

US Dollar Imperialism: The Crisis of a Changing Periphery, a Changing Core

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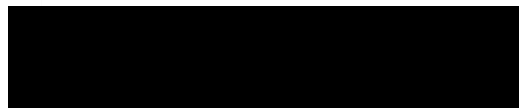
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Statement of Authentication

The work presented in this thesis is, to the best of my knowledge and belief, original except as acknowledged in the text. I hereby declare that I have not submitted this material, either in full or in part, for a degree at this or any other institution.

A large black rectangular box redacting the signature of the author.

Thomas Costigan

Table of contents

Abbreviations	iv
Abstract.....	1
Chapter 1: Introduction.....	3
1.1 Argument	3
1.2 Methodology.....	5
1.3 Thesis structure.....	14
1.4 Literature review.....	17
Chapter 2 Pre-War US capitalism	27
2.1 Pre-1939.....	27
2.2 The internationalisation of US capitalism	29
2.3 World War One	33
2.4 US diplomacy leads	36
Chapter 3: The ‘Grand Area’ and US Dollar Hegemony.....	44
3.1 Introduction	44
3.2 Council on Foreign Relations	45
3.3 War and Peace Studies Group	46
3.4 The Grand Area	48
3.5 Lend Lease.....	52
3.6 Bretton Woods.....	56
3.7 The Marshall Plan.....	59
Chapter 4: Global fracture.	64
4.1 Introduction	64
4.2 Suez Crisis.....	65
4.3 French dollar frustration	67
4.4 The US dollar, Saudi Arabia and oil	69
Chapter 5: Relative decline of US hegemony.....	83
5.1 Introduction	83
5.2 Neoliberalism	85

5.3 The Federal Reserve.....	87
5.4 The Euro	91
5.5 BRICS	93
5.6 The collapse of the USSR and the emergence of rouble nationalism.....	98
Chapter 6: The cleanest dirty shirt	103
6.1 Introduction	103
6.2 Arguments against dollar collapse	107
6.3 Arguments for US dollar replacement	113
Conclusion	132
References	139

Abbreviations

ACPPF – Advisory Committee on Postwar Foreign Policy

AIIB – Asian Infrastructure Investment Bank

ALBA – Bolivarian Alliance for Latin America

ARAMCO – Saudi American Oil Company

BRICS – Brazil, Russia, India, China, South Africa

CASOC – California Arabian Standard Oil Company

CFR – Council on Foreign Relations

CIPS – China International Payment System

CSTO – Collective Security Treaty Organisation

GDP – gross domestic product

GFC – Global Financial Crisis

IMF – International Monetary Fund

NATO – North Atlantic Treaty Organization

NIC – National Intelligence Council

OBOR – One Belt One Road

OPEC – Organisation of Petroleum Exporting Countries

SCO – Shanghai Cooperation Organization

USSR – Union of Soviet Socialist Republics

CSIS – Centre for Strategic and International Studies

WMD – Weapon of Mass Destruction

SWIFT – Society for Worldwide Interbank Financial Telecommunication

RMB – Renminbi

Abstract

This thesis examines the political economy of the United States (US) dollar and its role as the world's reserve currency in the post-World War Two period. It argues that the dollar has been intrinsic to the exercise of US hegemony in this period. A pivotal moment for the dollar and US power in the world occurred when President Richard Nixon abandoned the partial gold standard in 1971. In 1974 a deal was struck between Saudi Arabia and the US under which the Kingdom of Saudi Arabia (KSA) would only accept US dollars for payment for oil exports. In return for this exclusivity, the US guaranteed the national security of Saudi Arabia. Because of this deal, the US dollar was backed by two differing mechanisms. The first was that the dollar became what is commonly referred to as a petro currency, effectively underpinned by oil. The second was that this arrangement is defended by the prospect of military force on the part of the US if any nation should challenge the national security of Saudi Arabia. In recent years, however, it has become apparent that the US dollar's reign as the world's reserve currency is possibly nearing its end for several reasons, including the US national debt, national/international displeasure at unilateralist policy, and the emerging multi-polarity in the world system.

This thesis, employing a grounded theory approach, examines how US hegemony has functioned since World War Two to the present. It offers a comprehensive, theoretical interpretation for the monetary function of US hegemony. Drawing on Wallerstein (2011), it characterizes the US dollar as the core of a world monetary system, the planning for which began in 1939 and extended to 1945. In doing so, it demonstrates how the US dollar, as a petro

currency, has enabled US hegemony to function through an integrated world economy to serve US economic interests as per the 'Grand Area policy'¹.

The thesis comprises six chapters and a conclusion. This structure follows a linear historical progression from the late nineteenth century to the current period 2016. The research shows the rise of, and challenges to, the hegemony of the US dollar. Emerging from this research are the perpetual balance of payments issues that were the norm rather than the exception during the twentieth century. As US hegemony still exists, it is difficult to draw conclusions about what will happen in the future, other than the dollar is vital to the continuing exercise of US hegemony. With this in mind, the thesis concludes by reasserting its core argument, which is the dollar being fundamental to the exercise of US hegemony. It further identifies some important trajectories in world politics and economics that may affect dollar hegemony into the future.

¹ Ismael Hossein-Zadeh, *The Political Economy of U.S. Militarism* (New York: Palgrave Macmillan, 2006)

Chapter 1: Introduction

1.1 Argument

This thesis examines the political economy of the United States dollar in its role as world reserve currency in the post-World War Two period. It examines how the dollar rose to prominence as the world's reserve currency and argues that the dollar and its reserve status give the US a vast amount of hegemonic power. There is speculation the dollar might be coming to the end of a period in which it has been the dominant reserve currency. Due to geopolitical factors such as the emergence of the BRIC nations Brazil, Russia, India and China as well as domestic US concerns such as the ever-increasing level of government debt. This thesis is predicated on the belief that having a national currency as the world's reserve currency allows that country to exercise hegemonic power in the international sphere. It argues that moves, which diminish the US dollar's role as the world's reserve currency, including the reduction or removal of its oil trading, function, have the capacity to undermine US hegemony.

Referred to as the informal American empire², the Grand Area concept, which was the result of very careful and considered deliberations by the Council on Foreign Relations (CFR) in close collaboration with State Department planners, succeeded in creating a world system in which the US economy was able to flourish. The creation of the informal American empire involved creating a global system in which other capitalist states operated under the aegis of the United

² L. Panitch. and S. Gindin. *The Making of Global Capitalism: The Political Economy of American Empire*. London; New York: Verso. 2012.

States.³ The present thesis extends the understanding of American hegemony in the post-World War Two period by moving dollar hegemony to the forefront of understanding how the global financial system operates. It argues that the United States dollar is the vital medium, which makes this informal empire possible. Shoup and Minter (2004) provide an account of how United States hegemony arose, and the deliberate planning and analysis that went into forming the 'Grand Area'. However, they have little to say about the role that the dollar plays in how United States hegemony functions.⁴ This thesis aims to fill that gap.

The dollar and its reserve status feature in two reports published by the United States National Intelligence Council (NIC). This is an indication of the importance of understanding this topic. These reports are the latest in the 'Global Trends' series. They offer an appraisal of conceivable geopolitical developments, and how these events might affect the United States. Titled *Global Trends 2025: A Transformed World*, the fourth NIC report focuses on many factors, including global warming and the rise of Asia, that are likely to shape the global political and economic landscape between now and 2025. The *Global Trends 2025* report offers ways of thinking about possible outcomes up until 2025. In particular, the NIC report states that by 2025 the dollar could have its reserve status downgraded, which would in turn limit the ability of the US to obtain the foreign policy outcomes it wants. The report states that 'this may force the US to consider more carefully how the conduct of its foreign policy affects the dollar.'⁵ In December 2012 the fifth Global Trends Report was issued, *Global Trends 2030: Alternative Worlds*. Like

³ Ibid. p. 8.

⁴ L. H. Shoup and W. Minter. *Imperial Brain Trust: the Council on Foreign Relations and United States Foreign Policy*. iUniverse. 2004.

⁵ NIC. US. *Global Trends 2025: A Transformed World*. Washington: US Government Printing Office. 2008 .p.12.

the previous report, it predicts what the world will look like in 15 years' time, and how the global position of the United States will be affected. Again, the dollar and the ability of the United States to carry out its foreign policy decisions are discussed. The possibility that the dollar could lose its reserve status is raised and the implications that this would hold are discussed:

In contrast, the fall of the dollar as the global reserve currency and substitution by another or a basket of currencies would be one of the sharpest indications of a loss of US global economic position, strongly undermining Washington's political influence too.⁶

1.2 Methodology

The methodology of this project draws on existing research in political economy, international relations and history to provide the first long-term analysis of dollar diplomacy from the rise of American global power to the present day. Given the vast time period, the methodology involves collecting and analysing a variety of secondary and primary sources draw inferences about how the dollar was used across time and space. The method is partly based on “grounded theory,” an approach that looks for coding, or patterns, within data that can be induced or assessed against an existing question, which in this thesis is the question: ‘How did the United States use its dollar to influence or control foreign countries and peoples?’ Secondary data was collected via searches of databases (EBSCO, JSTOR) using terms such as ‘dependency theory’ and ‘dollar diplomacy’. The intention in using these sources is to provide a

⁶ NIC. US. *Global Trends. 2030: Alternative Worlds*. Washington: US Government Printing Office. 2012. p.xii.

more comprehensive theoretical explanation of the design and implementation of post-war United States hegemony.

