# THE US DOLLAR AS THE GLOBAL RESERVE CURRENCY

## Implications for US Hegemony

*Thomas Costigan, Drew Cottle and Angela Keys*

Thomas Costigan (*left*) is a Master of Arts student at the Western Sydney University, Australia, and teaches at The College at Western Sydney University. He studies international political economy. Email: t.costigan@westernsydney.edu.au

Drew Cottle (*right*) is a Senior Lecturer in Politics and History at the School of Humanities and Communication Arts, Western Sydney University. He specialises in Australian labour history and political economy. Email: d.cottle@westernsydney.edu.au

Angela Keys is a sessional lecturer in the School of Humanities and Social Sciences at Charles Sturt University. Email: angelakeys@hotmail.com

**Abstract:** This article analyses the implications of the establishment of the US dollar as the global reserve currency. The political and economic context of the founding of the dollar as the reserve currency is examined, and key changes that have occurred since the dollar was installed as the global reserve currency are explored. Challenges to the future of the dollar as the global reserve are analysed. The article argues that the dollar as the global reserve currency is an instrument of US hegemonic power, but it is one that has been largely overlooked in the existing literature on US hegemony.

**Key words:** dollar; hegemony; United States; world system; China

### 1. Introduction

As the global reserve currency since the end of World War II, the US dollar has been intrinsic to the functioning of the world economy. The US dollar is so fundamental to the global financial system that the political and economic ramifications of the dollar's reserve currency status are rarely considered. The US dollar as the global reserve currency is a subject of critical importance, both to the understanding of the international financial system, and the wider political and economic ramifications of the status accorded to the dollar. As F. William Engdahl has explained,

> Maintaining the role of the US dollar as world reserve currency has been the foremost pillar of the American Century since 1945, related to but more strategic

> even than US military superiority. How that dollar primacy has been maintained to now encompassed the history of countless postwar wars, financial warfare, debt crises, and threats of nuclear war to the present. (Engdahl 2008)

This article contends that the dollar as the global reserve currency has been crucial to the operations of US hegemony during the post-World War II period. To investigate this issue, the theoretical perspective of World-Systems Analysis expounded by Immanuel Wallerstein (2011) is employed. The article also draws upon the theoretical work of Henry C.K. Liu who developed the term "US dollar hegemony" (Liu 2002). In this article, we argue that US planners from the Council on Foreign Relations (CFR) in conjunction with State Department officials pursued a deliberate plan to make the United States a global hegemonic power (Shoup and Minter 1977) and the dollar was the central currency of that hegemony (Engdahl 2008, 213). We demonstrate how the dollar evolved into a petro-currency through Nixon's Saudi decision of 1973. The dollar was placed on the trajectory that it would follow for decades and became the source of conflict against the United States by its geo-political competitors (Durden 2014). We conclude by arguing that newly emerging strategic competitors to US hegemony such as China, Russia and Iran are growing dissatisfied with the current oil trading arrangements. We do not argue that any of these nations are remotely in contention to replace the United States as world hegemon. However, we suggest that a significant blow could be dealt to the ability of the United States to maintain its hegemonic status should oil trading be carried out in currencies other than the dollar (Koenig 2015). If this were to occur to a large enough extent, the ability of the United States to exercise its foreign policy would be severely curtailed (National Intelligence Council [NIC] 2012). It would also demonstrate the critical importance of the US dollar in the exercise of US hegemony. In this article, we would like to move the dollar to the forefront of debate in understating how US hegemony in the post-World War II period is constructed and maintained and its critical importance in a hegemonic US global agenda.

