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Publication Date

2004

Peer reviewed

Chapter 14

America's Interest in Dollarization

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What is America's interest in dollarization? Formal adoption of the dollar by other governments creates both opportunities and risks for the United States, political as well as economic. But few benefits or costs can be estimated in advance, leaving much room for debate and disagreement. The argument of this paper is that no presumption can be established either way, whether for or against dollarization, from a strictly U.S. point of view. Unless directly challenged by efforts elsewhere to establish formal currency blocs, the United States has no interest in promoting a wider role for the greenback. (JEL F33)

What is America's interest in dollarization? As more countries contemplate following the examples of Ecuador and El Salvador, which have dollarized unilaterally, it is natural to ask whether the United States can expect to gain or lose in the process. The central focus is on Latin America, considered the most natural home for an incipient dollar zone. Other chapters in this volume consider the pros and cons of dollarization from the point of view of the Latins themselves. This chapter, by contrast, evaluates the possibility from a U.S. perspective.

Formal adoption of the dollar by neighboring governments creates both opportunities and risks for the United States, political as well as economic. But few benefits or costs can be estimated in advance with any degree of precision, leaving much room for debate and disagreement. The argument of this chapter is that no presumption can be established either

way, whether for or against dollarization, from a strictly U.S. point of view. Unless directly challenged by efforts elsewhere to establish formal currency blocs, the United States has no interest in promoting a wider role for the greenback.

14.1. The Status Quo

We start with the status quo. Much of Latin America is already extensively dollarized on a de facto basis, as a result of currency substitution – a spontaneous, market-driven process now distinguished as *informal* (unofficial) dollarization. America's interest in *formal* (official) dollarization must be compared with this reality, from which, it may be argued, the United States already derives significant economic and political advantages.

14.1.1 The Dollar's Market Leadership

Broadly speaking, currencies may be employed outside their country of origin for either of two purposes – for transactions either between nations or within foreign states. The former is conventionally referred to as international currency use or currency internationalization; the latter goes under the label currency substitution and can be referred to as foreign-domestic use. For both purposes, the U.S. dollar is used today on a very broad basis. Indeed, the greenback is indisputably the market leader among world currencies, its only serious rivals being Europe's new euro (succeeding the deutschmark) and the Japanese yen.

The clearest signal of the greenback's leadership in international currency use is sent by the global foreign-exchange market where, according to the Bank for International Settlements (2002), the dollar is the most favored vehicle for currency trading worldwide, appearing on one side or the other of some 90 percent of all transactions in 2001 (the latest year for which data are available). The euro, in distant second place, appeared in just 38 percent of transactions – higher than the share of its popular predecessor, the deutschmark, which had appeared in 30 percent of

transactions in 1998, but lower than that of all euro's constituent currencies taken together that same year (53 percent). The yen was even further behind with only 23 percent. The greenback is also the most favored vehicle for the invoicing of international trade, where it has been estimated to account for nearly half of all world exports (Hartmann 1998), more than double America's share of world exports. The DM's share of invoicing in its last years, prior to its replacement by the euro, was fifteen percent, roughly equivalent to Germany's proportion of world exports; preliminary evidence from the European Central Bank (2001: 18) suggests that this share was maintained by the euro after its introduction as a "virtual" currency in 1999. The yen's share was just five percent, significantly less than Japan's proportion of world exports.

A parallel story is evident in international markets for financial claims, including bank deposits and loans as well as bonds and stocks. Using data from a variety of sources, Thygesen et al. (1995) calculated what they call "global financial wealth," the world's total portfolio of private international investments, estimated at more than \$4.5 trillion in 1993. Again the dollar dominated, accounting for nearly three-fifths of foreign-currency deposits and close to two-fifths of international bonds. The DM accounted for 14 percent of deposits and 10 percent of bonds; the yen, 4 percent of deposits and 14 percent of bonds.

The clearest signal of the greenback's leadership in foreign-domestic use is sent by the swift increase in the currency's physical circulation outside the borders of the United States, mostly in the form of \$100 bills. Authoritative studies by the Federal Reserve (Porter and Judson 1996) and U.S. Treasury (2000), consistent with estimates suggested by Edgar Feige and James Dean in this volume, put the value of all Federal Reserve notes in circulation abroad at between 50 and 70 percent of the total outstanding stock -- equivalent in 2000 to roughly \$275 billion to \$375 billion in all. Estimates also suggest that as much as three-quarters of the annual

increase of U.S. notes now goes directly abroad, up from less than one-half in the 1980's and under one-third in the 1970's. By the end of the 1990's, as much as 90 percent of all \$100 notes issued by the Federal Reserve were going directly abroad to satisfy foreign demand (Lambert and Stanton 2001). Appetite for informal dollarization appears to be not only strong but growing.