The theoretical component of the methodology builds on a variety of concepts, including dependency theory. The Wallerstein thesis (2011) is an elaboration on dependency theory, and argues that there are three definable categories of economic development that together constitute a “World System”.⁷ These categories are ‘periphery’, ‘semi-periphery’ and ‘core’. Using the World System Theory helps to demonstrate how in the post-war world the United States constituted the core, owing to its technological, military and economic development. Much of the rest of the world constituted the semi-periphery and the periphery, owing to the less powerful positions they occupied in the international landscape.

United States dollar hegemony/diplomacy is the key theme that this thesis is predicated on. Involved in this concept are notions of class distinction, international diplomacy, hegemonic power and management of inflation. Nations are engaged in a constant battle to achieve supremacy and maximise the international power they can exert over each other. In the post-World War Two era, developed nations of the ‘global north’ have been subject to the leadership of the US. Within this system however, there exists an uneasy system of economic and political alliances which have caused great concern to leaders of both the US and Europe. Francis J Gavin (2007), Susan Strange (1987), Robert Keohane (1981) and David E Spiro (1999)

⁷ I. Wallerstein. *The Modern World-system I: Capitalist Agriculture and the Origins of the European World-economy in the Sixteenth Century, with a new prologue*. Vol. 1. Univ of California Press. 2011. p. 349.

analyse the complex and delicate diplomatic interplay between Europe and the US in the post-World War Two period.⁸ Francis J Gavin for example analyses trans-Atlantic diplomacy between 1958 and 1971. The question of how to pay for US troop deployments in Western Europe during this time was a particular source of concern for both the US, British and French governments. This concern caused great diplomatic strain between the French and US governments particularly. The French accused the US of inflating the dollar supply to pay for these deployments, thus exporting inflation to Europe, something French finance Minister Giscard d'Estaing described as an exorbitant privilege.⁹ Strange (1987) expands on this concept and uses the term 'super exorbitant privilege' to describe the structural make-up of global US hegemony. David E Spiro in *The Hidden Hand of American Hegemony* (1999) examines how a deal was done with Saudi Arabia in 1974 to price oil exclusively in US dollars. He argues that the primary purpose of this deal was to prop up the rising level of public debt in the US. Inflation and US attempts manage it are at the centre of Strange's and Spiro's works.

Lawrence Shoup (1977) and F William Engdahl (2011) and Fred L Bloc (1977) examine the way 'elites' within the US organised international intuitions during World War Two to benefit US capitalism.¹⁰ Motivating this agenda were domestic concerns such as finding international

⁸ F. J. Gavin. *Gold, Dollars, and Power : The Politics of International Monetary Relations, 1958-1971*. New Cold War History. Chapel Hill: University of North Carolina Press, 2003, S. Strange. "The Persistent Myth of Lost Hegemony." *International Organization* 41, no. 4 (1987): 551-74. R. O. Keohane. *After Hegemony : Cooperation and Discord in the World Political Economy*. New ed. Princeton Classic Editions. Princeton, N.J. ; Oxford: Princeton University Press. 2005. D. Spiro E. *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets*. Cornell University Press. 1999.

⁹ F. J. Gavin. *Gold, Dollars, and Power : The Politics of International Monetary Relations, 1958-1971*. New Cold War History. Chapel Hill: University of North Carolina Press. 2003

¹⁰ L. H. Shoup. and W. Minter. *Imperial Brain Trust: the Council on Foreign Relations and United States Foreign Policy*. iUniverse 2004, F. W. Engdahl. *Gods of Money: Wall Street and the Death of the American Century*. Progressive Press. 2011 F. L. Block. *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (No. 214). Univ of California Press. 1977.

markets for US goods and maintaining full employment. Bloc (1977) and Shoup (2004) demonstrate how domestic concerns such as the ones previously mentioned played a strong role in the motivation of the US during and after World War Two. The dollar and its reserve status, and particularly balance of payments problems, feature heavily in critical studies by and F William Engdahl (2011) for example analyses how the ruling class in the US exercised power, with particular emphasis on the post- era and how this power manifests globally. These critics show how 'elites' in the US made up of business figures and political leaders constructed a world system that benefited their interests. Engdahl (2011) pays closer attention to the role that the dollar plays in how this power is exercised, particularly during the Bretton Woods conference of 1944.

This thesis integrates the above sources into a comprehensive analysis of how US dollar hegemony arose from the late nineteenth century to 2016. This length of time is needed to properly contextualise how US capitalism moved from a space confined in North America in the 19th century to a force that fundamentally changed the entire world in the second half of the 20th century. This dominance could only be achieved by establishing deliberate policies and motives that successive US governments pursued in their desire for US capital penetration, firstly in the North American region and later globally. With the exception of Engdahl (2011) and Shoup (2004), the sources listed above are specific to certain periods in history, and only examine relatively short periods of time.

Dependency theory emerged in the 1950s as a way of trying to understand why economic growth in developed nations was not having any measurable impact on less developed countries. The theory was developed by the work of Director of the United Nations Economic Commission for Latin America, Raul Prebisch. A liberal economist, he argued that poor nations were producers of raw materials that were then exported to developed nations. However, he found that poor nations would not be able to earn enough export income from the sale of these commodities to pay for imports of finished products from the developed world. Consequently, he argued, poor nations would be condemned to a state of permanent underdevelopment as they would be stuck with constant trade deficits with the global north.¹¹ Theorists such as Wallerstein (2011) and Gunder Frank (1989) then took up the concept of dependency. Wallerstein advanced this theory in the direction of World System Theory, first published in 1974.¹² One of the critiques made of dependency theory is that it lacks empirical grounding and thus is unscientific.¹³ Even if this is the case, the theory still offers a conceptualisation of the economic interactions of nations that are categorised according to their stages of development. As such, we can think about how these interactions manifest in inequalities that give rise to core and peripheral states, and then how power is maintained or lost in the world system.

¹¹ P. Raúl. *The Economic Development of Latin America and Its Principal Problems* New York: United Nations. 1950.

¹² I. Wallerstein, *The modern world-system: Capitalist agriculture and the origins of the European world-economy in the sixteenth century*. Academic Press, A. G. Frank, 1989. The development of underdevelopment-From Volume 18, 1966, Monthly Review reprint. *Monthly Review*. 2011

¹³ O. SÁNCHEZ . *The Rise and Fall of the Dependency Movement: Does It Inform Underdevelopment Today?*. EIAL, 14(2). 2003. p.34

Wallerstein (1991, 2011) like Fukuyama (1989) examines the post-war world, but reaches an entirely different conclusion about the capitalist economic system and liberal democracy at the end of this period. There are many distinctions that could be made between the two authors and their conclusions about the situation at the close of the Cold War. Fukuyama saw the end of this period as the triumph of liberal democracy and market economics over other forms of government, and the end of a historical process.¹⁴ In contrast, Wallerstein (1991) sees the end of the Cold War as one phase in a continuing historical process in the evolving world system, with no finality or dominance by a specific ideology.¹⁵ Wallerstein (2006) argues that the United States is in a weakened state. Wallerstein analyses the historical circumstances that have led the United States from a position of unparalleled international power to its current circumstances.¹⁶ Wallerstein (2006) does not cite the dollar as being fundamental to the exercise of United States power; however, he does demonstrate that multi-polarity is causing an erosion of the United States power in the world.¹⁷ In contrast to Fukuyama, Wallerstein characterises the US in hegemonic terms, and not simply as a liberal democracy. Wallerstein does not believe that US hegemony is based fundamentally on the dollar as the world's reserve currency. The present thesis demonstrates, using Wallerstein's conception of a core and a periphery, which among the other points Wallerstein has raised such as multi-polarity, the significance of the dollar must be considered as fundamental to the exercise of United States hegemony and how an empire has coalesced around the United States.¹⁸

¹⁴ F. Fukuyama. *By way of an introduction. The End of History and the Last Man*, Penguin, 1992, p, 42

¹⁵ I. Wallerstein, *Geopolitics and Geoculture: Essays on the Changing World-System*. Cambridge University Press. 1991. p. 221.

¹⁶ I. Wallerstein. *The curve of American Power*. New Left Review, 40. 2006. pp.77-94.

¹⁷ Ibid.

¹⁸ I. Wallerstein. *Geopolitics and Geoculture: Essays on the Changing World-System*. Cambridge University Press. 1991. p19.