## 2. The Political and Economic Context of the Founding of the US Dollar as the Global Reserve Currency

The post-World War II era represented a radical paradigm shift in US foreign policy. This policy shift was defined by the "Grand Area" concept developed by the CFR in conjunction with planners from the US State Department. This programme saw the United States pursue a global hegemonic project (Shoup 1975). This pursuit was economic in nature; it would require binding together disparate regions of the world into a financial system that would centre upon, and serve the interests of, the US economy (Shoup and Minter 1977). US imperialism was the result of extensive planning on the part of the US government (Panitch and Gindin 2012, 72). The Bretton Woods Conference held in 1944 was the forum where a US-centric world system was instituted. The systems, institutions and arrangements that facilitate US hegemony were established at the Bretton Woods Conference. The most critical of these components for the functioning of US hegemony were the creation of the International Monetary Fund (IMF) and the World Bank, the adoption of the US dollar as the global reserve currency, and the "pegging" of the US dollar to the gold standard (Vasudevan 2008, 35). The Bretton Woods Conference instituted a world system where the US dollar was at the centre of the global economy; the value of a nation's currency was determined in relation to the US dollar, and "most international transactions were denominated in dollars" (Engdahl 2008). The Grand Area strategy pursued by the United States was intended to defend US national interests in the aftermath of World War II. Those national interests were, in fact, US elite and corporate interests (Shoup and Minter 1977). After World War II, the United States designed a liberal international system in which it would be the primary beneficiary (Mastanduno 2009). Economics and security became inseparably linked for the United States, and the dollar was the core of this new paradigm. According to Mastanduno, as the global reserve currency, the US dollar became the "lynchpin" of Trans-Atlantic and Trans-Pacific trade:

> This critical role for the dollar granted a well-understood privilege to U.S. policymakers. As long as other governments proved willing to hold dollars, U.S. external deficits could be financed essentially by printing money and lending it abroad, enabling the United States to pursue a variety of foreign and domestic policy objectives without necessarily confronting difficult trade-offs in the short term. (Mastanduno 2009, 130)

This arrangement was based on using the US dollar as the primary trading currency. US planners understood the power that this would confer on the United States. At the time of the Bretton Woods Conference, economic considerations were paramount in determining the United States' role in the post-war world. War-ruined European nations were in dire need of liquidity (Mastanduno 2009). Its establishment as the global reserve currency provided the US dollar with a stability of demand during a period when many European nations were in a dire economic position.

The British Empire was seen as an obstacle to US hegemony. Britain had major oil interests in the Middle East and Venezuela (Hudson 2003, 119). These interests, particularly Middle East oil, were identified by the Council of Foreign

Relations as a "stupendous source of strategic power" (Kolko and Kolko 1972). It became the intention of US planners to gain control of these interests and secure them for the United States (Notter 1949). The Council for Foreign Relations viewed the Second World War and its aftermath as an opportunity for the United States to replace Britain as the dominant global hegemon:

> With the entry of the United States into World War Two, American planners were virtually unanimous in the belief that the nation should claim a dominant position in the post war world. As usual, however, the leaders of the Council on Foreign Relations were stating this view most clearly. Council President Norman H. Davis now chairmen of the Department of State's security subcommittee of the advisory on post war foreign policy, asserted in early May, 1942 that it was probable "the British empire as it existed in the past will never reappear and that the United States may have to take its place." (Hooker 1956, 333)

At the end of World War II, Britain was severely weakened by its war efforts and dependent upon US supplies and capital. In the post-war period, the United States would be the dominant actor in the Anglo-American relationship (Marsh 2012).

The adoption of the US dollar as the global reserve currency was critical to the emerging power of the United States after 1945. A decisive example of the exertion of US dollar power was the Eisenhower Administration's approach to the Suez Crisis of 1956 (Kingseed 1995). By the mid-1950s, Arab nationalism led by Egyptian president Gamal Abdel Nasser was becoming too popular for the United States to ignore, given the strategic position that Egypt occupied and the potential for Soviet encroachment. The Eisenhower Administration made a strategic decision that Nasser "must be cut down to size" (Venkataramani 1960). Although the United States was self-sufficient in oil, US Secretary of State, John Foster Dulles, believed that, in the event of war with the Soviet Union, oil from the Middle East and West Asia would be essential to Western Interests. Control of the Suez Canal was crucial. The Middle East region and North Africa were viewed through the lens of global geo-strategic interests and what was considered "vital to US interests" (Venkataramani 1960). The Middle East was increasingly important to the United States in the context of the Cold War. However, at the time of the Suez crisis, Britain was still the dominant hegemon in the Middle East, including Egypt (Kingseed 1995).