By contrast, estimates by the Deutsche Bundesbank (1995) put circulation of the DM outside Germany in recent years, mainly in East-Central Europe and the Balkans, at no more than 30 to 40 percent of total stock, equivalent at end-1994 to some DM 65-90 billion (\$45-65 billion). And even that total may have been reduced somewhat after 1999, when Europe's monetary union first got under way, owing to uncertainties about the conversion of DM notes into euros that finally took place in early 2002 (Sinn and Westermann 2001; Stix 2001). It remains unclear to what extent euro notes may surpass the level of popularity previously enjoyed by the DM. On the other side of the world, Bank of Japan officials have been privately reported to believe that of the total supply of yen bank notes, amounting to some \$370 billion in 1993, no more than ten percent was located in neighboring countries (Hale 1995).

14.1.2. Advantages for the United States

Not surprisingly, all this foreign use of the dollar appears to translate into considerable advantages for the United States, both economic and political. Though minimized by some (e.g., Wyplosz 1999: 97-100), the benefits of market leadership in currency affairs can in fact be quite substantial. Four distinct gains may be cited.

Most familiar is the potential for seigniorage. Expanded cross-border circulation of a country's money generates the equivalent of a subsidized or interest-free loan from abroad -- an implicit transfer that represents a real-resource gain for the economy as a whole. Consider just

the circulation of Federal Reserve notes abroad. Updating earlier estimates by Jeffrey A. Frankel (1995) and Alan S. Blinder (1996), current interest savings may be conservatively calculated at some \$16-22 billion a year. To this may be added a saving of interest payments on U.S. government securities, which are uniquely attractive to foreign holders because of their greater liquidity. Richard Portes and H el ene Rey (1998: 309) call this an “often neglected source of seigniorage to the issuer of the international currency.” In their words (1998: 309): “This international currency effect reduces the real yields that the United States government has to pay” – a “liquidity discount” that they suggest could amount to at least \$5-10 billion a year. Put these numbers together and, paraphrasing former Republican Senator Everett Dirksen’s celebrated remark about the Federal budget, we are beginning to talk about real money.

A second gain is the increased flexibility of macroeconomic policy that is afforded by the privilege of being able to rely on one’s own money to help finance foreign deficits. As in any form of monetary union, expanded cross-border circulation reduces the real cost of adjustment to unanticipated payments shocks by internalizing through credit what otherwise would be external transactions requiring scarce foreign exchange. In effect, it reduces the need to worry about the balance of payments in formulating and implementing domestic policy. Who can remember the last time Washington decision makers actively incorporated concern for our large current deficits or our exchange rate in debating the course of monetary and fiscal policy?

Third, more psychological in nature, is the gain of status and prestige that goes with market dominance. Money, as I have written elsewhere (Cohen 1998), has long played a key symbolic role for governments, useful – like flags, anthems, and postage stamps -- as a means to cultivate a unique sense of national identity. But that critical role is eroded to the extent that a local currency is displaced by a more popular foreign money, especially a money like the

greenback that is so widely used on a daily basis. Foreign publics are constantly reminded of America's elevated rank in the community of nations. "Great powers have great currencies," Robert Mundell once wrote (1993: 10). In effect, the dollar has become a potent symbol of American primacy – an example of what political scientist Joseph S. Nye (1990) has called "soft power," the ability to exercise influence by shaping beliefs and perceptions. Though obviously difficult to quantify, the role of reputation in international affairs should not be underestimated.

Finally, there is the gain of political power that derives from the monetary dependence of others. On the one hand, an issuing country is better insulated from outside influence in the domestic arena. On the other hand, it is also better positioned to pursue foreign objectives without constraint or even to exercise a degree of influence internationally. As political scientist Jonathan Kirshner reminds us: "Monetary power is a remarkably efficient component of state power... the most potent instrument of economic coercion available to states in a position to exercise it" (1995: 29, 31). Money, after all, is simply command over real resources. If another country can be denied access to the means needed to purchase vital goods and services, it is clearly vulnerable in political terms. Kirshner lists four ways in which currency dependence can be exploited: (1) enforcement – manipulation of standing rules or threats of sanctions; (2) expulsion – suspension or termination of privileges; (3) extraction – use of the relationship to extract real resources; and (4) entrapment – transformation of a dependent state's interests. The dollar's widespread use puts all of these possibilities in the hands of Washington policymakers.