Martins (2007) contends that the crisis of United States hegemony in the new millennium is the result of a mixture of socio-political and economic forces. Martins (2007) argues that this impending crisis offers the possibility of constructing peace-centred world in which East and West would be united in a global civilisation, absent of any hegemon. He argues that the decline of United States hegemony began in 1967 due to the three factors mentioned previously. Martins more precisely lists these factors as: 1. Systemic cycles: Based on the work of Wallerstein (1996), Silver (1999) and Arrighi (1999), he posits that hegemony can be divided into 'phases of expansion and crisis' 2. Konratieff cycles: These are linked to technological innovation, which is in turn linked to economic expansion and then crisis. 3. Civilisation crisis: Martins believes that crises in civilisations are linked to crises in modes of production and an over-reliance on states to reinforce the political hegemony of the ruling class.¹⁹

Raphael and Stokes (2014) argue that the Obama administration has made reducing United States dependence on Middle East oil a high strategic priority. They argue that, 'Washington remains committed to acting as a hegemonic stabiliser in the Caspian'.²⁰ Their study examines the political economy of United States energy diversification in the post-Cold War period.²¹ They emphasise the relationship between energy security and the diversification of sources of energy that the United States has faced in this period. They examine three key aspects in their argument. Firstly, they give a historical account of United States policy in the post-Cold War period in the Caspian region, and argue that there has been a high degree of policy continuity

¹⁹ C.E. Martins. *The Impasses of US Hegemony Perspectives for the Twenty-first Century*. Latin American Perspectives, 34(1), 2007. p. 17

²⁰ S. Raphael and D. Stokes. *US oil strategy in the Caspian Basin: Hegemony Through Interdependence*. International Relations 28, no. 2 2014 : 183-206. p.183

²¹ *ibid* p.183.

between the Bush and Obama administrations. Secondly, they examine how, in the role of 'hegemonic stabiliser', the United States has transitioned this policy to the central Asian region. Thirdly, they highlight the great power rivalry in the Central Asian region with regard energy resources, and argue that Russian and Chinese strategies must be countered by the United States. However, missing from their study is any mention of oil trading in the dollar or alternative currencies and the hegemonic implications that this would have. Aji (2012) examines the United States' interventions in the Middle East region.²² He argues that these interventions began with oil but do not end there. Rather, Aji (2012) argues that the main motive of United States intervention and support for a number of regimes in the region is related to constraining the flow of oil.²³ However, Aji (2012) gives only minimal attention to the relationship between oil and the United States dollar and related financial securities. There is only a brief mention of the reason why Gulf nations (particularly Saudi Arabia) use oil surpluses to purchase United States treasury bonds.²⁴ Aji argues that these purchases act as a way for Gulf nations to relieve their own budget surpluses and minimise the potential inflationary effect that they would otherwise have. Furthermore, Aji (2012) argues that this has also provided an economic buffer to the resurgence of Western Europe and Japan and their increasing capital formation from 1982 onwards. Callinicos (2009) adopts a largely theoretical approach to analysing the concept of empire; however, he also uses some quantitative data. The last two chapters of Callinicos's book are the most relevant to this thesis as they examine the US as an imperial power. As the other authors discussed above, Callinicos recognises that the US is an

²² M. Aji. *Zionism: The Real Enemy of the Jews*, Volume 1: *The False Messiah*, Alan Hart, Atlanta: Clarity Press, 2009; *Zionism: The Real Enemy of the Jews*, Volume 2: *David Becomes Goliath*, Alan Hart, Atlanta: Clarity Press, 2009; *Zionism: The Real Enemy of the Jews*, Volume 3: *Conflict Without End*, Alan Hart, Atlanta: Clarity Press, 2010. *Historical Materialism*, 20(3). pp.159-180.

²³ *Ibid*, 167.

²⁴ *Ibid*, 169.

imperial power and explains how its power has been exercised through the use of the American dollar and international institutions.²⁵ Importantly, Callinicos cites the 2008 credit crisis as an issue that the United States will have to come to terms with in the political sphere as it poses a challenge to its hegemony.²⁶

Aron (2009) and Garrison (2004) also examine United States imperialism.²⁷ Aron's study is a critical historical narrative of United States foreign policy between 1945 and 1973. Like Wallerstein (1991), Aron describes a world system in which the United States played a leading role, and asserts that this leading role has been imperialist in nature.²⁸ Like Hudson (2003), Aron (2009) also draws on the concept of 'imperial diplomacy' as he argues that the United States acted in a hegemonic manner to achieve its global objectives, mainly in the spheres of geo-strategic domination of Western Europe and Japan in the post-war period.²⁹ Garrison (2004) also characterises the United States in imperial terms but argues that US dominance is due to its technological and economic strength.³⁰ While this may be true, Garrison, unlike Hudson (2003) and Aron (2009), fails to give a more detailed analysis of why this is so. Triffin (2011), like Wallerstein (1991, 2006), also sees the emergence of multi-polarity but sees the emergence of rival economic blocs as well as the decline of the dollar being major factors that undermine United States hegemony.³¹

²⁵ A. Callinicos. *Imperialism and Global Political Economy*. Polity, 2009. p. 191.

²⁶ Ibid, pp, 225-226.

²⁷ R. Aron. *The Imperial Republic: the United States and the World 1945-1973*. Transaction Publishers. 2009.

²⁸ Ibid p. 3.

²⁹ Ibid. p.300.

³⁰ J. Garrison. *America as Empire: Global Leader or Rogue Power?*. Berrett-Koehler Publishers. 2004.

³¹ I. Wallerstein. *The Curve of American Power*. *New Left Review*, 40. 2006. pp.77-94.

1.3 Thesis structure

This thesis comprises six chapters. The timeline this thesis follows begins in the late nineteenth century and ends in 2016. While it is recognised that this historical timeline is very long, this allows the thesis to establish historical conditions and contexts to make the case that the US dollar's position as a world currency plays a crucial role in US hegemony. The dollar has reached a critical historical juncture given the move away from the Bretton Woods systems upon which United States hegemony is based, as mentioned in Section 1.1.

Chapter 1 is the introductory chapter. It outlines the argument of the thesis, the thesis structure, the methodology and the literature review.

Chapter 2 establishes two key historical contexts. First, it examines the expansion and reproduction of US laws and financial structures into Latin America in the late-nineteenth century. This chapter also covers the currency crisis of the 1930s, specifically the crisis that the British Sterling Area experienced and the increasing importance of the United States dollar as a source of liquidity. Chapter 2 also examines the build-up to World War Two. The intention here is to demonstrate how global events such as Japan's invasion of China and its potential expansion into South Asia, as well as the German encroachment on its neighbours, were viewed as threats by the Roosevelt administration. The Roosevelt administration began to consider how these events would affect the position of the United States.³²

³² B. Welles. *Sumner Welles*. Palgrave MacMillan. 1997.

Chapter 3 establishes the hegemonic intentions of the Roosevelt administration. It examines events from 1937 to 1945 and demonstrates the planning and intentionality that went into constructing a United States-centric world system.³³ Planners in the State Department and the Council on Foreign Relations (CFR) formulated the 'Grand Area' concept.³⁴ Chapter 2 demonstrates how the dollar came to be of vital importance and argues it is essentially the medium that binds disparate areas of the world together under United States hegemony. Furthermore, this chapter demonstrates why international institutions such as the International Monetary Fund (IMF) and the World Bank were created.³⁵

Chapter 4 covers events from 1955 to 1974. It examines the emergence of United States global hegemony through the use of the dollar and discusses how the dollar took its place as the world's reserve currency. The Suez Crisis of 1956 provides an example of how the US used financial pressure to force the British to leave Egypt, thus displaying finance hegemony (Kingseed 1995, Venkataraman 1960).³⁶ In the context of the Cold War, this chapter also establishes how in approximately 20 years this hegemony started to decline due to the debts incurred because of President Johnson's Great Society reforms. Combined with the costs of the Vietnam War, these events reveal the Triffin Dilemma. Belgian American economist Robert Triffin identified a dilemma or paradox involving the dollar's function as world reserve currency and its domestic function within the US. The nature of this 'paradox' revolved around the

³³ L. H. Shoup. and W, Minter. *Imperial Brain Trust: The Council on Foreign Relations and United States Foreign Policy*. iUniverse. 2004.

³⁴ Ibid.

³⁵ M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*. Pluto Press. 2003.

³⁶ C. C. Kingseed. *Eisenhower and the Suez Crisis of 1956*. LSU Press. 1995. M.S. Venkataramani. 1960. Oil and Us Foreign Policy During the Suez Crisis 1956-7. *International Studies*, 2(2), 1995, pp.105-152.

balance of payments crisis that would arise from a conflict between the domestic and international functions required of the dollar. During this period, events occurred which had a major impact on United States hegemony, and many of the issues that emerged out of this period still resonate today. The most important of these are the abandonment of the gold standard by the Nixon administration and the agreement that Saudi Arabian oil would be paid for exclusively in US dollars, an agreement that continues to this day.

Chapter 5 examines United States dollar and geopolitical events from approximately 1974 to the Global Financial Crisis (GFC). This chapter gives a detailed explanation of how the United States went from being the biggest creditor in the world to the biggest debtor during the Reagan administration, thus threatening the long-term sustainability of United States finances (Richman 1988).³⁷ In the 1980s, economic competition from Japan became more pronounced (Wallerstein 1991) and the breakup of the Soviet Union appeared to be a triumph for United States (Fukuyama 1989).³⁸ In the 1990s, China also started to emerge as a major trading nation and United States hegemony started to fracture in a significant way.³⁹ By the 2000s, there were deliberate attempts on the part of the developing world to subvert United States hegemony. For example, this was the intention behind the formation of the Bolivarian Alliance of Latin America (ALBA), an organisation that was led by Cuba and Venezuela. The formation of the Shanghai Cooperation Organisation and the Brazil, Russia India and China (BRICs) bank, as well as other developments such as the increasing internationalisation of the Chinese Yuan (CNY)

³⁷ S. L. Richman. *The Reagan Record on Trade: Rhetoric vs. Reality*. Cato Institute. 1988.

³⁸ I. Wallerstein. *Geopolitics and Geoculture: Essays on the Changing World-System*. Cambridge University Press. 1991. F. Fukuyama. *The End of History?*. The National Interest, (16), 1989. pp.3-18.