The Suez Crisis was instigated by Egyptian President Nasser's nationalisation of the Suez Canal. This action prompted an invasion by the British, French and Israelis (Varble 2003). The United States objected to this invasion and responded in a unique way that was indicative of an emerging US hegemony. According to Andrews (2006), the United States used financial means to force a withdrawal from Egypt of invading forces. Andrews (2006) draws a connection between the post-war financial strength of the United States, and the blocking of British reserves at the IMF at a time when the pound sterling "came under sustained pressure on international markets" that was "viscerally orchestrated" by the United States. Kingseed (1995) has argued similarly that the United States used financial means to halt British actions during the Suez Crisis and force them to accept a United Nations resolution on the conflict. Until Britain agreed to accept this resolution, however, the run on the pound that had begun in September 1956 continued, ensuring Britain had to accept US demands that it withdraw from Egypt.

As Hudson (2003) and Andrews (2006) have demonstrated, the United States was forcefully creating a world system conducive to its interests. In terms of economic strength, the United States was unrivalled at the end of World War II. However, the United States wielded its economic power strategically, guided by the political objectives of the Grand Strategy at the Bretton Woods Conference and beyond. With its economic strength central to the post-war global economy, the United States determined that it would benefit from the outcome of Bretton Woods. The United States was and remains, for example, the only member nation of the IMF to have a veto over IMF decisions (Hudson 2003, 119). The elevation of the US dollar to the global reserve currency helped the United States to establish and maintain its position at the centre of global trade.

## 3. The Dollar and Oil

Prior to the Nixon decision to abandon the Bretton Woods gold dollar conversion, the dollar was already coming under pressure. During the Korean War, the United States began to subvert the rules of Bretton Woods by increasing the supply of dollars relative to the supply of gold. This process began the debasement of the US dollar and started an inflationary effect that the rest of the world would have to contend with. Gold dollar convertibility was under further pressure in the mid-1950s. Western Europe had increased its manufacturing competitiveness with the United States. US companies were looking for high returns due to the dollar's strong convertibility compared with European currencies (Engdahl 2008, 247). In the 1960s, the issue of convertibility could no longer be ignored by America's European trading partners. The French president, Charles de Gaulle, accused the United States of exporting its inflation to Europe through an increase in the US money supply, relative to gold. The increase in the US money supply was US military spending. By 1968, the US gold stock had shrunk to $10 billion which is far less than the dollar liabilities that European nations held. The United States informed its creditors that requesting liability settlement in gold would be considered an "unfriendly act" (Hudson 2005, 22).

A critical development for the US dollar as the global reserve currency occurred in 1971 when President Richard Nixon removed the US dollar from the gold standard. Until that period, the US dollar had been convertible into gold at the rate of 35 dollars an ounce (Hall et al. 2011). The pegging of the US dollar to the gold standard was of exceptional benefit to the United States in the immediate post-war period, as the United States at that time "held the overwhelming majority of world central bank monetary gold reserves" (Engdahl 2008). It has been argued that, by 1971, the levels of US securities held by foreign central banks were becoming unsustainable for the United States with a currency fixed to the value of gold (Hall et al. 2011). Others contend that Nixon abandoned the gold standard because Britain demanded that all of its dollar holdings be paid in gold (El-Gamal and Jaffe 2009). Two days after this demand, Nixon dropped the convertibility of dollars into gold (El-Gamal and Jaffe 2009).

However, there was another reason for the US dollar to leave the gold standard. Although foreign central banks were continuing to seriously doubt the continued viability of the dollar in light of US deficit spending, there existed no alternative to the US dollar as a viable medium of international exchange (Hall et al. 2011). Only the United States possessed the necessary political control over financial institutions that would facilitate the capital flows required by a global reserve currency (Shoup 1975, 9). By default, the United States remained the only option as the global reserve, despite the precarious state of US finances. Nixon's removal of the US dollar from the gold standard represented a key departure from the protocols established by the Bretton Woods Conference. The US dollar became a "fiat currency," and its value was no longer determined by, or redeemable for, physical commodities such as gold or silver (D'arista 2004; Kotlikoff 2006). The abandonment of the gold standard and the Bretton Woods Agreement has been interpreted by some as a demonstration of the strength of the United States, and of the US dollar in particular (Keohane 2005).