Admittedly there are limits to these benefits, which are likely to be greatest in the early stages of cross-border use when confidence in a money is at a peak. Later, as external liabilities accumulate increasing supply relative to demand, gains may be eroded, particularly if an attractive alternative comes on the market. Foreign holders may legitimately worry about the

risk of future depreciation or even restrictions on the usability of their holdings. Thus the currency leader's autonomy may eventually be constrained, to a degree, by a need to discourage sudden or substantial conversions through the exchange market. Both seigniorage income, on a net basis, and macroeconomic flexibility will be reduced if a sustained increase of interest rates is required to sustain market share. Likewise, overt exploitation of political power will be inhibited if foreigners can switch allegiance easily to another currency. But even admitting such limits, there seems little doubt that on balance these are advantages of considerable significance, as numerous sources acknowledge (e.g., Portes and Rey 1998: 308-310). The question is: Given the already widespread foreign use of the dollar, what would be added by formal dollarization in one or more countries?

14.2. Economic Impacts

As compared with the status quo, three economic benefits are generally expected to accrue to the United States from formal dollarization -- an increase of seigniorage, a decrease of transactions costs, and an improved environment for foreign trade and investment. Conversely, there could also be a cost in terms of possible constraints on the conduct of U.S. monetary policy. Though none of these effects need be trivial, their magnitudes can be easily exaggerated. In fact, none is apt to be of more than marginal significance to an economy as large as that of the U.S.

14.2.1. Seigniorage

Formal dollarization, when undertaken unilaterally, means that a government must give up interest-bearing dollar reserves in order to acquire the greenback notes and coins needed to replace local cash in circulation. The interest payments thus foregone represent an additional flow of seigniorage to the United States -- a material gain that comes at the direct expense of the

dollarizing country. For Latin American economies, many of which are quite small, these costs would not be inconsiderable – in comparative terms, a potentially “very high financial tribute to the United States,” as George von Furstenberg (2000: 109) asserts. But for the United States, with its ten-trillion dollar GDP, gains would be barely visible, especially given the sizable amount of seigniorage that Washington already accrues from the circulation of dollars in the Western Hemisphere and elsewhere. According to economists at the International Monetary Fund (Baliño *et al.* 1999), the greenback even now accounts for a substantial portion of the broad money supply of many Latin American economies – more than half in Nicaragua and Peru and as much as 80 per cent in Bolivia and Uruguay. The greater the degree of prior informal dollarization in a country, the smaller will be the additional transfer generated by formal dollarization.

14.2.2. Transactions Costs

By eliminating any possibility of exchange-rate change, formal dollarization also reduces transactions costs. This is the standard economic benefit expected from monetary integration, an efficiency gain that is shared by both sides, the United States as well as the country that dollarizes. Once a local money is replaced by the dollar, there is no longer a need to incur the expenses of currency conversion or hedging in transactions between the U.S. and its partner economy. The usefulness of money is enhanced for all its basic functions: medium of exchange, unit of account, and store of value. Again, however, benefits for the United States are unlikely to be considerable, since most U.S. trade with Latin America, as well as a good part of the nation’s portfolio investment, is already contracted in dollars. Certain specific sectors will profit, of course. Earnings could be increased at U.S. banks, for example, which are naturally advantaged relative to their rivals in dollarized countries by their privileged access to the resources of the

Federal Reserve. Economists have long recognized that international use of a currency generates “denomination rents” for financial intermediaries based in the country of issue. Gains should also accrue to other market actors who currently may still be exposed to exchange risk in the Hemisphere. These would include export and import interests and portfolio investors. They would also include American tourists who are fond of travel south of the border. But, overall, additional gains for the U.S. economy will be slight.

