

Triffin reloaded: the matrix of dilemmas around the US dollar's global role Lecture 1

Herman Mark Schwartz

MPIfG

6 June 2023



Welcome back, Mr. Triffin

Road map

- Motivation (today)
- Overview / summary (today)
- Structural principles (today)
 - A system level approach
 - Empire
 - Money & global quasi-state money
- Mechanisms (20 June)
- Dynamics (4 July)



Chronicle of a death foretold – media

The Economist

Menu Weekly edition The world in brief Search

Leaders | World economy

The disappearing dollar

How long can it remain the world's most important reserve currency?

Dec 2nd 2004

The Economist

DECEMBER 4TH - 10TH 2004 www.economist.com

America's colleges: sadder than fiction
PAGE 36

Russian roulette in Ukraine
PAGES 28, 49 AND 54

How brains see faces
PAGE 60

Kofi Annan on reforming the UN
PAGES 23-25

The disappearing dollar

A photograph of a US dollar bill being eaten by a caterpillar.

www.economist.com

Well, they aren't quite sure...

2006



2007



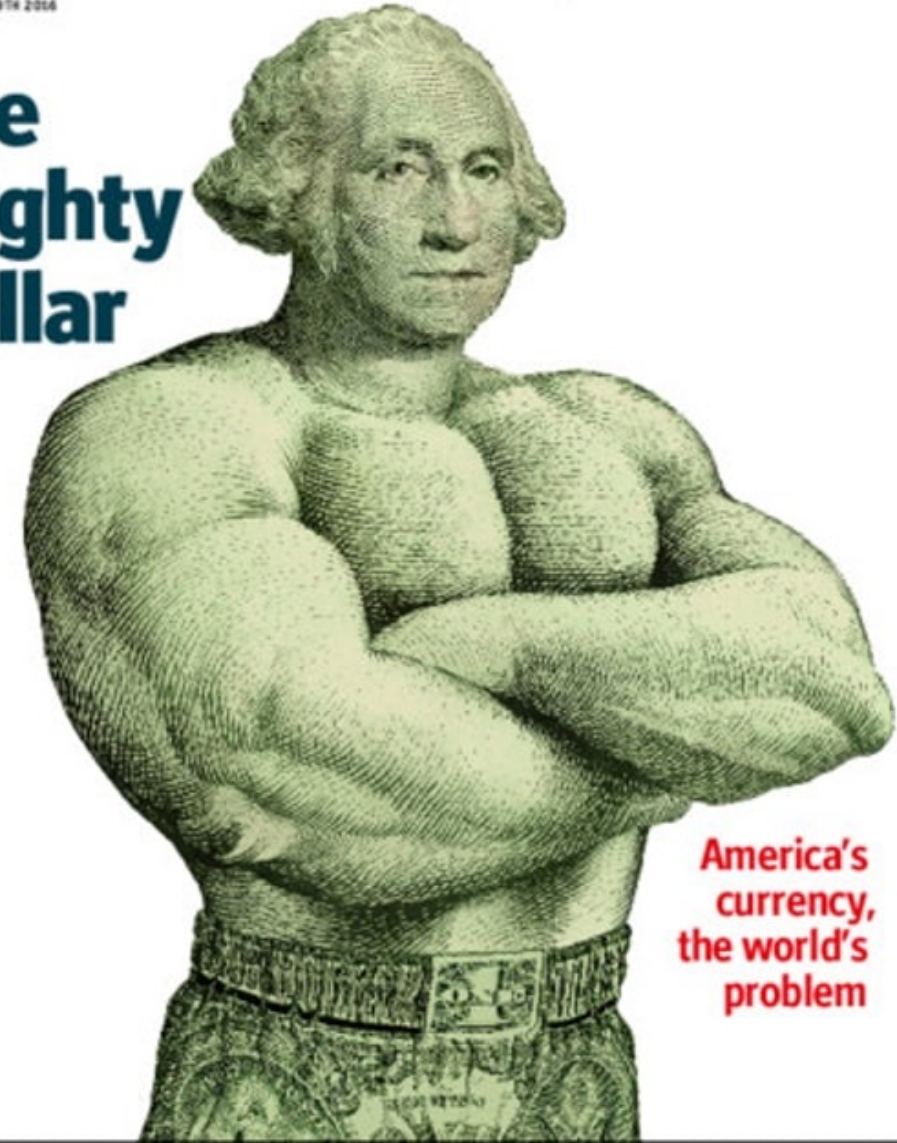
2016



- Cuba after Fidel
- India's botched rupee plan
- What Trump means for school reform
- Getting ketchup out of a bottle

DECEMBER 30th - 6th 2016

The mighty dollar



America's currency, the world's problem

Chronicle of a death foretold – academics

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A fundamental reform of the international monetary system has long been overdue. Its necessity and urgency are further highlighted today by the imminent threat to the once mighty U.S. dollar. **Robert Triffin, November 1960**

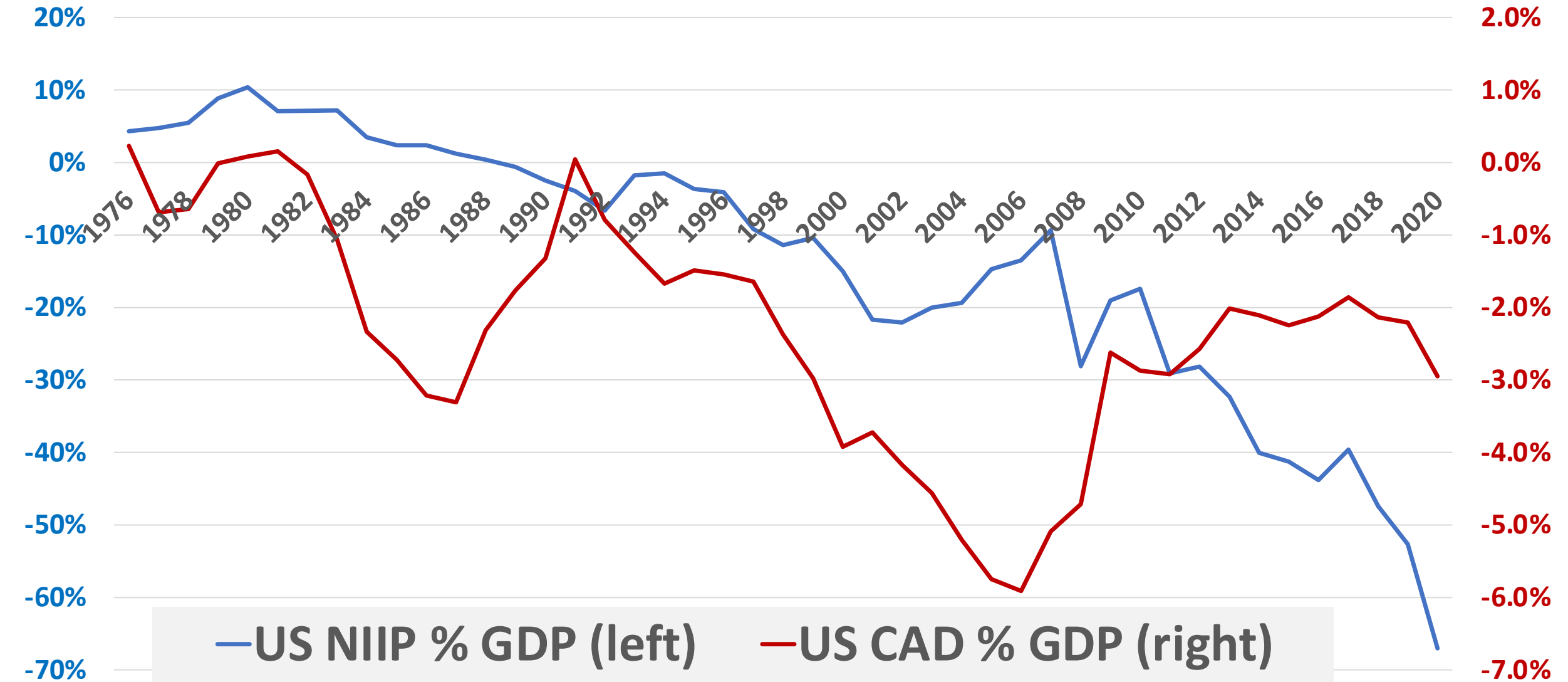
...it is now apparent that our shrinking paper dollar is becoming increasingly unacceptable to the surplus countries as the major recycling instrument for their surpluses. Further procrastination in the negotiation of agreed reforms of the world settlement and reserve system will inevitably trigger an utter collapse of the international paper-dollar standard. **Robert Triffin, 1978**

The dollar is finished as international money. **Charles P. Kindleberger, 1981**

The simple reality is that we live in a dollar world: on the real side, where dollar invoicing is dominant; on the financial side, where dollar funding is essential to global banks and non-financial corporations; and on the policy side, where dollar anchoring and dollar reserves are prevalent. **Pierre-Olivier Gourinchas, 2021**

US net international debt (NIIP) & current account as % of GDP

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Another reason for worry



It's about global quasi-state money
for a global empire

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Two broad approaches (1)...