Removed from the gold standard, the US dollar was, beginning in the 1970s, increasingly linked to the value of oil. From the late 1960s, the United States ran large budget deficits to fund its war in Vietnam and the Johnson Administration's "Great Society" welfare programmes. New ways were required to finance these spending imbalances (Blecker 1999). Momani (2008) argues that a unique relationship between the trade in oil and the US dollar was established. The origin of this trade can be traced to bilateral deals between the US and Saudi governments concluded in 1974. The trade in oil denominated in dollars occurred through the "the establishment of the United States–Saudi Arabian Joint Commission on Economic Cooperation" (Momani 2008, 297). The closer cooperation between the United States and Saudi Arabia supported the US economy specifically in the form of Treasury purchases. A secret deal was signed by US Treasury Secretary

William Simon where by the Saudis could purchase treasury bills that had not yet been auctioned and thus help finance burgeoning US debt Momani (2008, 301). Critically, the Commission was staffed by US Treasury officials who indicated the importance of the Commission's function. As Momani explains,

> This Joint Commission also included a special technical group that was staffed by American civil servants who helped US companies to increase their exports to Saudi Arabia. Financed by the Saudi government, the technical group's objectives were to improve bilateral political and commercial relations, promote the export of US goods and services to Saudi Arabia and, most importantly, help recycle Saudi petrodollars through the purchase of US goods. (Momani 2008, 297)

Further meetings between the US and Saudi officials determined that the Saudi government would invoice all oil sales in dollars and not a basket of currencies as had been its past practice. United States and Saudi motives for this arrangement were different. The US General Accounting Office (GAO) reported that a major benefit to the United States would be gained from closer bilateral relations with Saudi Arabia because of the 1974 trade deficit that the United States was running with the Kingdom (GAO 1984, 3). Momani (2008) contends that the United States' objective was to get the Saudis to sell oil in dollars only, and then to "recycle" those dollar surpluses into US Treasury bonds to buttress the US economy. The US-Saudi deal to recycle Saudi wealth into US government bonds was complemented by a subsequent arrangement. Treasury Secretary Michael Blumenthal, Simon's successor, negotiated an enormously successful deal to have the Saudis sell their oil in US dollars. At the time, Saudi Arabia was the key determinant of oil prices, known as the "oil marker," and its "Saudi Light Crude" virtually set oil prices for OPEC and non-OPEC oil-producing states. As the largest OPEC producer, the Saudis used their strong influence in OPEC to persuade other members to follow suit, and they did. In 1975, OPEC announced its decision to invoice oil sales in dollars.

The purchase of US dollar-denominated assets, and trade in oil with dollars, allowed the United States to fund its budget deficits and military adventurism globally. As Momani (2008) explains, "the United States has been effectively printing money to finance its deficit, and arguably its military ventures, with little international recourse on the value of the dollar" (302). The role of the US dollar as world's reserve currency has allowed the United States to maintain and increase spending with little inflationary impact on the United States (Momani 2008, 301–2).

By the 1970s and 1980s, the importance of oil and its trade in US dollars was reflected on financial markets, with growing levels of investment having consequences for oil prices. Yergin (2011) has argued that oil is not just a physical commodity but a financialised instrument, and, moreover, it is a speculative financialised instrument. The "financialisation" of oil that Yergin (2011) describes marked a critical change for the dollar and US finance hegemony. Oil would now be traded on the New York Mercantile Exchange (NYMEX). This institution was based in New York and commenced trading in oil from 1983. Yergin has traced the origins of the "paper barrel" concept to the beginnings of the oil trade on the NYMEX. The paper barrel concept refers to the financialisation of oil; oil as a speculative instrument divorced from its utility as a fossil fuel. While these developments occurred, the US dollar was still being used to trade in oil as a commodity (Yergin 2011).

The increased importance of oil to the United States saw the commodity used as a political lever, often referred to as the "oil weapon," during the Arab-Israeli War. Arab nations instituted an embargo on oil exports to the United States in 1973. Tétreault (2008) contends that the use of the "oil weapon" had little, if any, impact upon the United States' support for Israel during the war, nor upon US foreign policy on the Middle East during that period. US oil companies merely transferred oil between themselves from non-Arab producers so that, while Arab oil did not go to the United States, supplies of oil from other exporting nations were secured, which weakened the effectiveness of the embargo (Tétreault 2008). Oil supplies were exchanged between and within companies so that Arab oil that could not be sent to the United States or Holland was swapped for oil from non-Arab sources which had no destination restrictions. Mabro (2008, 8) has argued that the "oil weapon" was instead a blunt instrument that had a generalised impact on oil supplies. All oil-importing countries experienced about the same degree of shortfall in their supplies, irrespective of whether they were supporters of the Arab states or Israel (Mabro 2008, 8).