14.2.3. Environment for Trade and Investment

Finally, formal dollarization is widely predicted to benefit the United States by bringing greater stability to the countries of the Hemisphere, creating an improved environment for regional trade and investment. Latin American central banks, with their histories of high inflation and debauched currencies, do not enjoy a great deal of credibility. Adoption of the dollar, by contrast, would mean that loose monetary policy could no longer threaten renewed financial crisis. In the words of investment banker Michael Gavin (2000), monetary regimes would now be “accident-proof,” ostensibly removing a key impediment to economic development. Faster and steadier growth, in turn, would mean healthier markets for U.S. exports and direct investments.

But would monetary regimes really be accident-proof? Dollarization addresses only one among many of the causes of economic instability in Latin America – exchange-rate risk – but offers no direct corrective for other critical deficiencies, such as undisciplined fiscal policy, poor banking supervision, or labor-market rigidities. The hope is that by strait jacketing monetary policy, additional structural reforms will fall into place. But as Walter Molano (2000: 52) has warned, this could be “just wishful thinking.” Molano continues (2000: 60): “Dollarization is a one-sided look at the problem.... Dollarization is not a solution to the institutional flaws that led

to the crisis in the first place. It does nothing to shape the political will needed to sustain the exchange rate regime.” A case in point is Argentina, where the discipline of the dollar-based currency board instituted in 1991 sadly failed to bring about any significant reform of fiscal policy. As a result, once foreign creditors lost faith in the government’s debt-service capacity, the economy was plunged into deep recession and ultimately, in late 2001, into default and financial chaos. Too much faith, in short, should not be invested in a single institutional innovation like dollarization. In reality, the market environment for U.S. business could turn out to be considerably less stable than suggested.

14.2.4. Economic Disadvantages

On the negative side, the key economic risks concern possible disadvantages for the conduct of U.S. monetary policy. Most salient is the possibility that by placing a large share of greenbacks in circulation abroad, formal dollarization could impose an awkward constraint on Federal Reserve decision makers. If money demand in dollarizing countries is subject to sudden or frequent shifts, net flows would be generated that might increase the short-term volatility of U.S. monetary aggregates. Such liquidity shocks could make it tougher for the Fed to maintain a steady course over time.

But here too it is easy to exaggerate, since a large share of the outstanding stock of U.S. bank notes, as noted, is already in circulation outside U.S. borders, with little or no evident impact on policy. The Fed recognizes the phenomenon of informal dollarization and, as part of its daily open-market operations targeting the federal-funds rate, already factors overseas circulation into its behavior. In any event the additional sums involved, even if many governments were to dollarize, are unlikely to be great enough to make much practical difference in America’s still relatively closed economy.

More remote is the possibility that at some point one or more dollarized countries might suddenly decide to reintroduce currencies of their own – to *de-dollarize* -- precipitating a mass dumping of greenbacks in global exchange markets. The result for the dollar could be a serious depreciation, generating increased inflationary pressures in the United States. The probability of major defections, however, is undoubtedly low, given the high exit costs that would have to be borne by seceding governments; and in this event too, unless the number of states involved was large, the sums are unlikely to be great enough to make a real difference for U.S. policy.

14.3. Political Impacts

What, then, about possible political impacts? Politically, two main benefits are expected to accrue to the United States, summarized by the words “power and prestige,” along with one possible cost in terms of added responsibility for the fate of client states. All of these potential effects are undeniably real. Sincere people, however, may sincerely disagree over how important they may turn out to be in actual practice.

14.3.1. Power

In geopolitical terms, preservation of a national currency is useful to governments wary of external dependence or threat. Control over the issue and circulation of money within their own borders enables policymakers to avoid dependence on some other source for this most critical of economic resources, in effect providing a kind of insurance policy against risk. Money creation can serve as an emergency source of revenue – a way of finding needed purchasing power quickly when confronted with unexpected contingencies, up to and including war. Conversely, that same measure of autonomy is lost when a foreign money is formally adopted. The relationship with a dollarized country is clearly hierarchical – a link of dominance and dependence -- and hierarchy unavoidably implies vulnerability.