³⁹ Lum. T and Nanto D.K. January. *China's Trade with the United States and the World*. Library of Congress Washington DC Congressional Research Service. 2007.

2014), combined to erode United States hegemony. Chapter Five argues that the combined effect of changes in the world system represent a terminal threat to the United States as a hegemonic power, as the conditions upon which this hegemony are based recede further into the past NIC (2012).⁴⁰

Chapter 6 discussed events in the post GFC period. There is a significant debate about how much longer the dollar will remain the world's reserve currency. Chapter 6 evaluates the arguments for and against the continuation of the dollar as a reserve currency.

The concluding section constitutes three main components. First, it summarizes the thesis and reiterates the main argument and its validity. Second, it highlights the ongoing issue of the balance of payments deficits between the hegemonic power of the day and the rest of the world that has been a constant issue for over one hundred years. The third component of the conclusion appraises the current state of the dollar and comments on some of the major movements in geo politics in the context of Grand Area policy.

1.4 Literature review

In the last ten years, there have generally been two themes that researchers have focused on in academic publications when commenting on United States hegemony and its status. The national debt of the United States and the emergence of multi-polarity are key themes that emerge from studies of the current hegemonic and strategic position of the United States. Stokes (2013) characterises the United States dollar as an Achilles heel for US hegemony, but

⁴⁰ NIC. US. Global Trends. "2030: Alternative Worlds. National Intelligence Council." *Global Trends 2030*. 2012.

argues that predictions of the total decline of the US economy and US influence are overblown.⁴¹ Stokes offers a critical reply to 'declinists' who argue that the position of the United States in the world is in continuous and inevitable decline. Demonstrating that the United States dollar has actually increased in value since the credit crisis of 2008, Stokes argues that United States allies, particularly in East Asia, have a strong incentive to adhere to current economic arrangements, given their strategic and economic dependence on the United States. Stokes also argues that potential rivals to the United States also have an incentive to maintain current arrangements given the relative strength of the United States economy in the post-2008 world. However, Stokes (2013) does not give enough weight to the various geo-strategic manoeuvres on the part of China or Russia and their attempts to transition away from the dollar as a trading currency or reserve currency. Martins (2007) and Norloff (2014) both examine the prospects of United States hegemony in the early 21st century.⁴²

Studies by Hudson (2003), Shoup (2004), Ikenberry (1989), Panitch (2012) and Chomsky (2003) demonstrate that it was the intention of US planners to pursue a hegemonic agenda in the post-World War Two world.⁴³ A central argument of these authors is that it was the intention of United States planners before the outbreak of World War Two to pursue a hegemonic global agenda, centred on the Open Door policy, and combining liberal political and economic policies

⁴¹ D. Stokes. *Achilles' Deal: Dollar Decline and US Grand Strategy After the Crisis*. Review of International Political Economy, 21(5), 2014, pp.1071-1094.

⁴² C. E. Martins. The Impasses of US Hegemony Perspectives for the Twenty-first Century. *Latin American Perspectives*, 34(1), 2007 pp.16-28. C. Norloff. *Dollar Hegemony: A Power Analysis*. Review of International Political Economy, 21(5), 2014, pp. 1042-1070.

⁴³ M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*, 2003. Pluto Press, L. H. Shoup and W. Minter. *Imperial brain trust: the Council on Foreign Relations and United States foreign policy*. iUniverse, 2004. G. J. Ikenberry. Rethinking the origins of American hegemony. *Political Science Quarterly*, 104(3), 1989 pp.375-400. L. Panitch and S. Gindin.. *The Making of Global Capitalism*. Verso Books. 2012

which would ultimately be beneficial to United States capital (Panitch 2012). Ikenberry (1989) also gives a theoretical explanation for hegemony, something Shoup (2004) lacks. Hudson (2003) offers a theoretical justification for US imperialism that is accidental in nature. As European nations used US capital to finance war spending during World War One, they became indebted to the US beyond their ability to ever repay. This in turn had the effect in internationalising the dollar. However, Hudson (2003) does explore the continuing decline of US influence in the world, linked to a decline in its industrial base and the increasing tendency of the US to be a debtor nation. Furthermore, Hudson (2003) analyses the global economy as a whole. Unlike Shoup (2004), he argues that the post-1970s deficit problems in the US have been turned to the advantage of the US economy. As there appears to be no viable alternative to the security of the dollar, as such foreign nations must continue to fund the deficits of the US more out of an absence of alternatives than a desire to continue voluntarily funding US deficits and the hegemony this implies.⁴⁴ Hudson (2003) also makes some projections for the twenty-first century, arguing that at the time of publication there appeared to be no viable alternative to the dollar's continuing role as world's reserve currency, given the structural and political problems of the Euro.

The question of US financial hegemonic power in the post-World War Two era is examined by (Kingseed 1995), Varoufakis (2010), Eichengreen (2011), Andrews (2006) and Rickards (2011).⁴⁵

⁴⁴ M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*. Pluto Press.2003. p. 386.

⁴⁵ C. C. Kingseed. *Eisenhower and the Suez Crisis of 1956*. 1995, LSU Press. Y. Varoufakis. *The Global Minotaur*. University of Chicago Press Economics Books. 2012. B. Eichengreen. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. Oxford University Press. 2011. D.M. Andrews. *International Monetary Power*. Cornell University Press, 2006. J. Rickards. *Currency wars: The Making of the Next Global Crisis*. Penguin Books.2011.

These authors agree that the continuation of the dollar's role as the world's reserve currency is fundamental to the survival of United States hegemony. However Varoufakis (2010) and (Rickards 2011) focus on the recent causes and consequences the 2008 Global Financial Crisis. They provide a critical historical analysis of the political economy of US hegemony, which they argue is fundamentally driven by financial hegemony. Their brief historical overview of global post-war finance is offered only to explain the historical circumstances that led to the 2008 financial crisis.

The relevance of these studies is that they offer ways of understanding the Global Financial Crisis, and how this event has been a catalyst for a change in the global reserve currency. Kingseed's (1995) study presents a literal rather than a purely theoretical perspective on US hegemony and discusses how finance has been used by the United States as a hegemonic weapon to achieve geo-strategic ends. Kingseed (1995) shows how the United States used finance as leverage over Britain during the 1956 Suez Crisis. Nevertheless, the theme of financial hegemony is common to each of these studies. Unlike the other authors mentioned above, Kingseed (1995) does not consider as fully as the other authors the possibility that threats can or will emerge to US hegemony based on the adoption of other currencies in international trade, as this question was beyond the scope of Kingseed's (1995) work.

Unlike the other authors cited thus far, Stiglitz (2010), Fisk (2009), Schenk (2009) and Eslake (2009) have raised concerns about the long-term viability of the dollar as the world's reserve

currency and specifically possible replacements to it, although less relevance is given to the hegemonic impact that this would have.⁴⁶ They also allude to an emerging multi-polarity in the geopolitical landscape of the world. This is particularly true of Fisk (2009). Stiglitz & Greenwald (2010), Fisk (2009), Schenk (2009) and Eslake (2009) argue that since the 2008 Global Financial Crisis, the rest of the world's confidence in the viability of the US economy has been shaken. This has prompted action to find a new reserve currency. Stiglitz and Greenwald (2010) insists that there is no other good alternative, arguing that, 'the problems in other potential reserve currencies—most notably the euro—raised questions about the alternatives.'⁴⁷ Fisk (2009), unlike other authors, raises the point that secret meetings have been conducted by holders of US securities to find alternatives to the dollar, but these talks have so far not yielded any results. These talks have involved finance ministers and central bank officials of the Gulf Cooperation Council (GCC) as well as Russia, Brazil, Japan and China. Sun Bigan, former Chinese envoy to the Middle East, stated 'We cannot lower vigilance against hostility in the Middle East over energy interests and security' (Fisk, 2009).⁴⁸ Fisk (2009) identifies the geo-strategic power that the dollar is fundamental to, the dollars trade in oil.⁴⁹ The Global Trends reports reflect these concerns, as previously mentioned in Section 1.1. These authors provide a critical appraisal of the current economic condition of the United States, as well as the neoliberal

⁴⁶ J. E Stiglitz and B. Greenwald. *Towards a New Global Reserve System*. *Journal of globalization and development*, 1(2).2010. R. Fisk. *The Demise of the Dollar: Arabs, Asia, Russia said Planning to Drop Dollar in Oil Trade*. *The Independent*, 6. 2009. C. Schenk. *The retirement of sterling as a reserve currency after 1945: Lessons for the US Dollar?*. *copia mimeografiada, Universidad de Glasgow*, mayo. 2009. S. Eslake. *Is the US Dollar in Danger of Losing its Reserve Currency Status?* *In International Conference of Commercial Bank Economists, Munich, June*. 2009.

⁴⁷ J. E Stiglitz and B. Greenwald. *Towards a New Global Reserve System*. *Journal of globalization and development*, 1(2), 2010. p. 1.

⁴⁸ R. Fisk. *The Demise of the Dollar: Arabs, Asia, Russia said Planning to Drop Dollar in Oil Trade*. *The Independent*. 2009

⁴⁹ Ibid.

ideology that has underpinned it.⁵⁰ In his conclusion, Eslake (2009) argues that at this time (2009) there are no good alternatives to the dollar. However, that may change in the future depending on government and central bank decisions.