Nkomo (2010, 15) concluded that the 1973 oil embargo was politically ineffectual as "it is difficult for a seller to isolate a particular importing country and then wield an oil weapon to punish, because oil is widely traded. Nonetheless, Hudson reasoned that the use of the oil weapon spurred US initiatives to reduce the tactic's effectiveness should it be used again:

> The shock in the United States and Europe was palpable, and it lent urgency to US secretary of state Henry Kissinger's mediation of the war. In the long term it also led to a comprehensive new energy policy designed to blunt the oil weapon in the future through the Strategic Petroleum Reserve and conservation measures. (Hudson 1996, 333)

The 1973 oil embargo represented an important political challenge from Arab nations to the policies adopted by the United States in relation to the Middle East, but the long-term effect for US global hegemony was negligible. More importantly, international trade during the embargo period continued to be transacted in US dollars.

## 4. Hegemony and the US Dollar: The Existing Literature

US hegemony has been the subject of study from many varied perspectives in different historical contexts. Anderson (2013), for example, has argued that US hegemony rose to cover the planet from the earliest years of US history. He contends that the US imperium had a long prehistory stretching back to its founding. In the post-Cold War era, Johnson (2004, 151) has argued that a new form of US hegemony has emerged where US military bases constitute an "empire of bases." In this article, we argue that the role of the US dollar as the global reserve currency should be seen as central to the functioning of US hegemony. The benefits the United States has derived from the dollar's reserve currency status are crucial, for instance, to the maintenance of military bases and other aspects of US hegemonic power. Robert Keohane, for example, has done considerable work on how US hegemony is structurally comprised. In *After Hegemony* (2005), first published in 1984, Keohane argued that cooperation among capitalist powers would continue even without a single hegemon. Keohane's study lacks significant explanation of the role of reserve currencies or financial markets in how cooperation occurs between state actors. Susan Strange (1987) critiques hegemonic stability theory. Strange argues that a critical reason for hegemonic change "in the great game of states" "is primarily economic, not political" (Strange 1987, 553). While Strange does consider the role of the US dollar and its reserve status, it is relegated to third position in a list of structural reasons for the conditions that give rise to US hegemony. In contrast, we argue that the dollar and its reserve status is the most fundamental reason that the United States is a hegemonic power. Emmanuel Wallerstein's (1991) study focuses on the changing worlds system in the 1980s. The collapse of the Soviet Union and the evolution of the world system in the context of a declining US hegemony are seen as major changes to the capitalist world economy. Absent from Wallerstein's (1991) study is any analysis of the dollar and its reserve function in how hegemony is constructed.

Critical contributions have been made by Michael Hudson and Henry C.K. Liu to scholarship on the US dollar with regard to US hegemony. Hudson (2003) has presented a critical history of the US dollar and how the political power attained through the selection of the dollar as the global reserve currency has served the interests of the United States. However, this study was published prior to the financial crash of 2008. The global financial crisis (GFC) has had a large impact on the debates surrounding whether the dollar can be maintained in the face of this disruption (Overholt et al. 2015). Furthermore, since Hudson's (2003) study was published, there have been several major developments in the realm of political economy that concern the dollar and its continued reserve status. First, the increasing use of the Yuan in bilateral trade between Russian and China, particularly for hydrocarbon payments, has the potential to undermine US hegemony by creating a system outside the control of the US banking system, the China International Payments System (CIPS) (Koneig 2015). Another critical feature which occurred after Hudson (2003) was the creation of the Asian Infrastructure Investment Bank (AIIB). Officially the bank is intended to meet the infrastructure investment needs of the Asian region and will be used to fund "The New Silk Road" project for example. However, this institution will be under the direction of the Chinese in concert with multilateral partners. These developments indicate a challenge to a US-centric world system and raise the possibility of a regional sphere of influence dominated by Russia and China in East and particularly Central Asia. This evolution of Russian Chinese cooperation is a direct threat to the hegemony of the United States in Central Asia as Zbigniew Brzezinski in *The Grand Chessboard* (1997) theorised could happen. Liu (2002) has analysed the role of the dollar in the operations of US hegemony. Liu contends that since Nixon abandoned the gold standard in 1971, the US dollar has become a "global monetary instrument that only the United States can produce by fiat." According to Liu, the rest of the world produces goods, and the United States produces dollars that are required to purchase these goods, particularly oil. As US dollars are needed to facilitate global trade, this consequently positions the United States at the centre of a global trading system in which it is the dominant power. Liu (2002) asserts the contention that the unique role the dollar occupies allows the United States to manipulate the currency at will and that China must live with the consequences (349). Liu and Deng's (2012) study identifies a more recent contention between the US dollar and the Chinese RMB centred on the sensitive issue of currency devaluation. However, little theoretical interpretation is given to how this is made possible. Here we fill this gap by positing that a world systems analysis is the best way of understanding the interconnected relationship between the dollar and other currencies.

