

BOOK REVIEW

THE GLOBAL CURRENCY POWER OF THE US DOLLAR PROBLEMS AND PROSPECTS

Author: Anthony Elson
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OVERVIEW

The United States dollar is the dominant currency for international trade and financial transactions conducted globally. Countries around the world conduct most cross-border transactions as well as hold their foreign reserves in US dollars despite having their own currencies. Some other currencies of other advanced countries or regions such as the pound, the euro, and the yen are also used beyond their territorial domain, but on a much smaller scale than the dollar. To put into perspectives, the dollar accounted for nearly 60 percent of global reserves reported to the International Monetary Fund and constituted approximately 88.3 percent of all foreign exchange transactions. Moreover, more than 40 percent of global payments were done through the dollar.

Anthony Elson, the author of the book, is an international economist, writer, and university lecturer. For a number of years, he was senior staff member at the International Monetary Fund and a consultant for the World Bank. His extensive work experience are well crafted and reflected in his books about international finance and trade. Some of his recommended exemplary reads are “Globalization and Development: Why East Asia Surged Ahead and Latin American Fell Behind”, “The Global Financial Crisis in Retrospect”, and “Governing Global Finance: The Evolution and Reform of the International Financial Architecture”.

In this book the author successfully attempts to explain how the US dollar has become the dominant currency of the global economic and financial system over the course of history. The book provides a comprehensive understanding and knowledge of the dominance of the dollar in nine chapters by providing the core notion of the importance of the dollar as a global currency, the origin and growth of the dollar as a global currency power, the benefits and defects of the dollar centered financial system, future prospects and possible reforms of the

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dollar centered reserve system, the role of the International Monetary Fund in the reforms, and the relationship between the dollar and digital currencies.

REVIEW

The book accentuates how the dollar fulfills the same functions in the global dollar system that it does in the US economy such as its use as a unit of account, a medium of exchange, and a store of value. According to the Elson, the main determinants of the global currency power of the US dollar is fully consistent with the dominant economic, political, and military roles that the United States has played in the global system since the end of World War II. The hegemonic role of the United States in promoting the stability of the international financial system is discussed. The book provides a clear comprehension of how the unparalleled breadth and depth of the United States capital market provides a “safe haven” asset for public and private investors throughout the global financial system.

The author highlights the special role of the dollar in times of global crisis such as the 2008-2009 global financial crisis and the Covid-19 global pandemic. The book articulately explains with empirical data the macroeconomic and financial mechanism that govern the foreign exchange value of the dollar in response to substantial capital flights from emerging and developing economies during times of global economic uncertainties. For instance, during the Covid-19 pandemic the massive shift of capital to the United States highlighted the hegemonic power of the United States within the global dollar system.

The book also underlines the global clout of the Federal Reserve and its monetary policies and how capital flow and global markets account for strong extra-territorial effects of the Federal Reserve monetary policy changes. Elson explains interestingly the dynamics of the appreciation and depreciation of the US dollar owing to the changes in the monetary policy of the Federal Reserves and how such volatility of the dollar impact global trade and international transactions.

The United States benefits from the fact that its government debt is considered a safe asset for which there is an ever-growing demand. The global currency power of the dollar has eliminated exchange rate risk for private investors and traders and also lowering the settlement costs for their transactions. Nonetheless, Elson clearly explains the costs and defects related to the global dollar system and the dominant currency status of the dollar. For example, he points out the adverse spillover effects of monetary policy decisions of the Federal Reserve on capital flow volatility and the impact it has on global markets. This is resoundingly true and the accurate analysis in the book will resonate well with economics and business readers.

The book explores how the global currency power of the dollar is a result of both official actions and the effects of market decisions by private traders and investors. Reference to the Bretton Woods Agreement are clearly explained in the book and the author provides a detailed historical account of the collapse of the gold exchange standard to the adoption of the Bretton Woods Agreement and its status as a landmark event in international monetary relations and finally the reasons for the collapse of the Bretton Woods Agreement. This part of the book will excite readers interested in the history of international finance and exchange rate policies and the negotiations and arrangements between countries in finalizing the Bretton Woods Agreement and the reason for its eventual collapse. The roles and relationships between the Bretton Woods Agreement and the International Monetary Fund (IMF) are also remarkably discussed. Readers will get a good grasp of how member countries interact and negotiate within the framework of the IMF with regards to international payments, exchange rates, and the overall financial networks. The role of the IMF and its limitations are also discussed thoroughly in the book.

