**The Role of the Dollar** in the Post-war Era  
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at Roundtable on the Future of the Dollar, 9 a.m., Oct. 16, 2019  
Institute of International Finance, 1300 Pennsylvania Ave., DC

This is a good time to gauge the rankings of the dollar and other `major international currencies. The BIS has just come out with its triennial survey of turnover of various currencies in the foreign exchange market. The IMF COFER numbers on central bank holdings of foreign exchange reserves have gotten much more reliable lately, because China and other countries that used to withhold information on their holdings [now report it to the IMF](https://www.brookings.edu/wp-content/uploads/2019/09/DollarInGlobalFinance.final_.9.20.pdf) [confidentially]. And SWIFT offers every month its numbers on use of major currencies in international payments.

The results? The bottom line is that the US dollar remains in first place by a wide margin, followed by the euro, the yen and pound sterling in fourth place. In 2019, 88% of fx trading involves the dollar, more than double the share of the euro [32%; BIS]. 62% of reserve holdings are in dollars, morethan 3 times the share in euros [20%; IMF]. In 2019, 47% of payments are in $, still well ahead of the euro’s share [31%; SWIFT].

After the top four, the ranking depends what measure you use. The vaunted RMB is still in 8th place in terms of foreign exchange market turnover; but has recently passed the Swiss franc to attain the #7 spot judged by SWIFT payments, and has also passed the Canadian and Australian dollars to attain the #5 position when judged in terms of central banks’ holdings of foreign exchange reserves.

It is possible to discern a downward trend in [the dollar’s share](http://www.jeffrey-frankel.com/2013/11/26/the-latest-on-the-dollars-international-currency-status/), particularly since the beginning of the century. But it is a slow gradual trend. [The 62 % of reserve holdings that are in dollars is down from almost 70% in 2001. The 88% of fx trading in dollars is down from 90% in 2001.]

Also the euro’s share as a reserve currency has been declining more rapidly (since 2007) than the dollar’s share. [Who is rising? The yen and a smattering of others (RMB, Canadian dollar, Australian dollar; also gold).]

Despite years of fiscal and current account deficits and a current path of rising debt/GDP ratios, the dollar remains ensconced as #1 currency. Presumably the reason is the lack of a good alternative.

**Militaristic language**

The language of international monetary policy has turned militaristic. The phrase “currency war” has been popular since 2010, and more recently we hear of “weaponization” of the dollar. If readers took such language at face value, they might infer that a country with sufficient financial power first weaponizes its currency [perhaps by accumulating a war chest of international reserves], and then launches a speculative attack against a rival’s currency; if others do the same in retaliation, that is a currency war.

This is nonsense of course. One can make a metaphor out of each of the three militarist terms, but they bear little relation to each other. Indeed the currency war metaphor is diametrically opposed to the other metaphors. Let’s take currency wars, then attacks, then weaponization.

**Currency war**

1. When Brazilian leaders popularized the phrase currency war in 2010-11,
   1. they were accusing the US and other countries of pursuing competitive depreciation.
   2. Major governments subsequently agreed to [refrain](https://sites.hks.harvard.edu/fs/jfrankel/PlazaAccord-PIIE2016.pdf) [from](https://www.nber.org/papers/w21813) competitive depreciation [Feb. 2013, G7 ] or currency manipulation, not only in the narrow sense of intervening to push down the foreign exchange values of their currencies but also in the wider sense of officials either “talking down their currencies” or pursuing monetary stimulus in a deliberate or explicit effort to depreciate them.
   3. No major country has violated this agreement, to my knowledge… with one exception. That exception is not China [which since 2015 has intervened in the opposite direction, to keep its currency up], but the United States. Donald Trump has repeatedly engaged [unsuccessfully] in “verbal intervention” to talk down the dollar; more worryingly, he has crudely pressured the Fed to lower interest rates with the explicit objective of depreciating the dollar.

**Attack**

1. Typically, analysts of international relations associate geopolitical power with a *strong* currency, not a weak currency. Sometimes the militaristic language is used to describe the danger that China will dump its vast stockpile of US treasury securities, which could drive down the dollar and drive up the interest rates that the US treasury has to pay.
   1. But, again, this is the opposite of competitive depreciation.
   2. When a strategic rival shifts out of dollars into other reserve currencies, it does not appreciate the domestic currency. Russia is reported to have shifted out of dollars in 2018, a defensive move against US sanctions. [See weaponization below.]
   3. More broadly when a country runs a huge budget deficit [$1 trillion for the US, even at the height of its business cycle] which in twin-deficit fashion translates into a big current account deficit, it is normally perceived to be in danger of losing geopolitical power. Exhibit “A” is the experience of the UK in the course of the 20th century.
   4. The US of course inherited Britain’s “exorbitant privilege,” an ease of financing its deficits because other country’s want to hold the world’s number one international currency. Despite decades of current account deficits, the dollar’s role as by far the leading international currency continues, as already documented [by statistics on international use of the major currencies].
   5. The most dramatic illustration of the dollar’s special status occurs every time international financial markets swing into “risk off” mode: the response is a [safe-haven] flight into dollars, and this happens even when the impetus for the increase in perceived risk is some serious stumble in the US itself [such as the 2008 global financial crisis or Trump’s trade war].

**Weaponization**

1. **The weaponization of the dollar**, I think, generally refers to exploitation by the US government of the dollar’ s role as #1 international currency to extend extra-territorially the reach of US law and policy. Probably the most salient example is US enforcement of economic sanctions against Iran. It is not just the dollar share of the SWIFT payments system or of the international banking system more general, that the US is shutting Iran out of; it is the entire international banking system.
   1. Even before Iran agreed to halt its nuclear weapons program, there was occasional grumbling in Europe about extraterritoriality, some suspicion that the US might be quicker to impose large penalties on European banks for violating sanctions than on US banks.
   2. But since President Trump abrogated a treaty that Iran was abiding by, enforcing the sanctions via SWIFT does seem an abuse of the exorbitant privilege, an exercise in US hegemony that can no longer be justified as conducting the international orchestra (in Kindleberger’s phrase) in the name of a global public good.
   3. I still find it hard to believe that Europe or China will not succeed in efforts to develop alternative payments mechanism to allow Iran to sell its oil. If so, this could help undermine the long-run primacy of the dollar.

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|  | **The top 8 currencies, ranked by 3 measures of international use (Oct 2019)** | **Payments**  **(SWIFT)** | **FX Turnover (BIS)** | **CB Reserves**  **(IMF)** |
|  | US dollar | 1 | 1 | 1 |
|  | Euro | 2 | 2 | 2 |
|  | Japanese yen | 3 | 3 | 3 |
|  | UK pound sterling | 4 | 4 | 4 |
|  | Canadian dollar | 5 | 6 | 6 |
|  | Australian dollars | 6 | 5 | 7 |
|  | Chinese RMB | 7 | 8 | 5 |
|  | Swiss franc | 8 | 7 | 8 |