Prasad (2014) has argued that despite the difficulties that the US dollar and the US economy confront, the role of the US dollar in international finance through its reserve function will endure for the foreseeable future. Prasad emphasises the strengthening of the dollar since the GFC and asserts that the existing superiority of Western legal and financial institutions make the role of the dollar secure. Prasad notes that it has long been a source of contention that holders of US Treasury bonds are, in effect, subsidising US deficit spending and the standard of living of Americans through their purchase of US debt. This phenomenon has been come to be known as the "exorbitant privilege" (Canzoneri et al. 2013). Nonetheless, as the United States' NIC has suggested,

> Despite recent inflows into dollar assets and the appreciation of the dollar, the dollar could lose its status as an unparalleled global reserve currency by 2025, and become a first among equals in a market basket of currencies. This may force the US to consider more carefully how the conduct of its foreign policy affects the dollar. Without a steady source of external demand for dollars, US foreign policy actions might bring exposure to currency shock and higher interest rates for Americans. (NIC 2008, 12)

The dollar and its position as the global reserve currency are fundamental to the US economy and are, as a consequence, critical to the funding of both US domestic and foreign policies. As financial transactions can be conducted instantly across the globe, it has been suggested that "a nation's currency security is even more critical than energy security" (Engdahl 2014, 10). Rickards (2011) has examined the geo-strategic and defence posture that the United States maintains in relation to the dollar, exploring the impact future financial attacks may have on the United States' geo-strategic rivalry with other nations. Rickards (2011, 6) highlights the staging of simulated games on this subject, which were held at the Applied Physics laboratory near Washington in conjunction with the Department of Defence in September 2008. The purpose of the games was to "examine the impact of global financial activities on national security issues" (Rickards 2011, 6). Rickards (2011, 11) argues that such an attack on the United States would undermine confidence in the dollar and emphasises the existence of US presidential powers which permit the freezing of accounts that attempt to disrupt markets in this way.

Eichengreen (2011) has offered a different view on the dollar's status globally, reasoning that in the future it is likely that there will be a basket of currencies in operation within the world economy. Noting that there is an historical precedent for multiple reserve currencies, Eichengreen (2011) contends, nonetheless, that reports of the dollar's imminent demise as the global reserve currency are premature, if not entirely unfounded. However, a question must be raised as to whether the United States would allow the world economy to abandon the dollar as the global reserve, given the potential ramifications such a move would have for the US economy and for US hegemony globally.

## 5. The Dollar and US Hegemony: A World-Systems Analysis Perspective

Immanuel Wallerstein's conception of World-Systems Analysis has provided a theoretical perspective that is key to the investigation of the US dollar's significance as the global reserve currency. Wallerstein (2011) has asserted that the world system is divided into core, semi-peripheral and peripheral states. We contend that the US dollar as the global reserve currency is an instrument that has been critical to the establishment of the United States as the ultimate metropole power at the core of this world system.

The strategizing undertaken by planners from the CFR and the US State Department at the beginning of World War II was fundamental to the installation of the United States at the core of the post-war world system. The economic consequences of the war for European nations, particularly Britain, provided a context for the United States to assume a pivotal role in the post-war era. Beeson and Higgott (2005) have argued that, after World War II, the United States became the pre-eminent global power by positioning itself, "at the centre of a dense web of 'hub and spokes' security relationships." As Beeson and Higgott (2005) have explained, the United States also created an international political and economic framework conducive to its interests, with the multilateral institutions necessary to maintain them. Nonetheless, it was the selection of the United States' currency as the global reserve which ensured that the United States was at the centre of the world economy in the post-war period. The US dollar became the essential means of international trade between core, semi-periphery and periphery states following the end of World War II.