- “North American View” (Triffin, Cohen, Eichengreen, Mundell): **gold + moneys**
 - Ghost of the gold standard (‘Metallism’ ‘commodity money’) →
 - Loanable funds model for credit creation
 - ‘Island economies’ (triple coincidence, methodological nationalism) with sovereignty
 - Private actors (equal, homogeneous actors i.e. ‘Financial markets’) decide on key currency
 - FX reserves as the key indicator / concern → balance of payment crises
 - Balance of payments constraint is strong (Triffin, no offshore)

→ Triffin's Liquidity versus confidence dilemma, 1960

- Triffin 1.0: adequate expansion of trade finance (= sufficient FX reserves) versus reliable redemption of dollars for gold
- Assumptions:
 1. Limits on fiat money: ultimately you need a specie backing
 2. National economies are a natural container ('triple coincidence')
 3. Loanable funds model of credit creation
 4. Private actors nervous, liable to 'run,' and able to run
- Assumptions worked correctly for Cold War 1.0 era (and since 1914?)
- Change assumptions → different, more complicated set of dilemmas

Two broad approaches (2) Gives you...

- “New European View” (Ingham, Murau, Me): “quasi-state money”
 - Chartalism / state money → monetary hierarchy → polity hierarchy (with reservations)
 - Internal social classes / class conflict matter but this is a system level process – class conflict → lock in via balance sheets
 - Endogenous credit creation → Minsky-ian crises → bailout by center
 - Credit creation > reserves as the key issue (because no triple coincidence)
 - Balance of payments constraint irrelevant at the top of the hierarchy
 - Pervasive late development → demand shortfalls & deflationary pressures, thus the US current account deficit is a feature not a bug
 - Except for the political contradictions it generates

ADEQUATE
CREDIT
GROWTH

Antinomy:
Wage restraint
vs growth

LEGITIMACY
(via exports)

Antinomy:
In USA job loss
vs
Export surplus
justification for
wage restraint

Antinomy:
Adequate credit
vs inflation &
'confidence' =
Differential
growth

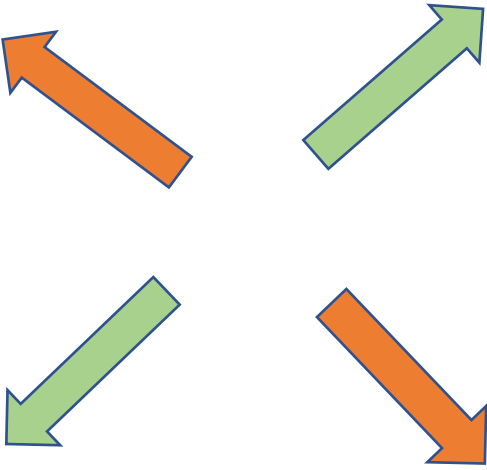
Antinomy:
Rising inequality
Vs bailouts

CURRENT
ACCOUNT
DEFICIT &
BuyerOLR

Antinomy:
Net foreign debt
vs inflation or
Triffin domestic vs INal?

CENTRAL
BANK LOLR/
DOLR /dROLR

Antinomy:
Central banks
can't constrain
excessive credit
creation



Settle in, it's a long flight

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Systems vs Units

1. Why a system level approach

- Unit level approaches: Growth models, VoC, Brenner, much CPE, etc
- System level: World Systems, economic geographers, Murau+, etc
 - Capitalism is inherently deflationary (Schumpeter, Keynes)

2. Empire as the organizing framework (Mann, Strange)

- Heterogeneity + homogeneity (rules bind some and free others), asymmetry, resource flows, and the problem of differential growth
- Plus some facts about the world

3. Money & Global Quasi-State Money

- Money is credit / debt → interlocked balance sheets
- Creditors always want higher powered (most acceptable) money
- State establishes acceptability when it accepts tax payments
- The state (central bank) can backstop credit creation that offsets deflation

System versus units

What we see in the world 

McKinsey: 40,000 micro-regions
averaging 3000km², \$3b GDP
and 180,000 people

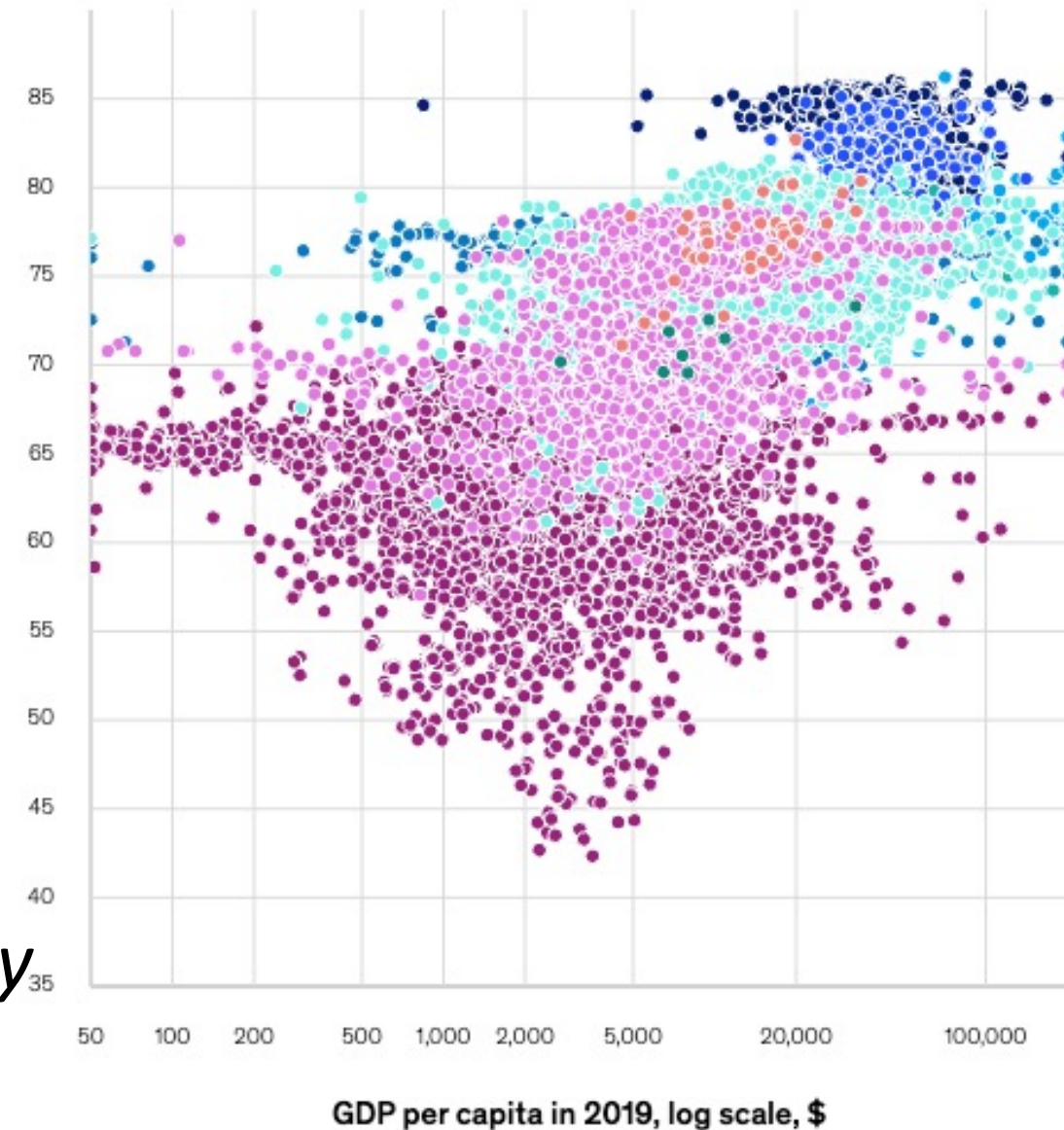
Here: GDP per capita x Life expectancy

nb: log scale for GDP per capita

Life expectancy proxies for state capacity

■ Advanced Asia ■ Western Europe ■ Sub-Saharan Africa ■ India
■ North America ■ Eastern Europe ■ Emerging Asia ■ Latin America
■ MENA ■ China

Life expectancy in 2019, years



Unit level approaches

- Local characteristics → Observable outcomes at a global level via aggregation of national economic units
 - The relevant unit of analysis is a specific polity
 - Class struggle → income distribution → type of local industry / exports
 - Locally generated institutions & complementarities → type of industry / exports
 - These institutional structures are not systematically linked across various polities
 - ‘Triple coincidence’: money, law, economic zone
 - Globally: Polities issue money; private actors decide which to use
-
- ❖ Types without a theory of types aside from induction...
 - ❖ → Fallacies of composition

Long before Höpner...