A wider survey of the literature, taking into account other perspectives, reveals studies by authors like Roubini (2010) and Schiff (2010).⁵¹ Unlike other authors mentioned here, Roubini (2010) and Schiff (2010) are neoclassical economists, and unlike most mainstream economists, they had predicted the collapse of the US housing market beginning in 2007. Roubini (2010) and Schiff (2010) offer critical accounts of these events and the decisions that policy makers made that led to the crisis, particularly the US Federal Reserve. Furthermore, they also offer historical and theoretical perspectives on previous economic crises and their resolution, and draw historical parallels with GFC. This thesis does not argue that capitalism itself is under any direct threat. However, it raises questions about the viability of laissez faire capitalism and the future role of the dollar. Roubini (2010) also alludes to these matters. Schiff (2010) argues that Keynesian economics is both false and dangerous, as it is based on the assumption that governments can spend without limit.⁵² Although this is a simplistic articulation of a Keynesian approach, this premise underlies Schiff's belief that unrestrained spending on the part of the United States government has led to fiscal disaster.⁵³ Although Schiff articulates the fiscal problems the United States faces, his approach is still premised on a laissez faire-style policy

⁵⁰ J. E Stiglitz and B. Greenwald. *Towards a New Global Reserve System*. Journal of globalization and development, 1(2), 2010. p. 4.

⁵¹ N. Roubini and S. Mihm. *Crisis economics: A Crash Course in the Future of Finance*, 2010, Penguin, P. D. Schiff, and A.J. Schiff. *How an Economy Grows and why it Crashes*. John Wiley & Sons. 2013.

⁵² P. D. Schiff, and A.J. Schiff. *How an Economy Grows and Why it Crashes*. John Wiley & Sons. 2013. p, xxi.

⁵³ Ibid. p.220.

and one that Roubini has criticised as leading to systemic fiscal and economic crises. Schiff's book does not consider the broader geo-strategic implications for US hegemony as this is beyond its scope.

Several major themes emerge from the literature presented so far: The authors generally agree that the United States has reached a turning point in its global status. This is due to several factors: the financial crisis, displeasure about United States policies and an increase in competition from economic rivals. Another theme that emerges from the literature is that at this time there is no other good alternative to the dollar as a secure store of value and means of exchange.

Much of the theoretical literature that analyses international relations in the post-war period posits that the US sought to create a liberal international framework. According to this orthodoxy the US created international bodies such as the United Nations, the International Monetary Fund and the World Bank to facilitate global liberal trade prosperity and peace in the post-war world. Authors such as Fukuyama (2006) and Nye (2003) do not characterise the United States in hegemonic terms; instead, they view post-World War Two United States dominance through the lens of 'global leadership'.⁵⁴ However, after the attacks of September eleven 2001 on the World Trade Centre and the Pentagon, combined with the Iraq invasion, these authors changed their perspectives. Fukuyama (2006) states 'what is needed now are new ideas, neither neoconservative nor realist, for how America is to relate to the rest of the world'.⁵⁵

⁵⁴ F. Fukuyama, *The End of History and the Last Man*. Simon and Schuster. 2006.

⁵⁵ *ibid* n.p.

His 1989 article published in *The National Interest* inspired Fukuyama's book, *The End of History and the Last Man* (1992): *The End of History*.⁵⁶ Upon publication, the article and book received widespread praise and criticism. Fukuyama does not see the United States in hegemonic terms. Rather, he views the United States as a benign liberal democracy and argues that its liberal democratic system is the final stage of human government, the outcome of a long historical process.⁵⁷ Fukuyama presents a relativist historical view of the development of liberal democracy and this approach has most often been compared to the Hegelian concept of history. While this thesis also takes a historic approach, unlike Fukuyama's thesis it does not argue that one particular historically relative state of being or another is an outcome determined by history. This thesis offers no determinist prognosis. Instead, it demonstrates that there is a historical transition of power underway, and the outcome is unpredictable. Furthermore, and unlike Fukuyama (2006), this thesis argues that the US has acted in a hegemonic manner, particularly since World War Two, and that the basis of its power has been due to the role of the dollar as the world's reserve currency. However, like Fukuyama this thesis also uses an empirical approach to demonstrate this conclusion. The importance of Fukuyama's thesis lies in its conclusions and the way in which they are justified. Fukuyama argues that liberal democracy is the end outcome of a historical process based on a Hegelian dialectics (Perkin 1994, p. 328).⁵⁸

The Fukuyama perspective is in strong contrast to authors such as Wallerstein (1991, 2006), Galtung (1971), Garrison (2006), Callinicos (2009), Aron (2009), Triffin (2011) and Ikenberry

⁵⁶ F. Fukuyama. *The End of History?*. *The National Interest*, (16), pp.3-18. 1989.

⁵⁷ F. Fukuyama. *The End of History and the Last Man*. Simon and Schuster. p. xi. 2006.

⁵⁸ H. Perkin. Reviews: *Francis Fukuyama, The End of History and the Last Man*, London, Penguin. 1993; 418 pp, J. Lucacs, *The End of the Twentieth Century and the End of the Modern Age*, New York, Ticknor and Fields; 291 pp.; *US. European History Quarterly*, 24(2). 1993. pp.327-331.

(1989) who argue that the US is the dominant state in a world system that is interdependent. Wallerstein (2006, 1991) in particular characterises this world system in terms of a core and a periphery, describing how the US was able to shape the international order in its favour in the post-war period.⁵⁹ Galtung (1971) provides a view of global imperialism that is largely supportive of Wallerstein's theories of a periphery and a metropole. Galtung's (2006) work however is largely theoretical and cites few practical examples of US imperialism at work; its importance as a source is that it offers a theoretical justification for the present thesis.⁶⁰

In conclusion, the literature presented represents a cross section of the material that demonstrates how the United States dollar has been fundamental to the exercise of United States hegemony in the post-war period. The authors are from disciplines ranging from history to economics to international relations. These three disciplines are important to the thesis as they contextualise the argument presented. The argument requires an analysis of these particular spheres of inquiry. While some sources presented here, particularly Stiglitz (2010), Fisk (2009), Schenk (2009) and Eslake (2009), do call into question the continued viability of the US dollar as the world's reserve currency, much of the literature still does not adequately acknowledge the fundamental role of the dollar in US hegemony. This is particularly the case with Fukuyama (1992) and Wallerstein (1991, 2011). Furthermore, the sources do not consider sufficiently the challenges to United States hegemony that other nations and bilateral currency agreements pose in the long term. The present thesis that this literature review informs draws

⁵⁹ I. Wallerstein. *Geopolitics and Geoculture: Essays on the Changing World-System*. Cambridge University Press. 1991. I, Wallerstein. *The curve of American Power*. New Left Review, 40 (2006), pp.77-94. 2006.

⁶⁰ J. Galtung. *A Structural Theory of Imperialism*. Journal of peace research. pp.81-117. 1991

a clear connection between the United States dollar as the world's reserve currency as a fundamental lever of United States power, and how there now appear to be challenges emerging to this hegemony in the form of new currencies that Fisk (2009) identifies.

Chapter 2 Pre-War US capitalism

2.1 Pre-1939

This chapter is organised around understanding how the US dollar became an important source of international liquidity in the interwar years. Prior to the Bretton Woods conference of 1944, the US dollar and the US financial system, more broadly were already playing a vital role in world finance. The United States emerged from World War One in a powerful political and economic position, but due to domestic conflicts, it did not exercise its newfound power. Several overarching features marked the pre-World War Two period. Western capitalist power had been slowly shifting from Britain to the United States. The GDP of the United States had overtaken that of Britain in the 1870s and the dollar was becoming increasingly important as a source of liquidity to Europe, given that many European nations, particularly Britain, were experiencing debt and deficit problems associated with the costs of World War One. In addition there was no clear hegemon to regulate world affairs, or at the very least the economic and political matters of the Western capitalist world.

The purpose of this chapter is to demonstrate how US capitalism, and more specifically the dollar, emerged from its continental isolation to play a critical role in world finance. To achieve this, the chapter examines how the internationalisation of the US state proceeded from the late 19th century and extended up to and beyond World War Two, when the relationship of the US to the rest of the world took on a markedly wider scope in practice and conception. From the late 19th century American capitalism began to take on a more internationalist outlook. The

penetration of US capitalism took the form of seeking out new markets and making them fit for industrial capitalism. The ideology of the American state began to be reproduced elsewhere in the world. This transformation required giving primacy to the property rights of private investors, and the establishment of suitable political administrations.⁶¹ This expansion would become critical to the US's economic relations with the Caribbean and Latin America. Panitch and Gindin (2013) argue that this transformation required the US to adopt a policing role to superimpose on other nations the policies necessary to guarantee the property rights of private investors outside US borders.⁶²

Within this expansion, several important changes occurred in how the United States spread and exercised its expanding geographic reach. The Open Door policy, the establishment of the Federal Reserve in 1913, and the gold standard were instrumental to the growing consolidation and confidence of US capitalism and particularly the dollar. The United States' victory against Spain in the 1898 war cemented US control over much of the Caribbean and the Pacific. This was combined with the reproduction of the American state's legal, administrative and political methods of control. These changes were designed to facilitate the dominance of private capital beyond the borders of the United States, and they demonstrated how the dollar was becoming increasingly internationalised. United States government support for regimes that were less than liberal, in contrast to the stated liberal world order it was pursuing, show that the motive was the reproduction of United States capitalism abroad, as Schmitz (1999) argues. What

⁶¹ P. S. Reinsch. *Colonial Government : An Introduction to the Study of Colonial Institutions* : Y Paul S. Reinsch. The Citizen's Library of Economics, Politics, and Sociology. New York: Macmillan. 1902.