Wallerstein (2006) has provided an analysis of US hegemony from the end of World War II to the beginning of the twenty-first century. He contends that an 80-year battle was waged between the United States and Germany to determine who would succeed Britain as the new world hegemon. Wallerstein's analysis of US power in relation to the world system identified three distinct periods, the first of which commenced when Allied victory in World War II established a period of US global hegemony that endured until 1970. The second period, from 1970 to 2001, was when US hegemony entered into decline. The third phase began with the unilateralist policies of President George W. Bush. These policies were devised to slow down and reverse the decline in US hegemony. In practice, Wallerstein asserts, they accelerated US hegemonic decline. Like Wallerstein, Golub (2004) has emphasised that the unilateralist approach adopted by the Bush administration has led to a serious decline in the international influence of the United States.

From the end of World War II until the present, the United States has encountered challenges to its position as the global hegemonic power. The United States has undergone a transformation economically and industrially, and, as a manufacturer and exporter of goods, the United States has certainly declined. Although other aspects of US hegemonic influence have changed, the status of the US dollar as the global reserve currency has not yet been successfully challenged. The power and influence of the US dollar as the global reserve is often overlooked as a hegemonic instrument, particularly as there are more obvious expressions of US hegemonic power, such as the presence of US military bases on every continent except Antarctica. As an enduring feature of US hegemony that continues to link the world economy, the US dollar as the global reserve currency can be viewed, potentially, as the most vital element of US hegemony.

## 6. Conclusion: Future Challenges to the Dollar's Status as the Global Reserve Currency

One potential challenge to the US dollar's future as the global reserve currency, identified by economist Robert Triffin, has come to be known as the "Triffin Dilemma" or the "Triffin Paradox." Triffin (1960) argued that the selection of a nation's currency as the global reserve currency would create problems for that nation in the form of conflicting economic demands. Such a nation would eventually experience a critical balance of payments problem, particularly in its current account deficit. Triffin criticised the Bretton Woods monetary system adopted at the end of World War II which established what he interpreted as an irreconcilable economic paradox for the United States. Whether the United States will experience a future economic crisis cannot be known; however, US debt has certainly grown enormously since the end of World War II. The unrelenting demand for US dollars created by the currency's establishment as the global reserve has enabled the United States to continue to accrue debt, largely without consequence. As the current system compels nations to trade in US dollars, the United States has been free to run large budget deficits and balance of payments deficits without any apparent impact on the United States (Hudson 2003, xii). However, if the US dollar was to lose its position as the global reserve currency, the United States would likely experience a major economic crisis. A critical problem may yet emerge as the US issues more and more of its currency while trying to maintain the value of the currency (Zhou 2009).

There is a continuing debate among scholars about the potential decline of both the US dollar and US global hegemony, as well as the implications of the ascendancy of China and cooperation between the BRICS: Brazil, Russia, India, China and South Africa (Cox 2012). This debate is broadly divided on the key issue of whether US hegemony is in decline. The declinist view asserts that the rise of China and other rival powers, in conjunction with the United States' surging national debt, budget deficits and over-extension of the US military, have placed the United States in an economic position that cannot be sustained, one which will ultimately affect the US dollar (Layne 2012; Ruppert 2004). That outlook is contested by those who assert that, despite the contemporary problems for US finances, there is at present neither a single currency nor a basket of currencies that could be readily substituted for the US dollar as the global reserve currency (Stokes 2014; Prasad 2014; Eichengreen 2011).

The United States has been subjected to international political pressure regarding the US dollar's global reserve status. The Governor of the Peoples Bank of China, Zhou Xiaochuan, appealed in 2009 for a new global reserve currency, disassociated from any specific nation, arguing that stronger economic growth would be fostered and the world economy would be stabilised (Anderlini 2009). The former Russian President, Dmitry Medvedev, and the former Chinese President, Hu Jintao, have made similar demands (Capella 2014). However, without a majority of nations demanding a new reserve currency, it appears unlikely that this political rhetoric will affect the dollar-centric world economy.

