion in their policy. On the other hand some European analysts' believes that the euro have a potential to take the position of Greenback. According to them since 2008 to end of 2019, the reserves of euros almost doubled and reaches to \$2.3 trillion but facts are completely against of this theory because simultaneously, US\$ holdings are reaches to \$6.7 trillion which are twice than euro's (Ibid).

The Euro and Yuan made every effort to reach the level of US dollar but they are still fail to do so because Euro as a single currency do not apt with the demands of its members and as a result EU faced troubles with Greece in 2015 and later with Netherlands and UK whereas; in a same year China was faced an economic slowdown. Both of them are still not strong enough to challenge the hegemony of US dollar.

Despite of strong global control of dollar the U.S. budget debit, risen because of less tax and amplified war expenses, undergoes without any solution which might weaken its future. The financial competition today is not only related with devalue of one currency against another or against gold but the way currencies are fluctuated might be resulting in loss of reliability in paper currencies altogether and might be commodities or other hard assets would became option again. The reasons of the fiscal watershed, and the global reaction, and its effect on the greenback based system is not realizing the intensity of

severity. When states, individually or mutually, take actions to increase their gold reserves, or to keep their assets at home, or doing regional trade agreements in other currencies than it create challenge to the U.S. dollar.

CHINESE INTENTIONS AND THREATS FOR DOLLAR'S REIGN

China is gradually obtained the position of largest consumer and importer of gold. Reports from multiple sources indicates that since 2009 Beijing has enlarged its gold imports. From 2010 to May 2015 it conducted its particular imports of over 3,300 tons via Hong Kong (Prasad, 2017: 119). Moreover, an import of unidentified amount was also taken place through Shanghai. This was revealed due to the slight mistake by officials who provided the incomplete date to the Investors when gold import was occur from Hong Kong. They provide unfinished data because additional consignments were arriving through Shanghai and Beijing as well. Internal sources suggested that official figures are deceptively low. Infact Chinese gold deal was approximately 3,510 metric tons, or 1,850 tons more than the official record (Ibid, 120). PRC has overtook India with private sector gold purchases with the ratio of 26 % of total gold consumptions in 2013. The World Gold Council, and the gold industry development organization, stated that the increase in gold purchases by the private sector held by the people on the advice by the state or in other words they are in state control. Countless Chinese gold is also reserves in other state-owned banks other than the PBOC, such as the Agricultural Bank of China, Bank of China, the China Investment Corporation, a sovereign wealth fund responsible for managing the country's foreign exchange reserves, as well as in the State Administration of Foreign Exchange (Ibid, 121). Massive amount of Chinese gold reserves indicates the future threat not only for the hegemony of US dollar but showing lack of confidence on whole monetary system. Chinese actions are the safety measures for their economy in case of any collapse of existing system in future which also question the future of US dollar.

FUTURE OF US DOLLAR IN 21ST CENTURY

The world gradually reaching on a point where US dollar losing its leading position and now it become a negotiable currency because of regained value of gold in monetary system. Instead of China European are also understand the importance of gold in an uncertain situation and many nations looking for to oust their gold from other states. In May 2015, Austria's central bank announced plans to repatriate £3.5 billion of its gold reserves from Britain, to back in his own country in next five years. Germany was already stated its plan to a move 300 tons of its gold stored in New York to ensure at least 50

percent was safe in Germany by 2020. Although US dollar is not losing its position but it faces some hesitation to regain its role in the wake of critical financial point.

On 5, October 2015, the Trans-Pacific Partnership (TPP) was held among 12 nations of Asia, Latin America, and North America including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S., and Vietnam. The deal, covering countries that account for about \$28 trillion in GDP, or about 40 percent of global GDP, and 1/3rd of world trade, was one of the largest trade deals in more than two decades (Prasad, 2017: 193). It excluded only one Asia Pacific country China. US President Obama described the reason on his speech, he stated;

When more than 95 percent of our potential customers live outside our borders, we can't let countries like China write the rules of the global economy. We should write those rules, opening new markets to American products while setting high standards for protecting workers and preserving our environment. (White House Release, 3 Feb, 2016).

Such kind of US efforts giving confidence of believes that USD will not collapse and get sustainability in future because of four important reasons;

1. US government are doing every effort to stable USD to control world economy against gold or other currency options.
2. It is not very easy to change the universal medium of exchange when regime wants to back its status and sophisticates its financial markets.
3. Most of the international contracts are dealt in dollars and it is a convenient option for the world.
4. Lastly, United States is the largest export market for many countries and known as world's best customer therefore, those states have either accepted the dollar as their national currency or easily convertible thus, they have no interest to shift to another currency.

Apart of dramatic decline in past 10 years USD is not collapsed because of above mentioned reasons. Most of the countries do not want to let this to occur because downfall will wipe out their USD assets. Government efforts strengthen the future of dollar but no one knows what will happened in future and the world might see the sudden collapse of paper currency.

CONCLUSION

USD is the dominant reserve currency of today. However, the IMF ratified four other reserve currencies in September 2016, which are: the euro, British pound sterling, Japanese yen, and Chinese yuan. International organizations convinced that it is vital that the dollar must fascinate challengers of on global monetary arena because it produces a hypothetical substitute for the world in case US think tanks intended to do any adventure and lead the dollar down on a damaging path (Ross, Apr 12, 2020). Yet it is not a solution because the major flaw of the paper currency including USD is that they are only valuable through government authorization. All major national currencies in the world are sharing this weakness in the modern age. Without any solid based currency standard (such as gold), the fear remains of misuse of paper money by regimes for personal, national or political reasons or any kind of misconduct can cause the great damage for the global economy. There are some possible situations for abrupt crisis for the USD such as:

- The double-threat of high inflation and debt.
- Mounting consumer prices which can force the sharp increase in interest rates.
- If the White House found difficulty to control its interest expenses, external holders could dump the dollar and initiate a collapse.
- If the Washington go into a sheer depression and without fetching the world with it, consumers might leave the USD.
- Other major power, such as China or Germany, intending to restoring a gold standard in future and dominating the reserve currency space because of their recent purchasing of more and more gold.

Above mentioned situations are all assumptions which drawn by analysts in to particular future mishap which can be or can be not happens into forthcoming years. Therefore the possible collapse of the dollar remains highly questionable. Only the scenario of higher inflation appears reasonable to force a collapse whereas rest of the situations are extremely doubtful. Countries like China and Japan do not want a USD failure because USA is their major consumer. Similarly rest of the world also would not let the dollar breakdown and risk there all fortune turn into mare papers.

Some of the people who wants to get government free economy introduce Bitcoin currency which also known as cryptocurrency, a virtual cash or a digital money, created in 2009, as a replacement of paper cash (BBC News, 31 Oct, 2018). Basically it is a form of money that is absolutely cybernetic. It's like an online version of cash which physically only can

see in photos. It is a computer file which is kept in a 'digital wallet' app on a smartphone or computer. It works by extremely difficult sums or digits by strong computers and people can use them by specific codes given by system authorities. If the paper currency collapsed the alternative is either cryptocurrency or a commodity based old reserve system. In any case the future of USD as reserve currency is the one way cave in which the whole world stuck because if the world adopts a digital currency means more threat of losing every fortune faster than paper currency and if they want to adopt gold as reserve again means shifting of Financial control from US to others which means economic war ahead in future.

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