⁶² L. Panitch and S. Gindin. *The Making of Global Capitalism*. Verso Books, 2012. p. 41

begins to emerge out of this expansion is what Pantich and Gindin (2013) term an 'informal empire'. The world was increasingly being divided into spheres of influence and the capitalist powers of the Western world vied against one another for control of markets and resources. In the pre-World War Two period, the world had still not been subsumed under a single capitalist power that was able to regulate a new world system under its aegis.

The chapter then proceeds to demonstrate the importance of the role that the US dollar played in financing European war expenditure during World War One. Through this role, the dollar was becoming an ever more important source of liquidity in the world economy. However, unlike the situation after World War Two, the US did not develop a coherent geo-strategic worldview or conception of its place or function in the world system, preferring to concentrate on domestic matters. However, during the presidency of Woodrow Wilson, there was a very strong drive to continue the expansion of American industry and finance, and this resulted in a transfer of power from Britain to the United States. The chapter concludes with an analysis of the diplomatic negotiations between the United States and other powers, particularly Britain. The chapter focuses on the increasing scope of US concern about events elsewhere in the world in the lead-up to World War Two. The intention of this approach is to establish that trade became a matter of national security to the American state.

2.2 The internationalisation of US capitalism

The United States victory in the brief Spanish American War cemented US dominance over important geo-strategic spheres essential to the US economy and US security. The victory also provided the US with a launch pad into Asia, particularly China. In 1898 the Treaty of Paris was

signed to officially end hostilities. The treaty required the Spanish to cede control of Guam, Puerto Rico and the Philippines to the United States, thereby expanding US influence well into the Pacific. Furthermore, the treaty also guaranteed the independence of Cuba from Spain. During the conflict, the United States also annexed Hawaii and through an act of Congress the island became official US territory on 12 August 1898. The victory saw the last strategic competitor of the United States removed from the Americas, and the United States emerged as a Pacific power. The importance of the victory in strategic terms allowed the United States to create a large sphere of influence with the ability to project economic and military power into Asia and to a lesser extent Latin America.⁶³

The Open Door Policy towards China is also closely linked to the US victory in the Spanish American War. With Spanish influence in the Pacific vastly reduced, the US sphere of influence reached all the way to into East Asia. The Open Door Policy was intended to secure international consensus on the trading rights of foreign nations operating in China. China experts Alfred E Hppisley and William W Rockhill proposed an open trading policy for foreign nations doing business in China. With input from Hppisley and Rockhill, on 6 September 1899 Secretary of State Hay sent the first of the Open Door Notes to the other great powers operating in China – Britain, France, Russia, Germany and Japan. The Notes proposed free and open access for trade, and respect for spheres of influence established in China by the great powers. Hay believed that benefits would accrue to American traders in China by harmonising access to that country and helping to mitigate disputes. This policy is reflective of the lack of political and military power that the United States exercised in China at the turn of the 20th

⁶³ FRUS Milestones: 1866–1898 *The Spanish-American War. 1898*

century. The policy largely aimed to secure American interests in China through a mutually beneficial diplomatic agreement with the Chinese.⁶⁴

A critical moment for the dollar arrived in 1913 with the US Federal Reserve Act. The United States Federal Reserve played a crucial role in internationalising the dollar. The act was the culmination of a long process aimed at greater regulation and currency stabilisation in the United States dating back to the mid-nineteenth century. The 1907 financial shock demonstrated that the US financial system was unable to deal with the instability that increasingly large banking cartels were creating. Prior to World War One, New York had surpassed London as a major source of liquidity and the United States had far surpassed Britain in industrial output.⁶⁵ By this time the US financial system had become so large that a 'bankers' bank' was needed to mitigate the financial crisis. This was achieved by melding government and Wall Street together to protect and promote US capital, by giving investors the confidence in the backing of the US government. Furthermore, with the ability of private finance led by J.P. Morgan to create money at will and have their credit guaranteed by the Federal Reserve, the private financiers had succeed in taking control of the US money supply.⁶⁶

With the power of private capitalists and their close institutional association with the US government, the US dollar could proceed to spread into Europe as a critical source of liquidity to both governments and private firms alike. In this way, as the dollar was internationalised, so

⁶⁴ FRUS, Milestones: 1899–1913: *Secretary of State John Hay and the Open Door in China. 1899–1900*

⁶⁵ L. Panitch. and S. Gindin. *The Making of Global Capitalism : The Political Economy of American Empire*. London ; New York: Verso, 2012. P. 42

⁶⁶ F. Engdahl. *Gods of Money : Wall Street and the Death of the American Century*. 2nd ed. Joshua Tree, Calif.: Progressive Press, 2011. P. 44

to was the American state.⁶⁷ The gold standard played an important role in the history of US finance. Until 1971, the US was on either a bimetallic standard, which existed through most of the nineteenth century, or a singular gold stand that existed until 1971. The gold standard functioned as geo-strategic confidence builder in the US dollar, and it had the effect of bringing nations that adopted it into the economic orbit of the US.⁶⁸

The gold standard and its relationship to US geo-strategy in the context of expanding US trade in Latin America was a profound one; it came to be referred to as 'dollar diplomacy'.⁶⁹ From 1900 to 1915, US policy makers sought ways to stabilise trade and bring confidence to investors in Latin America. The use of the US dollar as a national currency for Latin American nations was openly advocated. Economists, led by Charles Contant, believed that the use of the dollar in the region would help bring 'progress and modernisation' to the region.⁷⁰ This would be achieved by US trading partners in Latin America depositing their gold in the US and denominating their holdings in US dollars. With this arrangement in place the US could begin to 'dollarise' the region. An example of this arrangement at work can be found in Puerto Rico. Puerto Rico was the first jurisdiction where the US attempted to encourage a gold standard. The adoption of the US dollar and gold standard for Puerto Rico was a straightforward process, with important business interests supportive of the move which would make accessing the US much easier. By 1933 the gold standard had come to an end. After the Great Depression, which began in 1929

⁶⁷ L. Panitch and S. Gindin. *The Making of Global Capitalism : The Political Economy of American Empire*. London ; New York: Verso, 2012. P. 43

⁶⁸ A. Norman. *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900-1930*. Journal of Economic Literature 42, no. 3 2004: 954.

⁶⁹ E. S. Rosenberg. *Foundations of United States International Financial Power: Gold Standard Diplomacy, 1900-1905*. Business History Review 59, no. 02 1985: 169-202.

⁷⁰ E. Helleiner. *Dollarization Diplomacy: US Policy towards Latin America Coming Full Circle?* Review of International Political Economy 10, no. 3 2003: 406-29.

and lasted for more than a decade, the US government, as well as the nation's financial institutions, required a much more liquid financial system. A gold standard has the effect of restricting the issuance of capital by tying it to the amount and valuation of gold.⁷¹ When President Roosevelt came to office in March 1933 he took a series of drastic measures to end the gold standard and supply capital markets with liquidity. The convertibility of gold was abolished and private gold holdings were nationalised. Roosevelt declared a bank holiday lasting from 6 March 1933, to 9 March 1933, preventing withdrawals of privately held gold.⁷²

2.3 World War One

World War One was a conflagration that consumed the empires of European nations. But while the history of World War One battles is well known and studied, the simultaneous battle that was being waged by diplomats, politicians and business people is less well understood. Amongst allied and enemy nations, negotiations over how to fund the war effort were fraught with tension and subterfuge. Debt became a defining feature of the war for all participants and would be one of the War's strongest legacies.⁷³ The interwar years were also remarkable for the number and seriousness of the economic and political crises that gripped both Britain and the United States, the most notable of these being the start of the Great Depression (1929) and the sterling crisis of 1931.

World War One and the interwar years which followed it marked a turning point in the trajectory of Western hegemony. Britain had been the major hegemon in the world system for

⁷¹ C. Elwell. *Breif History of the Gold Standard in the United States*. Journal of Current Issues in Finance, Business and Economics 5, no. 3 2012: 223-38.

⁷² I. R. Roots. *Government by Permanent Emergency: The Forgotten History of the New Deal Constitution*. Suffolk UL Rev. 33 1999: 259.

⁷³ M. Hudson. *Super Imperialism : The Origin and Fundamentals of U.S. World Dominance*. 2nd ed. London ; Sterling, Va.: Pluto Press, 2003. P. 39

approximately two centuries. However, with the British Empire in decline and the emergence of new strategic competitors the world system was entering an era of profound instability. During the period from approximately 1914 to 1939 no nation possessed the full array of strategic resources necessary to dominate the world and establish a new political order. The United States did have at its disposal massive industrial, economic and financial power; however it lacked a clear strategic conception of its role in the world during the interwar years. The 'Grand Area' policy drawn up during World War Two is a stark contrast to the ad hoc nature of US diplomacy and military strategy during the interwar years. The interwar years and the tumultuous events that transpired during that period represent the exhaustion of one world empire and the emergence of a new one, what is sometimes referred to as Pax Americana. This period represents a transitional phase in the historical development of Western imperialism and capitalism.