The book outlines the how the dollar continued to be the key reserve currency in the system despite the collapse of the Bretton Woods Agreement and the emergence of various new reserve currencies. The post Bretton Woods era was one of rapid economic growth and financial globalization spearheaded by the United States as the key force, not only in the promotion of economic growth but also in leading the multinational liberalization of trade and payments. With the United States being the dominant trading nation, the dollar grew more in economic clout and power. The dollar's strong position in the mobilization and allocation of investible funds as well as hedging and currency exchange makes it stand out as the dominant currency in international finance.

The author also explores the global foreign exchange system in this book and provide readers with an elaborate knowledge of the global foreign exchange markets over a historical context. The book discusses how the primary status of the United States as the largest economic, financial, and military power within the international system makes the dollar the dominant currency in the international trade and finance. Readers might find some aspects of the book redundant and repetitive but it could be a treasure trove for economic and financial novices and academics.

One important discussion in the book focuses on the long-term macroeconomic policy management of the United States that has helped the economy sustain a solid pace of growth in real GDP and also maintain a fairly stable inflation rate. This has provided in effect an anchor for the global economy with positive spillover effects on economies worldwide. This has enhanced the safe haven status with a special appeal to both domestic and international investors of the dollar and government securities of the United States. Nonetheless, the book delves deep into the global financial crisis which originated in the United States in 2008 which raised questions about some of the economic misjudgments and policy flaws of the United States. This provides an interesting read for those seeking to unravel the circumstances of the 2008 global financial crisis.

One important commentary in the book projects the role of the Federal Reserve (the Fed) in the conduct of monetary policy as an unofficial international lender of last resort. The roles of the Fed have been critical to the global currency power of the dollar and the stability of the dollar-based global financial system. The book elaborates on the role of the Fed making it an appealing read for economics and financial enthusiasts. While projecting the dollar as powerful and beneficial facilitator of the global economy the author does not shy away from discussing some major defects of the dollar for the example with regards to the capital flow volatility of the dollar, the issues in the balance of payment adjustments process, and the cost and premium of holding the dollar and US government securities safe assets. An interesting discussion by the author about the "new Triffin Dilemma" would also be of interest to economic and financial readers.

The later parts of the book provide readers with the prospects of the dollar for the future with the emergence of China as an economic powerhouse. The author discusses the trade deficits between the US and China culminating in the trade wars between the two economic superpowers. A comprehensive narrative is provided making the discussion interesting and insightful. The shift away from the dominant role of the US dollar with the increasing use and adoption of other alternative currencies and the repercussions it has on global trade and financial markets are also discussed. The author also discusses some possible monetary reforms of the dollar centered reserve system that we can expect to see based on the problems and prospects laid out in the book with the IMF playing a role in it. Moreover, the emergence and implications of digital currencies for the future status of the dollar are also discussed by the author. The book examines the trend of digital currencies and provides a good beginner's guide to understanding the world of digital currencies and its speculative nature. This would appeal to younger readers who would like to get a glimpse into how digital currencies as well as

Central Bank Digital Currencies (CBDCs) could impact the way we conduct cross border transactions and international trades. The author provides a thorough understanding of the difference between private sector cryptocurrencies and the central bank backed CBDCs. The functions and roles of the CBDCs are also highlighted with real-world examples to make it easy for readers to understand.

Overall, the book is an interesting and informative read for business, economic and financial readers, with the author's expertise, examples, and anecdotes from the real-world making this book a comprehensive guide to understanding the dollar-dominated global financial system. The book will be an interesting read for both young and advanced readers who are interested and intrigued by the dynamics of global currencies and the foreign exchange markets, international trade and relations, and the financial and investment markets.