An apt illustration is provided by Panama, which since its independence in 1903 has always used the greenback as its main legal tender. Although a national currency, the balboa, notionally exists, only a negligible amount of balboa coins actually circulates in practice. The bulk of local money supply, including all paper notes and most bank deposits, is accounted for by the dollar. In economic terms, observers rightly have mostly praise for Panama's currency dependence (e.g., Goldfajn and Olivares 2001). Though reliance on the dollar has by no means induced a high degree of fiscal discipline, it has succeeded in creating an environment of monetary stability, helping both to suppress inflation – a bane of most of Panama's hemispheric neighbors – and to establish the country as an important offshore financial center. In political terms, however, Panama has been especially vulnerable in its relations with Washington, as Panamanians learned in 1998 when the Reagan administration initiated a campaign to force Manuel Noriega, the country's de facto leader, from power. Panamanian assets in U.S. banks were frozen, and all payments and dollar transfers to Panama were prohibited, effectively demonetizing the economy. The effect on the economy was devastating despite rushed efforts by the Panamanian authorities to create a substitute currency, mainly by issuing checks in standardized denominations that they hoped recipients would then treat as cash. Over the course of the year, domestic output fell by a fifth, undoubtedly hastening Noriega's eventual downfall in 1999.

Such vulnerability clearly enhances Washington's political authority: its capacity to exercise influence or threaten coercion. But again, it is crucial not to exaggerate. For many, Panama was a special case, unlikely to be repeated anywhere else in the Hemisphere. In any event, what may work with an economy as small and defenseless as Panama's might be less effective when attempted against a larger and more developed country. Moreover, the United

States has worked long and hard to erase unpleasant memories of dollar diplomacy in Latin America. One may legitimately wonder whether any administration in Washington, Democrat or Republican, would wish to do anything that might revive past resentments of *Yanqui* imperialism. The power derived from dollarization is tangible but, like nuclear arms, may be something of a doomsday weapon – in practice, more or less unusable except *in extremis*.

14.3.2. Prestige

Somewhat less tangibly, the United States could also gain yet greater status and prestige from formal dollarization. Symbols, however, can prove to be a two-edged sword, depending on circumstances. What in prosperous times may be accepted as benign, even natural, might become a focal point for hostility in the event of recession or crisis. Formal dollarization creates a convenient target for protest. When the greenback was adopted in Ecuador, demonstrators marched in the streets denouncing what they feared would be the “dollarization of poverty”; and domestic opposition continues to simmer, as Franklin Lopez (this volume) emphasizes, despite improved macroeconomic performance. It is easy to imagine similar manifestations in the future, in Ecuador or elsewhere, blaming the dollar – and thus the United States – for any failures of economic management at home. It is even possible to imagine politicians deliberately fomenting popular protests as a way of diverting attention from their own policy errors. Prestige could come at a very high price, creating an easy target for grievances.

14.3.3. Political Disadvantages

Nor is that the only political price that might be exacted from the United States. By adopting the greenback, a government voluntarily surrenders control over its own money supply and exchange rate. All authority is ceded to the Federal Reserve, making the country a monetary dependency, a client of the United States. Formally, there need be no promises of any kind: no

assurance that the dollarizing economy's circumstances will be taken into account when monetary decisions are made, nor access to the Fed's lender-of-last resort facilities should the country's banks get into difficulty. Indeed, Washington officials have gone out of their way to deny that U.S. policy or institutions would be adjusted in any way. In reality, however, as frequently noted (e.g., Samuelson 1999), it might be very difficult for the American government to ignore adverse developments in the periphery of its own currency bloc. Even in the absence of any explicit commitment, dollarization could create an implicit expectation of future monetary bailouts -- a kind of contingent claim on U.S. resources. Such an expectation is the flip side of America's enhanced political authority. With primacy comes not only greater influence but also, potentially, greater responsibility.

Like it or not, therefore, policymakers could find themselves periodically under pressure to accommodate specific needs or fragilities. The Fed might be lobbied to take explicit account of the priorities of dollarized economies in setting its policy goals -- especially in the event of asymmetric payments shocks -- or to open its discount window to local financial institutions. In time, governments might even begin to campaign for indirect or even direct representation on the Federal Reserve Board or Federal Open-Market Committee. Likewise, the Treasury might be importuned to come to some country's rescue in the event of financial crisis. Once again, however, it is crucial not to exaggerate. Though the risk is evident, the probabilities involved are unknowable. No one can forecast with assurance how dollarized countries will behave in actual practice. As with all the effects of dollarization, there is no strong presumption one way or the other. The national interest is uncertain.

14.4. Options for U.S. Policy

What, then, should the United States do? Until now, as I note elsewhere (Cohen 2002),

U.S. policy has remained cautiously neutral – a strategy of “benign neglect,” to borrow a phrase from an earlier era. Governments considering dollarization may be given moral support, and perhaps some technical assistance, but otherwise are left more or less on their own. No formal commitments are offered. Adoption of the greenback must be entirely unilateral, as has already occurred in Ecuador and El Salvador. The question is: Should Washington do more?