The British war effort in World War One was largely dependent on material and financial support from the United States. This dependence reflected new political realities for Britain that made its once-dominant position in the world system increasingly difficult to maintain. By World War One, Britain and the United States had become near equals in the economic sphere. World War One further aggravated the economic difficulties that Britain was experiencing, forcing the government to sell assets to pay for the war. The United States was able to supply to Britain all of the war materials and economic assistance that it required. This is symbolic of the changing fortunes of Britain, and the fact that it was so heavily reliant on the United States demonstrated the new distribution of power in Western imperialism. After World War One the

United States became an important creditor for the world.⁷⁴ In the post-World War One period financial power shifted from London to New York.

At the same time, the United States began to practise a more interventionist approach in protecting private US investments. President Woodrow Wilson's worldview and economic outlook greatly expanded the international scope of US hegemony. The American state took on the characteristics of an empire by making links between the economic and commercial concerns of private enterprise and the geo-strategy necessary to ensure these interests remained in US hands. Schmitz (1999) argues that while the US may claim to be committed to liberal democracy and human rights, more often than not, more pragmatic policy objectives will see the US siding with right-wing autocrats who are ideologically more acceptable to US capital than more populist and leftist regimes.⁷⁵ Schmitz states that this approach has since come to be institutionalised in the formulation of US foreign policy. Beginning his study in 1921, Schmitz argues that the administration of Woodrow Wilson played a critical role in determining the way that US policy towards foreign nations was shaped, particularly about the role played by US investments. Wilson's approach was to initiate policies that were conducive to US investments.⁷⁶ Panitch and Gindin (2012) also argue that it was the administration of Woodrow Wilson, which saw the US taking a more keen interest in how foreign nations related to US commercial interests.⁷⁷

⁷⁴ D. A Lake. *British and American Hegemony compared: Lessons for the Current era of Decline*. International Political Economy: Perspectives on Global Power and Wealth 1995: 148-166.

⁷⁵ D. Schmitz. *Thank God They're on Our Side; the United States and Right-wing Dictatorships, 1921-1965*. Reference and Research Book News 15, no. 1 2000.

⁷⁶ Ibid. p.12

⁷⁷ L. Panitch and S. Gindin. *The Making of Global Capitalism : The Political Economy of American Empire*. London ; New York: Verso. 2012.

2.4 US diplomacy leads

The formation of post-war policy in the Roosevelt administration is intertwined with the personal relationships and worldviews of the individuals involved. One of the most critical of these individuals was Under Secretary of State Sumner Welles. Welles played a decisive role in the formation and direction of policy in the Roosevelt administration. Welles came to work in the State Department at a time when it was in virtual crisis due to the departure of Bill Phillips in 1937. Roosevelt was well acquainted with Welles, and had provided him with a reference to join the US Foreign Service in 1916. Welles had enjoyed a successful diplomatic career long before his work on post-war planning. In 1920 aged 28, Welles became the Chief of Latin American Affairs Division in the State Department and was considered an authority on the region. He later informed the 'good neighbour policy'.⁷⁸ Welles had direct access to Roosevelt in the White House. Welles's and Roosevelt's vision of United States diplomacy and how post-war policy should be structured was influenced by President Woodrow Wilson's, 'Peace Without Victory' approach. Lamberton argues that,

Welles's diplomacy was inspired in part by Wilson's "peace without victory" formula of 1917—by the hope of bringing American leverage to bear during the military stalemate in order to settle European matters definitively and in a manner favourable to the United States.⁷⁹

⁷⁸ J. S. Rofer. Introduction: *The Mission of Sumner Welles to Europe (February–March 1940)*, Rooseveltian Foreign Policy, and Anglo-American Relations, November 1937–May 1940. *Franklin Roosevelt's Foreign Policy and the Welles Mission*. Palgrave Macmillan US, 2007. 1-12.

⁷⁹ L. H. John. *American Visions of Europe—Franklin D. Roosevelt, George F. Kennan and Dean G. Acheson* (Cambridge) 1994. p. 60.

Similarly, O'Sullivan (2008) argues that Welles used the post-war planning opportunity that Roosevelt had initiated to put into practice his own views on what role the United States should take after the war. He viewed his "leadership of post war planning as an opportunity to realize his neo-Wilsonian vision of a world reordered along lines desired by the United States".⁸⁰

The American population in the late nineteen thirties held predominantly isolationist views.⁸¹ It was in this context that the Roosevelt administration tried to avoid war with Japan. October 1937 was a particularly important month for the Roosevelt administration. With isolationist sentiment in the country running high, Roosevelt gave a speech, the 'quarantine of aggressors' speech in Chicago, the heartland of isolationism in the United States.⁸² This speech contained much of the thinking and planning that the Roosevelt administration had done regarding Japanese expansion in the Pacific. The word 'quarantine' is indicative of the global outlook that the Roosevelt administration was increasingly taking as it responded to the movements of the Japanese in Asia and Germany in Europe.

Benjamin Welles described his son Sumner Welles as "FDR's global planner". This description was due to the increasingly global scope of Welles' diplomatic and planning work in the late-1930s which was conducted in the context of a world that was quickly spiralling towards war.⁸³ After Roosevelt's 'quarantine of aggressors' speech in October 1937, Welles formulated a two pronged plan and submitted it to Roosevelt in December 1937. The plan was designed to use

⁸⁰ C. O'Sullivan. *Sumner Welles, Postwar Planning and the Quest for a New World Order, 1937-1943*. Diss. London School of Economics and Political Science (University of London). 1999.

⁸¹ B. Welles. *Sumner Welles*. Palgrave MacMillan. 1997.

⁸² D. Borg. *Notes on Roosevelt's Quarantine Speech*. *Political Science Quarterly* 72.3 (1957): 405-433.

⁸³ B. Welles. *Sumner Welles*. Palgrave MacMillan, 1997.p. 205.

the influence of the United States to assure allies and enemies alike that the United States would not remain uninvolved in world affairs furthermore the plan also avoided making any direct military commitments on behalf of the United States. The tactics of this plan were twofold. The United States would offer to cut tariffs, cooperate on disarmament and give greater access to raw materials to other nations. The second phase of the plan involved creating an 'executive committee'. It was intended that nine nations from Latin America as well as Europe and Asia would join this committee with the intention of coalescing an international contingent of nations around the United States aimed at preventing war.⁸⁴

It is important to note here that United States' planning was based on two priorities. The first was to restrict Japan's sphere of influence and ability to operate militarily in Asia. The second priority up until 1939 was to prevent war by offering inducements to other nations not to go to war as per Welles's plan of 1937. Within in this policy the United States was beginning to think in global terms about its security and economic situation. Furthermore, as a major international actor, the United States was part of a newly emerging world order in which it would increasingly play a fundamental role. The consideration of world events far away from the continental United States, and how United States interests would be impacted, became the foundation for later hegemonic policies that Sumner Welles would embark upon during the upcoming war.

Although the State Department took the lead in foreign relations and government planning, the treasury department also played a crucial role in United States' post-war policy and in cementing the dollar's global hegemony. Henry Morgenthau Jr. led the treasury department.

⁸⁴ ibid

He became Secretary of the Treasury in 1933 and replaced William Woodin who had fallen ill. As Morgenthau was of Jewish descent, he was vocal in his opposition to Nazi Germany and began to use his new role to combat the Nazi regime. He did this by imposing tariffs on German imports under the Smoot Hawley Tariff Act. This however led to friction with the State Department, which still wanted to maintain a reasonably friendly relationship with Hitler's government, fearing a loss of trade, which by 1940 was still expanding to US\$206 million in the German automotive sector, up from US\$151 million in 1936.⁸⁵ Morgenthau had called the State Department approach 'timorous and conventional, dominated by the foreign office notion that you get things done by being a generous host at diplomatic banquets'.⁸⁶ However, Morgenthau did respect Sumner Welles's contribution to the foreign policy of the United States. Within Morgenthau's purview as Secretary of the Treasury was his responsibility for foreign monetary policy. This responsibility would make Morgenthau a central figure in post-war planning and the construction of United States hegemony.

In 1937, Morgenthau grew increasingly concerned about the prospect of war in Europe and the advances of Japan in Asia. According to Blum (1959) Morgenthau feared the spread of fascism as a threat to the liberal democratic ideals that he held dear. Blum posits that in his capacity as Treasury Secretary in the Roosevelt administration, Morgenthau was not in a strong position to act to prevent war or combat totalitarianism, however fervently he may have believed in the need to do so. However, this view is challenged by Offner (1937) who argues that Morgenthau

⁸⁵ A. A. Offner. *Appeasement Revisited: The United States, Great Britain, and Germany, 1933-1940*. The Journal of American History 64.2 (1977): 373-393.

⁸⁶ J. M. Blum. *From the Morgenthau Diaries: Years of Crisis, 1928-1938*. Vol. 1. Houghton Mifflin. 1959.

in his official capacity did what he could to resist Hitler, although in retrospect minor tariffs on German exports from one sector would not have been sufficient to disrupt German activity.⁸⁷

In 1937 two critical issues faced the Roosevelt administration and Morgenthau was directly involved in the administration's efforts to resolve them. The first of these issues was the Japanese invasion of north China and the second was the recession of 1937–38. The Roosevelt administration found that in the late 1930s it had little ability to respond to Japanese advances. Adams (1971), Blum (1959) and Kolko (1968) make apparent the lack of a clear policy on the part of the Roosevelt administration to deal with Japanese aggression. The attacks on Pearl Harbour catalysed US policy. The Japanese invasion of China confronted the Roosevelt administration with a strategic dilemma. Adams (1971) argues the nature of this dilemma concerned how United States investments and the lives of Americans in China would be affected by Japanese occupation. While the Roosevelt administration did not approve of the invasion, it was not prepared to act militarily to stop it.