‘We must export. Either we export goods or we export men. The home market is no longer adequate.’

Leo von Caprivi, Chancellor of Germany 1890-94

- Likewise: Gustav Stresemann (1913):

“Germany does not want colonies for the pleasure of planting her flag there; she needs facilities for easily acquiring cotton, iron ore, copper and rubber.”

The economic geographers say...

- ❖ Thünen, Christaller, Krugman and Venables, etc
- The market as a system creates heterogeneity with respect to:
 1. What is produced
 2. How it is produced
 3. Wage levels (income per capita)
 4. Agglomeration
- ❖ The biggest source(s) of aggregate demand structure the div. of labor
- ❖ States can push back against the market via demand creation

System level approaches (for geo-economics)

- There is a global division of labor (since the early 1800s)
- The size of the market determines the division of labor (A. Smith)
- The division of labor creates potential production niches for regions (economies of scale, agglomeration effects, etc matter)
- As aggregate demand increases, new niches (# and type) emerge
 - Imagine a queue of potential niches sequentially activated plus evolutionary processes via competition
- And: geopolitics → late development efforts → supply grows faster than demand in the absence of credit creation
 - You need a buyer of last resort in normal times; need \neq you get one
- Thus: capitalism is inherently deflationary

Capitalism produces secular deflation

1982 VW Golf = \$17,000 (2018\$)

Carbureted, 70hp, 27 mpg (8.8 L/100km)
No A/C; no crash crumple zones; 2 doors
Am/Fm radio w/ 2 speakers; drum brakes;
unheated seats; manual everything



2018 VW Golf SE = \$22,000 (2018\$)

Fuel injection, 190hp, 40 mpg (5.9 L/100)
A/C, heated leather seats, CD/USB (8)
ABS, traction control, air bags, rain
sensor, sunroof, rear camera, power
everything, heated seats, mirrors etc



Empire

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Empire

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Social power and empire

Michael Mann

- Max Weber ('*Class, Status, Party*') → IEMP model
- Ideological
- Economic
- Military (violence)
- Political



Susan Strange

- Knowledge
- Military
- Production
- **Credit**

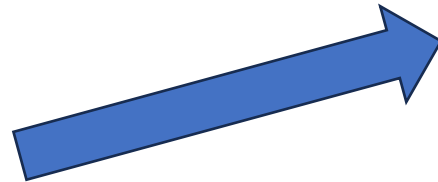
Don't think Africa in 1880... Empires are:

- Heterogeneous with respect to how areas are ruled:
 - A geographical gradient of consent into coercion
 - Different deals with different kinds of elites in different regions (countries)
 - Subsystems of rule, delegation, & upward mobility for select local elites
 - Tend towards centralized money, uniform law, organized violence, culture
 - But:
 - Military: legions plus auxilia (center plus locals)
 - Money: segmented financial systems connected to center; 'containerization'
 - Law: negotiated with local elites
 - Cultural homogenization takes a long, long time (until TikTok)
 - And: there are always 'barbarians' on the other side of the frontier
- ❖ It's not Westphalia (Murau & van 't Klooster); it's asymmetries

Social power and empire

Michael Mann

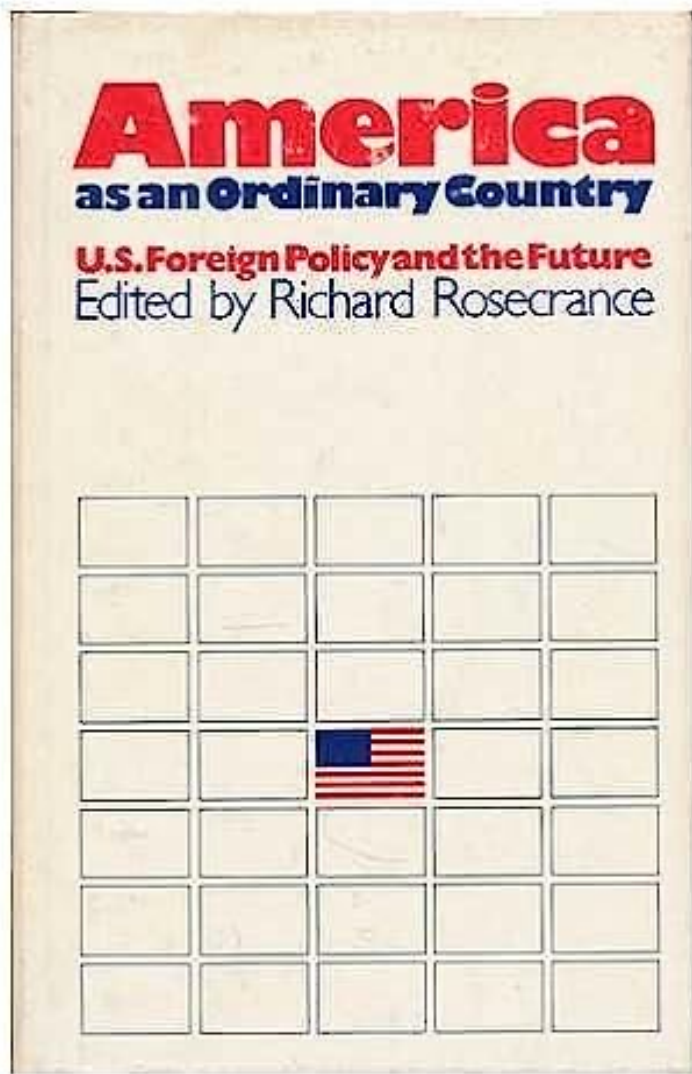
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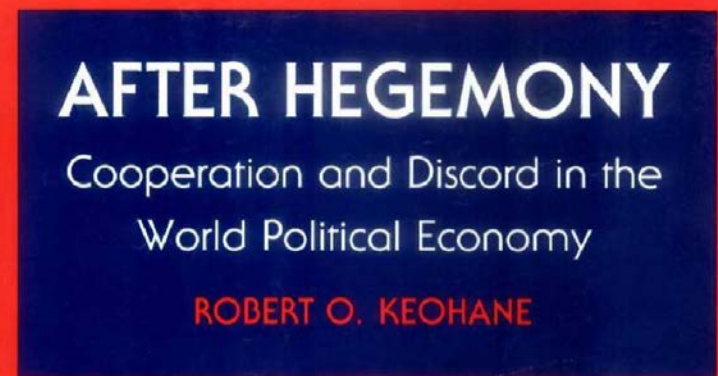
Susan Strange

- Knowledge
- Military
- Production
- **Credit**
- (1987) The US alone has “the power to choose and to shape the structure of the global political economy.”

Two early, incorrect views, + Strange (1996)