The answer follows directly from the analysis. No change of policy appears warranted unless present gains are threatened. Benign neglect makes sense in current circumstances, where the U.S. already derives considerable advantage from the dollar’s market leadership. Why do more if there is so little promise of additional net benefit? Only if the dollar’s leadership is directly challenged, jeopardizing present gains, would a more pro-active policy be called for. Washington has little interest in augmenting the greenback’s global dominance but much interest in defending it.

This means that a good deal will depend on what actions are taken on behalf of the greenback’s principal rivals, the euro and yen. Europe and Japan too enjoy critical advantages as a result of the international use of their respective monies, and both Europeans and Japanese have spoken of aspirations for currency leadership of their own. In this connection, however, it is useful to draw a distinction between two different kinds of leadership in monetary affairs: *informal* and *formal*. The implications of each are quite different.

That Europe and Japan will do all they can to sustain the underlying competitiveness of their respective monies, relative to the dollar, is a foregone conclusion. The multiple benefits of extensive cross-border use are well understood, providing more than enough incentive to motivate policymakers to promote widespread adoption of the euro or yen by *market* actors. Above all, this means enforcing structural reforms of financial markets to reduce the cost of

doing business in either currency. Aggressive challenge at this level has long been accepted by Washington as an inevitable by-product of open markets. Commercial rivalry for market share – what we may call informal leadership -- is natural in a setting that can accurately be described as analogous to an oligopoly (Cohen 2000) and would be unlikely to trigger a defensive response from U.S. authorities.

But what if Europe or Japan were to go a step further, seeking actively to promote adoption of their monies by *state* actors – formal leadership? Inducements of various kinds could be offered to persuade foreign governments to “euroize” or “yenize,” in effect sponsoring formation of organized currency blocs. Challenge at this level, by generating potentially attractive alternatives to the dollar, could seriously compromise the gains presently enjoyed by the United States. Such a development, therefore, could hardly be ignored by Washington. In effect, any move by Europe or Japan to promote formal leadership would transform the low politics of market competition, by definition, into the high politics of international diplomacy. The risk of policy tensions would be great, particularly if euroization or yenization were perceived as encroaching on America’s established regional relationships.

Is the risk serious? A challenge from Europe is certainly possible – but improbable. The Europeans will no doubt make every effort to promote the use of their new euro at the market level. It is also evident that they will not discourage some form of official linkage to the euro by nearby governments, particularly in East-Central Europe and the Balkans. But none of this is likely to provoke a more proactive policy in Washington unless the aspirations of the European Union (EU) spread beyond its immediate neighborhood – what the European Central Bank (2001) calls the “Euro time zone” – to regions more traditionally aligned with the United States, such as Latin America. The chances of a more aggressive scenario along those lines, however,

are slim at best. In fact, European authorities are generally agreed that they already have more than enough on their plate coping with the EU's impending enlargement. A confrontation with America over formal currency leadership is the last thing they are looking for.

From Japan, by contrast, the chances of a challenge are higher. The reason is simple: the Japanese have more to lose. The euro, clearly, is a currency on the rise. Even if European authorities do nothing, a euro bloc will continue to coalesce as a natural result of EU enlargement. The yen, *per contra*, is a money in retreat. Over the last decade international use of the yen, in relative terms, has actually decreased rather than increased, mirroring Japan's economic troubles at home (Cohen 2000). If Tokyo does nothing the currency's slide could become irreversible, even in East Asia, a region that the Japanese prefer to think of as their own privileged backyard. It is difficult to imagine that Tokyo will accept such a loss of status without a struggle. Indeed, Japanese officials have made no secret of the fact that their aspirations now extend beyond mere informal currency leadership. But it is also difficult to imagine that any Japanese challenge would be carried to the point of open confrontation with the United States, which has its own established relationships in East Asia. Given the broader geopolitics of the region, there is good reasons to believe that tensions between the two governments on currency matters, though almost certainly unavoidable, will not prove unmanageable.

14.5. Conclusion

The conclusion is evident. America has every interest in preserving and defending the advantages it presently derives from the market leadership of the dollar. But unless directly challenged by Europe or Japan, America has no clear interest in going any further, to promote or underwrite formal adoption of the greenback by other governments. Benign neglect remains the logical policy choice.

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