The establishment of the AIIB has been interpreted by some as a critical challenge to US hegemony, and the US dollar as the global reserve, from an increasingly powerful China. The AIIB will initially be capitalised with $50 billion, rising eventually to $100 billion, and will be critical to China's New Silk Road project (Donnan 2015). Strategically, the New Silk Road project will draw into China's economic orbit the countries of Central and South Asia. Through massive civil engineering projects, the region will be incorporated into China's expanding economic and security infrastructure (Escobar 2015). However, as Chossudovsky (2015) has explained,

> While the creation of BRICS has significant geopolitical implications, both the AIIB as well as the proposed BRICS Development Bank (NDB) and its Contingency Reserve Arrangement (CRA) are dollar denominated entities. Unless they are coupled with a multi-currency system of trade and credit, they do not threaten dollar hegemony. Quite the opposite, they tend to sustain and extend dollar denominated lending. (Chossudovsky 2015)

Despite these facts, the United States strongly opposed the formation of the AIIB, and lobbied other nations against joining. Robert Kahn (2015) of the CFR has argued that the founding of the AIIB reflects China's displeasure at existing institutional arrangements in Asia, such as the Asian Development Bank led by Japan, as well as the lack of reform at the IMF. While the creation of the AIIB is an important development, it is not an institution of the same magnitude or influence as, nor is it a rival to, the IMF or the World Bank.

International trading arrangements that avoid using the US currency have emerged as a potential, albeit limited, challenge to the status of the US dollar as the global reserve currency. The invasion of Iraq, according to W.R. Clark, was motivated by the neo-conservatives in the Bush administration to stop Saddam

Hussain from trading oil in Euros (Clark 2005, 29). Similarly, Swanson calculates that military action was taken against Col Gaddafi's government in 2011 under the pretext of "humanitarian intervention." However, it is noted that the Gaddafi government was also preparing to move Libya's oil settlements away from the dollar to a gold-backed currency (Swanson 2011). Several other Middle Eastern states, including Saudi Arabia, Kuwait and Qatar, have attempted to avoid the US dollar in oil trading, a move that could have an impact upon the demand for US dollars and US Treasury bonds, as well as long-standing financial and security agreements with the United States (Fisk 2009). Russia, China and Iran have sought to substitute their own currencies, in place of the US dollar, in some bilateral and multilateral trade arrangements, in part to mitigate the imposition of sanctions (Durden 2014).

In September 2015, the Russian government began drafting a bill that would eliminate the US dollar from trade between the Commonwealth of Independent States (CIS). This plan emerged in the context of continuing political tensions between the United States and Russia in relation to the Ukraine crisis. By avoiding the US dollar in regional trade, President Vladimir Putin believed that Russia would be less susceptible to sanctions imposed by the United States (*Russia Today* 2015). President Putin ordered an alternate payment system to be created, one which does not use the US dollar (Pascali 2014).

Although not a direct challenge to the US dollar's global reserve currency status, the substitution of other currencies for the dollar in international trade could have an impact upon the US economy. Bilateral trade between Russia and China may be increasingly important within the world economy of the future. Major energy deals, such as the new China-Russia gas pipeline which will supply Russian gas to China for the next 30 years, will not be traded in US dollars (Pizzi 2014). This expanding bilateral energy trade between China and Russia has the capacity to affect US financial deficits; a potential decreased demand for dollars could impact US Treasury securities (Koenig 2015). Recently, Russia and China have been cooperating to develop the CIPS. The purpose of this system is to avoid the Western-operated Society for Worldwide Interbank Financial Telecommunication (SWIFT), a privately owned international payments system used by over 10,000 financial institutions. Koenig (2016) argues, "It would be a formidable alternative to the western dollar based monetary Ponzi scheme." The payment system will be used by Brazil India Russian and China (BRIC) nations as well as Shanghai Cooperation (SCO) nations and has the potential to be a powerful alternative to a vital US hegemonic system.

The continuation of the dollar's position as the global reserve currency is imperative for the United States and has been acknowledged as such in reports by the National Intelligence Council (NIC). A 2012 NIC report stated that, historically, "US dominance has been buttressed by the dollar's role as the global reserve currency" (NIC 2012, 105). If the dollar was abandoned as the global reserve currency, the NIC has stated that it "would be one of the sharpest indications of a loss of US global economic position, strongly undermining Washington's political influence too" (NIC 2012, xii). The NIC has speculated that the mere downgrading of the US dollar's reserve status "may force the US to consider more carefully how the conduct of its foreign policy affects the dollar" (NIC 2008, 12). As these reports from the NIC indicate, the retention of the dollar's global reserve status is vital to the future of the United States' economy, foreign policy and its hegemonic power globally.

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