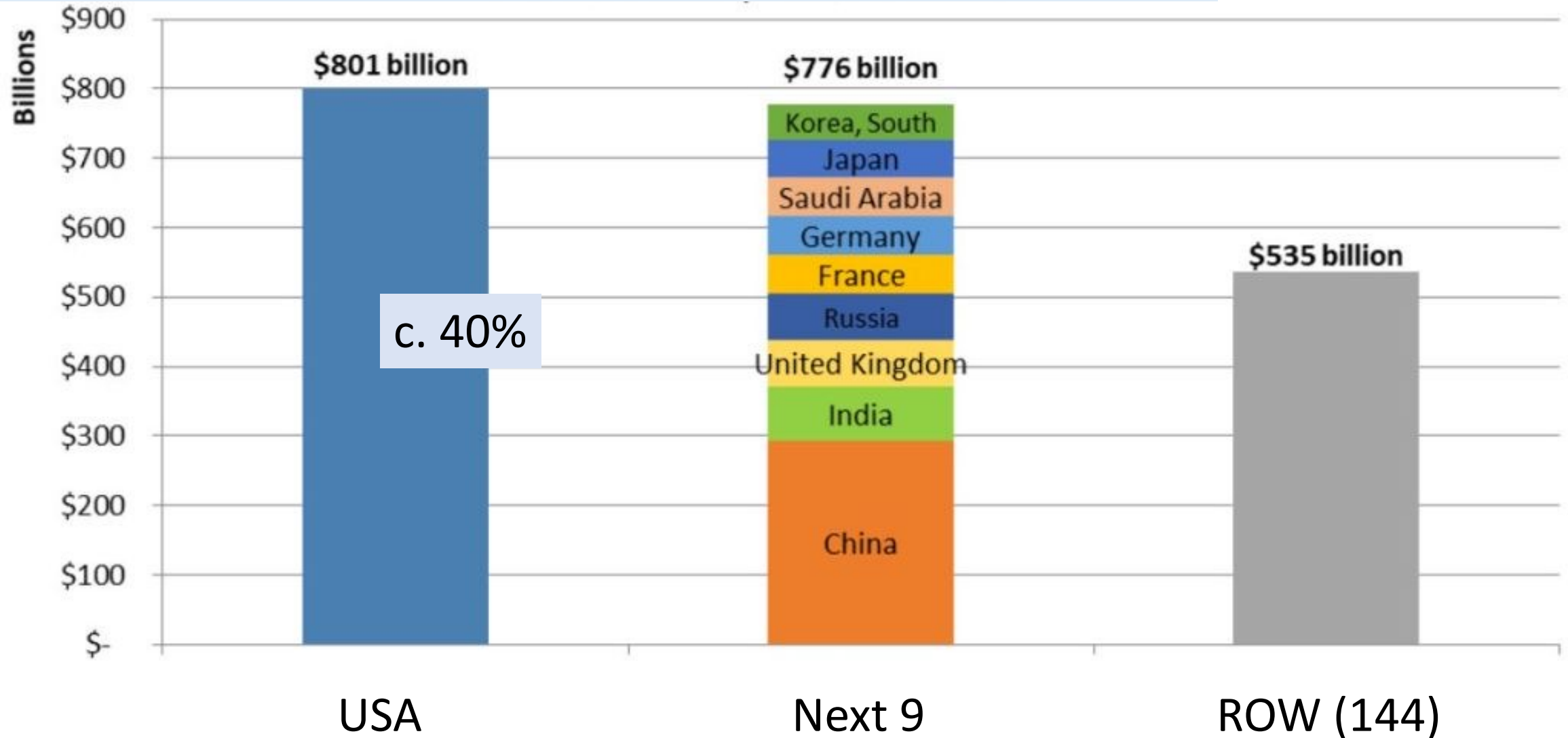


← 1977 1984 →



Military spending (not PPP adjusted), 2021, \$

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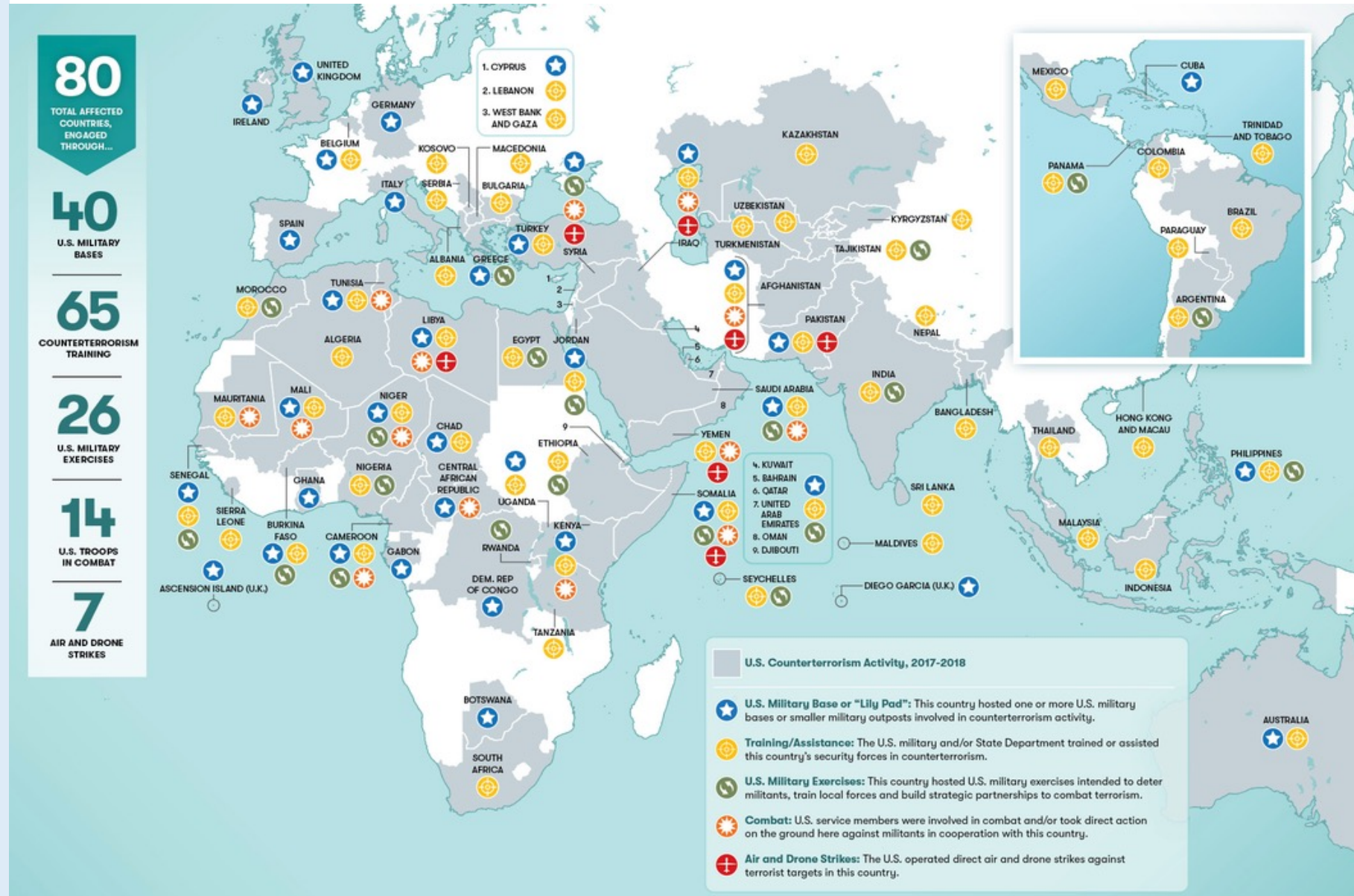
Military
presence:
800 known
bases,
2020

U.S. Military Bases Abroad, 2020

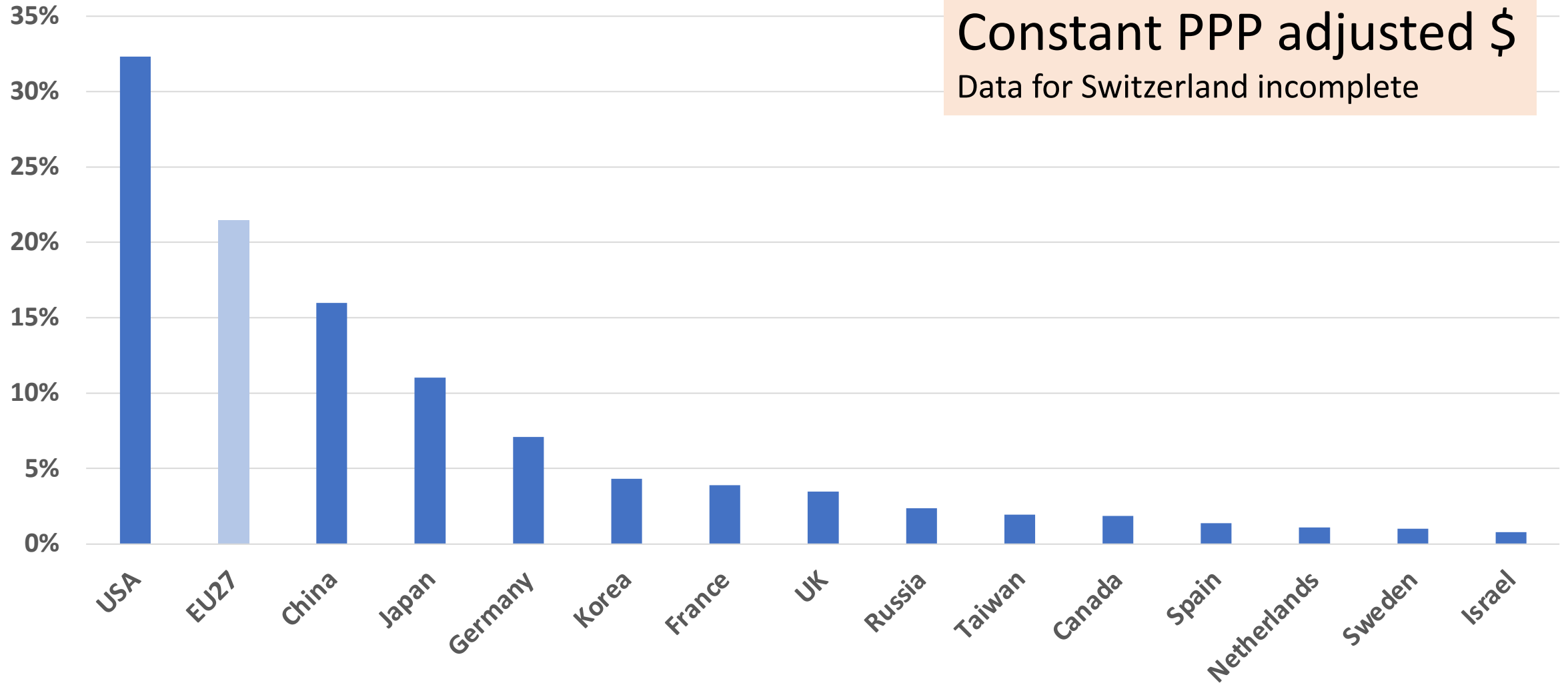
In 2020, the United States controlled around 800 bases outside the 50 U.S. states and Washington, DC. Map reflects bases' relative number and positioning given best available data. For ease of comparison we use contemporary borders and a Mercator projection.



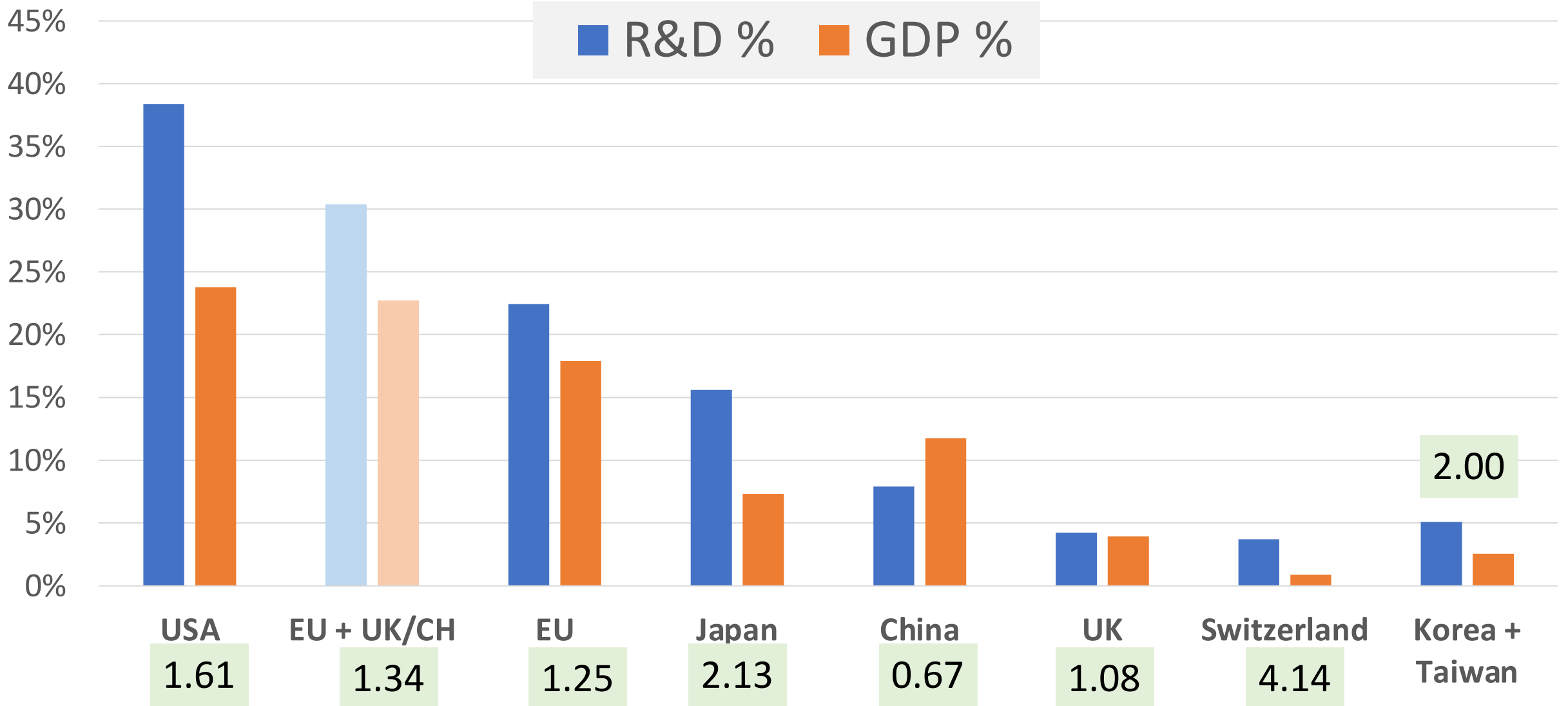
Military: US counter- terrorism activity / bases / training/ drone strikes 2017-2018



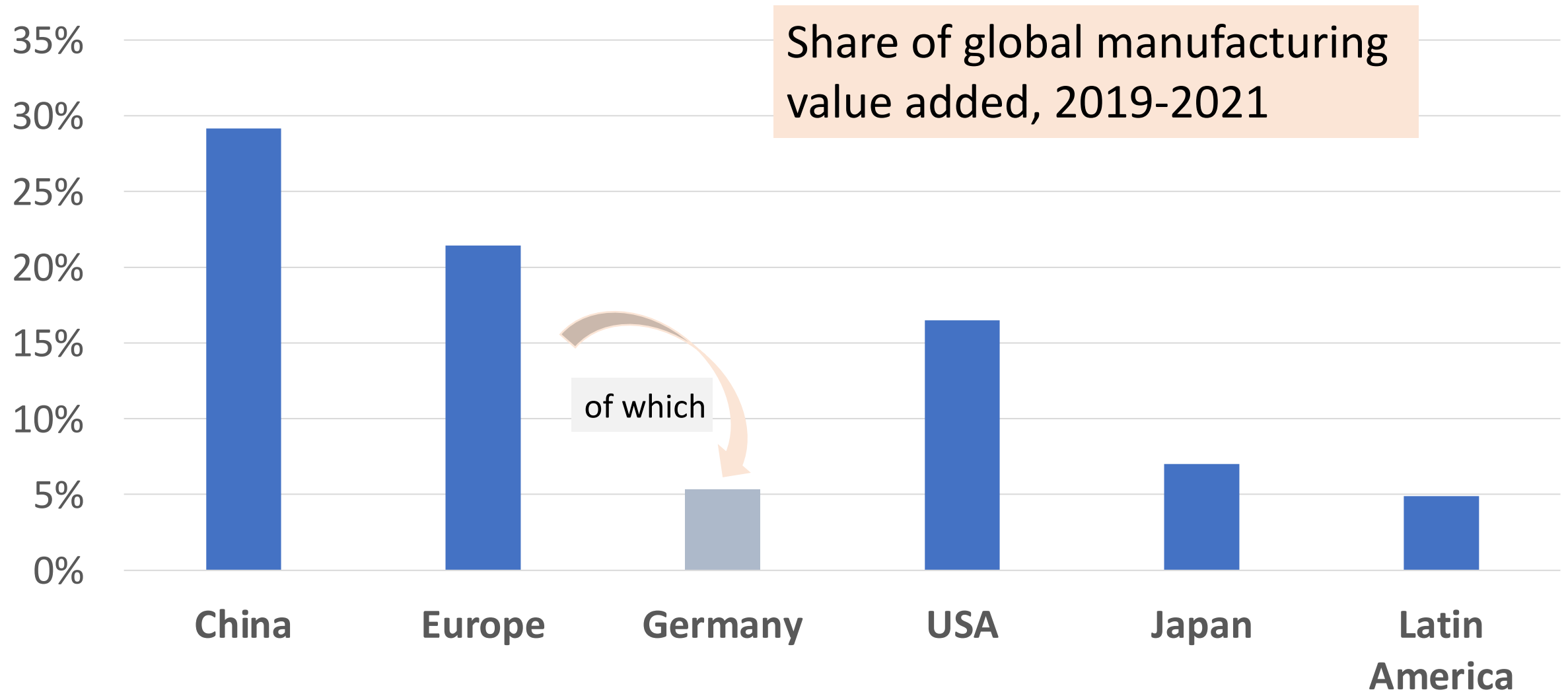
Knowledge: Cumulative share of all R&D, 2004-2019



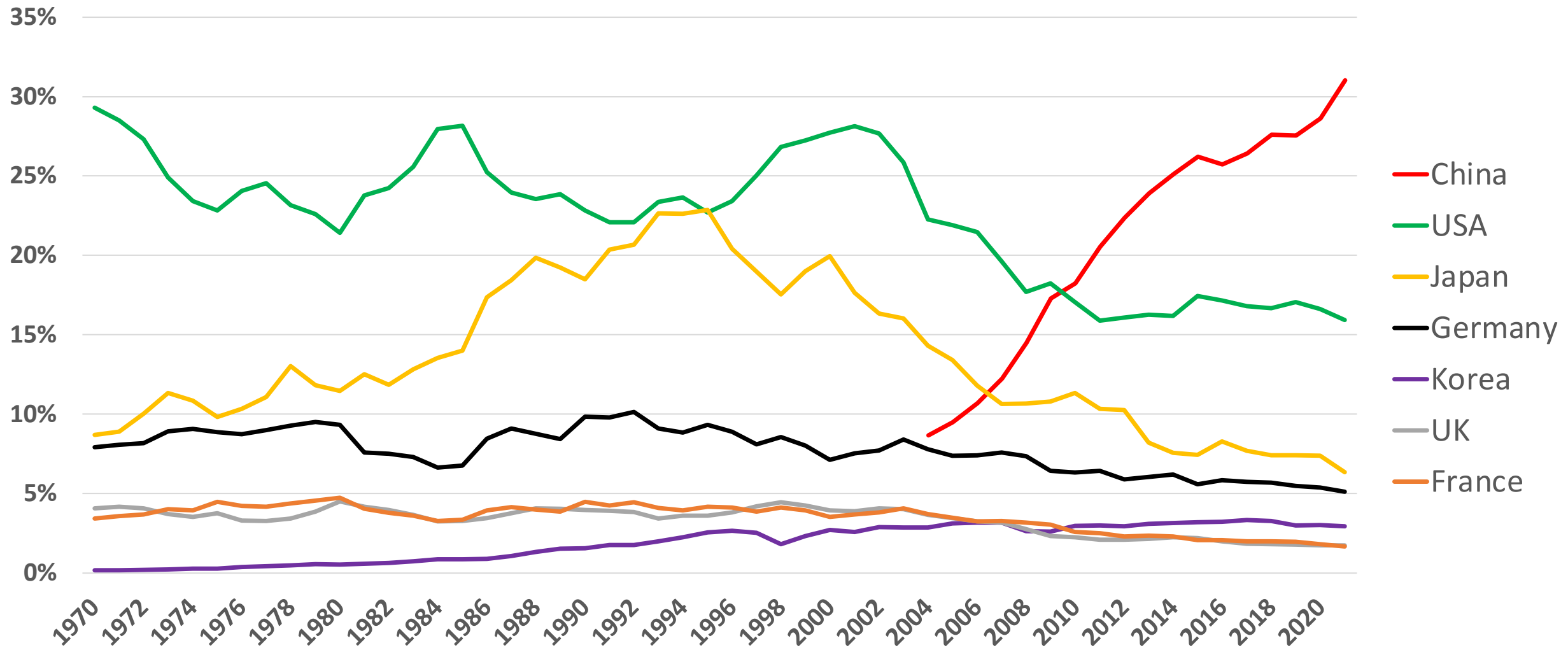
Knowledge: cumulative share of private R&D 2004-2021, by 6000+ largest R&D spenders, & ratio



Production... tricky... volume vs profits

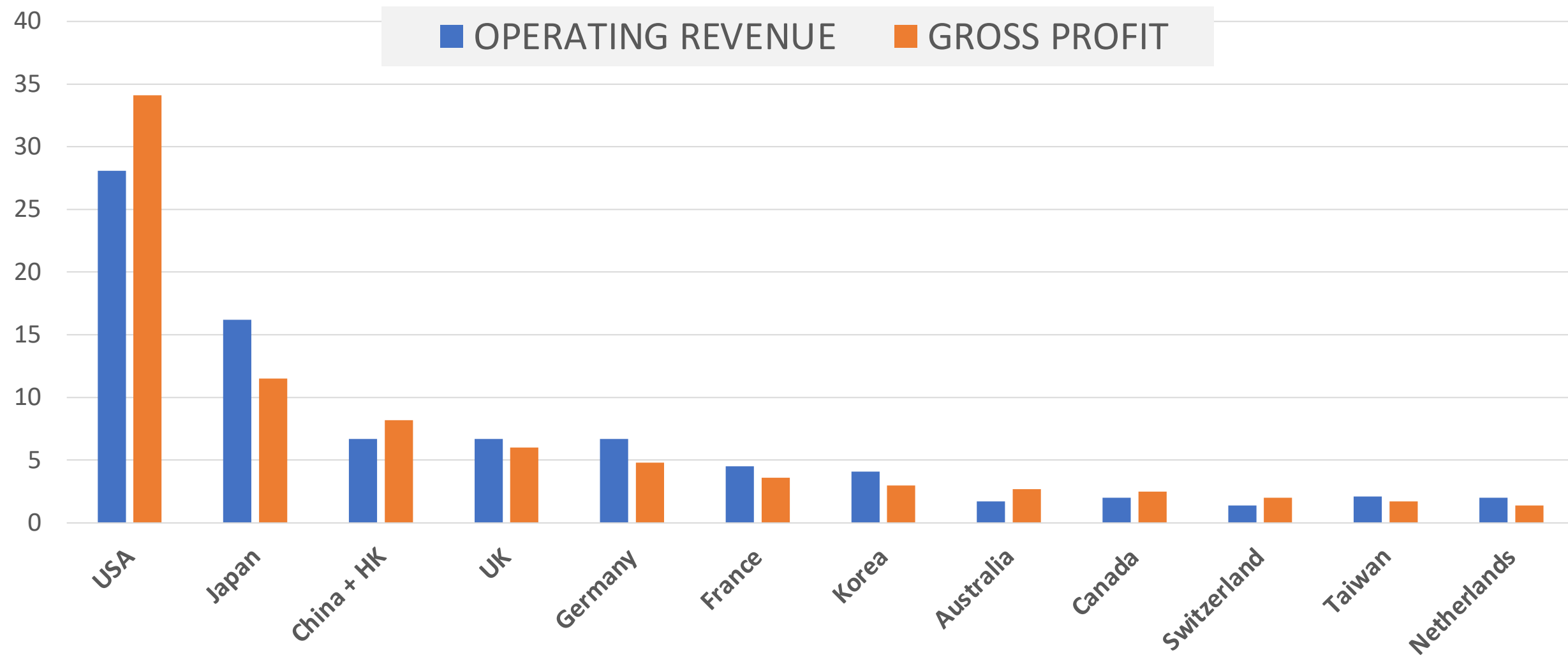


% of global manufacturing value added 1970-2021



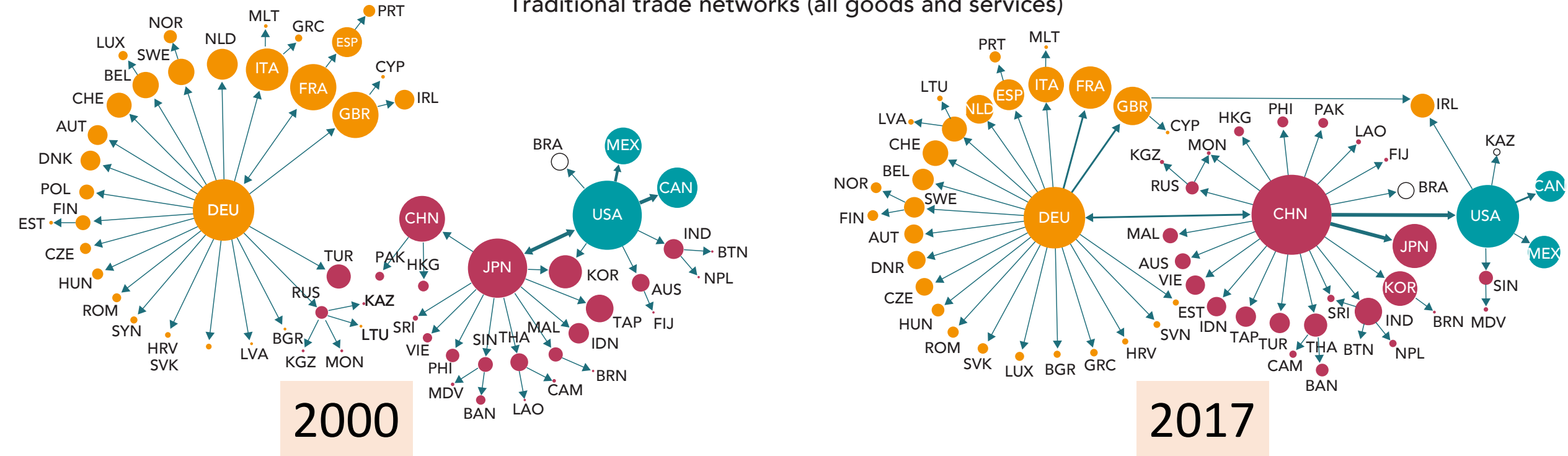
Share of cumulative operating revenue & profits for 20000+ largest firms (GUOs), 2011-2019

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Traditional trade network, 2000 vs 2017

Traditional trade networks (all goods and services)



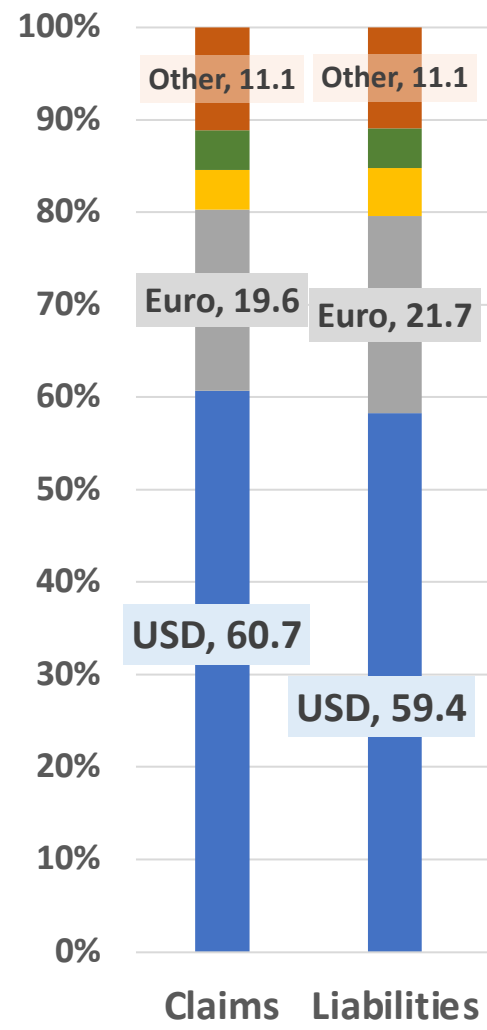
Network analysis of trade in wholly built up commodities or services

How do we know that the dollar is still central?

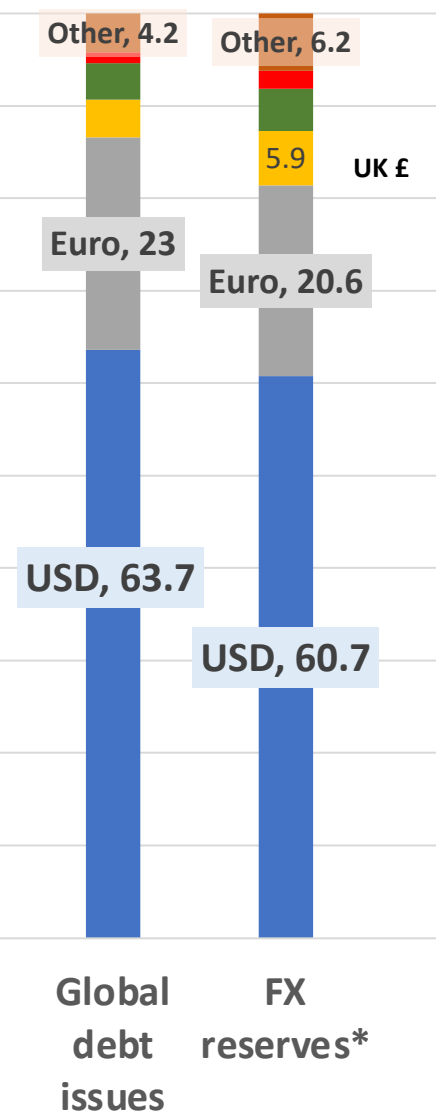
- **Normal Times:** Network centrality in:
 1. Portfolio and FDI flows (especially including the “anglosphere”)
 2. Foreign exchange trades (USD is a vehicle even for most Yen-Euro trades!)
 3. The bulk of global lending is in USD; especially if intra-EU euro lending is netted out (*as I think it should be*)
- **Crisis times:** everyone runs to USD and Treasuries

US\$ dominance, 2019. US GDP = 24.5% EU GDP = 18.0%

BANK BALANCE SHEETS

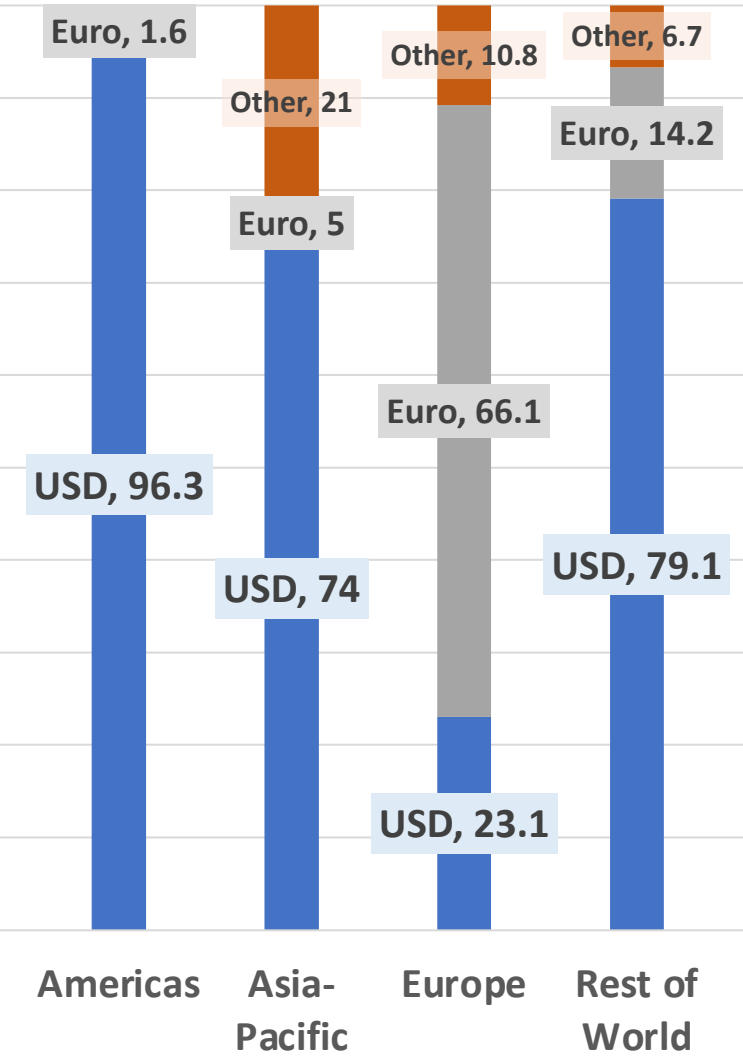


ALL LENDING

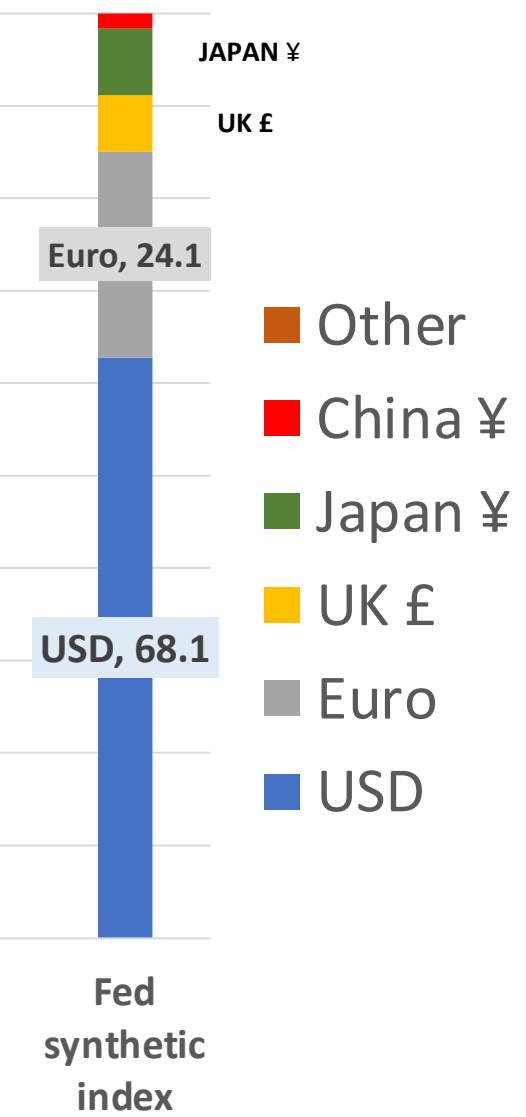


TRADE INVOICE CURRENCY

Other = £, JP¥, RMB, etc



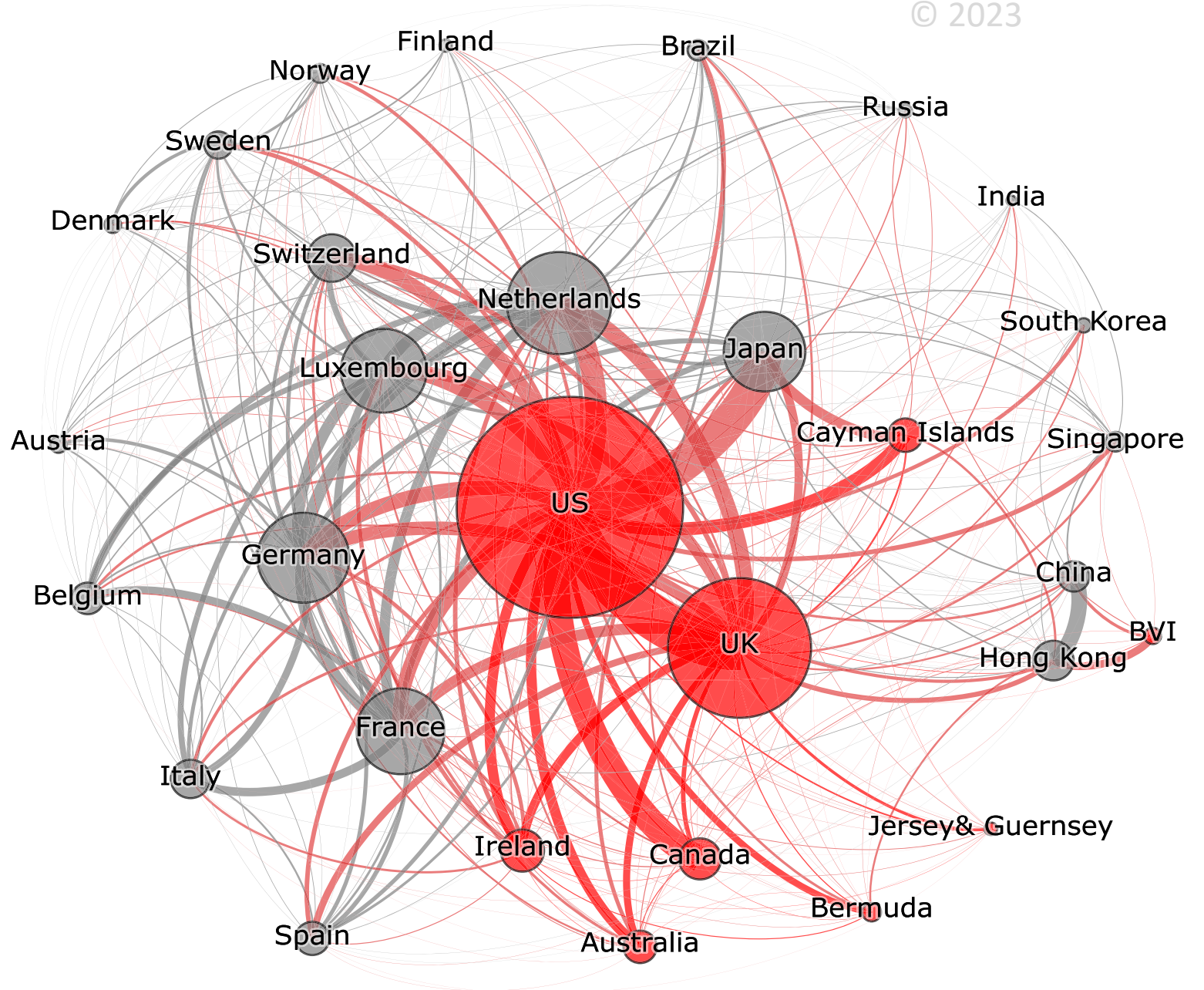
US FED INDEX



- USD
- Euro
- UK £
- Japan ¥
- China ¥
- Other

*Network analysis of
bilateral deposit,
portfolio
investment, and
FDI flows, 2012*
(from Fichtner 2017)

anglo countries in **red**
US-UK link = US\$4.7tr
total flows=US\$81.6tr



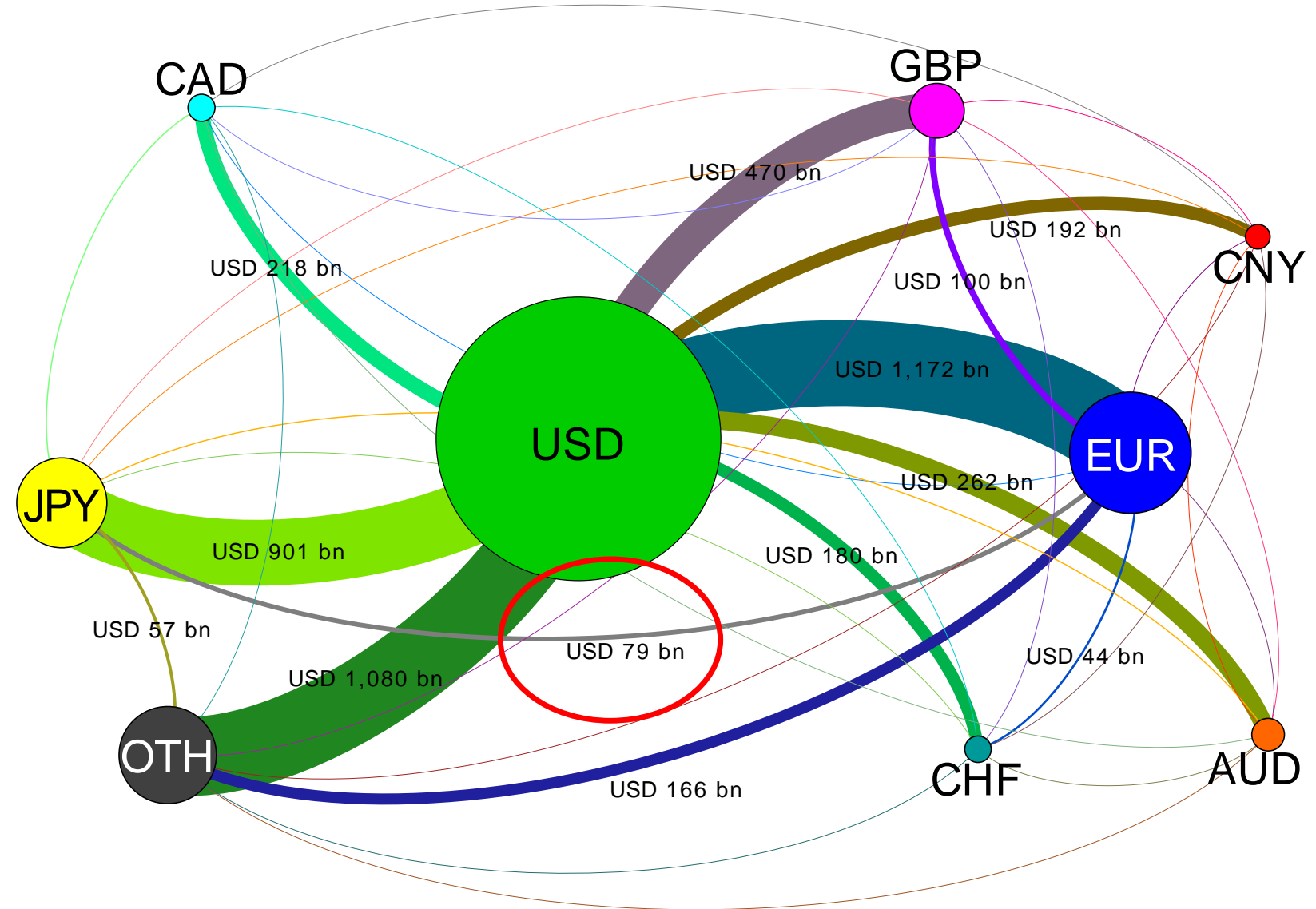
Network analysis of USD in global Forex trading, 2012

Thank you again Jan Fichtner!

USD = 88% of global
FX trades (out of 200%)

Euro = 40%
Yen = 22%

Trade invoicing:
c. 50% of global trade



Connecting empire to money: differential growth & credit

- The point of empire is power but also harvesting resources*
- More growth in the periphery → more harvestable resources, but also → rise of potential challengers → a problem of maintaining differential growth
- Growth requires (among other things) net new credit creation, but always → risk of excess creation → crisis
- Credit in what currency?
- And... who decides?