Cordell Hull explained at a press conference on 16 July 1937 what the position of the United States would be. It is a telling statement of the thinking of United States officials and how the world view and role of the United States was coming to be prominent in world affairs. Hull announced that 'the existence of serious hostilities anywhere in the world affected the interests, rights, and obligations of the United States'.⁸⁸ The Roosevelt administration implemented an embargo against Japan after it invaded China on July 1937. The strategic

⁸⁷ Ibid.

⁸⁸ F. C. Adams. *The Road to Pearl Harbor: A Re-examination of American Far Eastern Policy, July 1937-December 1938*. The Journal of American History 58.1 1971: 73-92.

underpinning of the embargo was to pressure the Japanese to halt their advance into China.

With the Japanese heavily dependent on American and British markets, it was hoped that when these markets were no longer available, the Japanese would not be able to continue their expansion into China and Asia more broadly.

Morgenthau was directly involved in trying to fortify China's economy with the intention of trying to help it resist Japanese aggression. This was done by convincing Roosevelt to continue the purchase of Chinese silver, thus providing the government of Chiang Kai Shek with the revenue that required to finance a military resistance to the invading Japanese. The dollar was used to prop up the government of Chiang Kai Shek with the objective of mitigating the erosion of United States strategic influence in China.

In conjunction with this approach was a line in the Pacific, which was to be enforced by the British and United States together. It was determined by the Roosevelt administration and Welles particularly that the Japanese would not be allowed to expand beyond a particular point in the Pacific. A large map of the Pacific in the Oval Office was used by the Roosevelt administration to determine where the line should be drawn. However, in October 1937 the exact position of the line had not been determined.⁸⁹

An important event in the life of the dollar took place on 25 September 1936. Morgenthau announced a tripartite pact between the United States, Britain and France. Its purpose was to strengthen and increase coordination between the major economies that were still on friendly terms. Another important factor from the perspective of the United States was that US

⁸⁹ S. I. Rosenman. *Working with Roosevelt*. 1952.

negotiators would try to maintain the slight competitive export advantage that it enjoyed due to the dollar devaluation of 1934. Included in the agreement was a commitment to holding constant consultations over exchange rates between the pound, franc and dollar. The purpose of this approach was to mitigate the downturns in these three economies through coordinated action that would allow the respective governments to intervene in the currency markets, thus stopping a run on any of the currencies, which would have exacerbated an already fragile situation.⁹⁰ Gold would also be a critical factor in this agreement.

From the late nineteenth century up to World War Two the US underwent critical changes domestically and internationally. The structural changes that would allow the dollar to be used as an international currency worked in tandem with the internationalisation of the US state. This internationalisation took the form of replicating capital-friendly policies in the US sphere of influence, which after the Spanish American war included Latin America, the Caribbean, the Philippines and Hawaii. As Barry Eichengreen and Marc Flandreau demonstrated, by the 1920s the US dollar had already become a critical source of liquidity for international capital on a close par with the Pound Sterling.⁹¹ They also demonstrate the critical importance of the role that the Federal Reserve played in promoting use of the US dollar and more broadly New York as an important global financial centre.⁹² What emerges from the literature on this period is that the policies of the US government were undergoing a process of alignment with the interests of large corporations with large private sector interests, particularly the banks. The final step in

⁹⁰ R. W. Oliver. *Bretton Woods: A Retrospective Essay*. 1984.

⁹¹ B. Eichengreen. And F. Marc. *The Federal Reserve, the Bank of England, and the Rise of the Dollar as an International Currency, 1914–1939*. *Open Economies Review* 23, no. 1 2012: 57-87.

⁹² *Ibid.*

this process of fusion was the creation of the Federal Reserve Bank, which bound together the financial interests of private banks with the liquidity needs of the US government. As World War Two approached, the imperial powers again confronted each other over geo-strategic interests. The US by this stage was an overwhelming international power in the financial and military spheres, despite the effects of the Great Depression. However, as the Welles mission to Europe in 1937 shows, the US lacked clear political hegemony over European powers. What was lacking was a coherent strategy and conception of the US role in the world. The Grand Area policy, which was introduced in 1944 during the Bretton Woods conference, revolutionised how the US saw itself and how it would function in the world in the post-World War Two period.

Chapter 3: The 'Grand Area' and US Dollar Hegemony.

3.1 Introduction

This chapter examines events from mid-1939 to the end of the 1945. The purpose here is to highlight the deliberate planning that went into creating an 'American century'.⁹³ Specifically this chapter is concerned with how the dollar was established as the world's reserve currency and the enormous power that this conferred on the US. Critical to this pursuit was the Grand Area concept. This plan emerged from collaboration between the US State Department and the Council on Foreign Relations (CFR) in 1939.⁹⁴ Furthermore, the armament and reconstruction programs for Europe and later Japan, in the form of the Lend Lease program and the Marshall Plan, played vital roles in coalescing these regions around US hegemony. The most important wartime decisions about the global monetary system were made at the Bretton Woods conference held at the Mount Washington Hotel in Bretton Woods New Hampshire from 1 to 22 July 1944. Seven hundred and thirty delegates from 44 allied nations attended the conference. The economic and financial agreements established were the basis of the ability of the US to exercise its hegemony in the post-war period. Critical to US hegemony was the pegging of allied currencies to the US dollar and the then linking of the US dollar to gold at a rate of US\$35 an ounce. This later came to be the basis for allowing the US to draw on the financial surpluses of foreign nations and it laid the financial

⁹³ H.R. Luce. *The American Century*. Diplomatic History, 23(2), 1999. pp.159-171.

⁹⁴ L. H.Shoup and W. Minter. *Imperial Brain Trust: the Council on Foreign Relations and United States Foreign Policy*. iUniverse. 2004.

foundations for what Charles de Gaulle would call the 'exorbitant privilege' of the United States dollar.⁹⁵ This arrangement lasted until President Nixon closed the gold window in 1971.

3.2 Council on Foreign Relations

The Council on Foreign Relations (CFR) is a privately organized grouping of bankers, lawyers and academics.⁹⁶ The Council is aimed at shaping US foreign policy towards serving the private interests of US industry.⁹⁷ The Paris Conference of 1919 provided the impetus for what would become the CFR. Two groups were established that would eventually merge into the CFR in 1921. The first group, established in 1918, was made up of bankers, lawyers and academics, initially comprising 108 members.⁹⁸ This group met at the New York Club under the name Council on Foreign Relations. It represented the private interests of Wall Street and sought to formulate policies conducive to those interests. This group had become somewhat inactive by 1919, with very few people attending the group's lectures.⁹⁹ The second formed in 1917 when President Wilson organized for a grouping of academics, lawyers and businessmen to study how the US would engage with Europe once Germany had been defeated in World War One. The project was named 'The Inquiry'. Its purpose was to formulate policies for the US's post-war relations with Europe. Primarily, the participants studied what effects the peace treaty would have on American business.¹⁰⁰ The problems that the conference identified for American

⁹⁵ F. J. Gavin. *Gold, Dollars, and Power : The Politics of International Monetary Relations, 1958-1971*. New Cold War History. Chapel Hill: University of North Carolina Press. 2003.

⁹⁶ L. H. Shoup. *Wall Street's Think Tank : The Council on Foreign Relations and the Empire of Neoliberal Geopolitics, 1976-2014*. 2015. p. 15.

⁹⁷ Ibid. pp. 13-15.

⁹⁸ L. H. Shoup. *Wall Street's Think Tank : The Council on Foreign Relations and the Empire of Neoliberal Geopolitics, 1976-2014*. 2015. p.13

⁹⁹ P. Grose. *Continuing the Inquiry: the Council on Foreign Relations from 1921 to 1996*. Council on Foreign Relations Press. 1996. p.8

¹⁰⁰ Ibid. p. 8.

business, combined with President Woodrow Wilson's internationalism, required new ways of thinking and approaching the world. The founding of what is now the CFR was the result of a five-month negotiation between these two groups, beginning on 3 February 1921.¹⁰¹ In 1921, the intention of the founders of the Council was to prepare the US for the leadership role they believed would be required of the nation in the post-World War One era.¹⁰² Aware that the US lacked the expertise it would need in a range of fields, primarily foreign policy, they sought to create a coherent approach they believed would benefit elite interests within the US. The CFR acted as an intermediary between the US State Department and the private interests that dominated the group.

3.3 War and Peace Studies Group

A vital planning organization within the CFR was the War and Peace Studies group. Officially named the Studies of American Interests in the War and the Peace, it was the first step in planning for the post-war peace and it positioned the US in an advantageous position after the war. On 12 September 1939, leaders of the Council met with Assistant Secretary of State George Messersmith to begin post-war planning activities.

In 1939 a group of businessmen, lawyers, journalists and government officials met under the direction of the Council on Foreign Relations (CFR) to find out

¹⁰¹ Ibid. p.8.

¹⁰² L. H. Shoup, & W. Minter. *Imperial brain trust: the Council on Foreign Relations and United States Foreign Policy*. New York, Monthly Review Press. 1977. p.3.

what the outcome of World War Two would likely be and how post war US policy would be carried out after the war.¹⁰³

Messersmith referred the proposal to Secretary of State Cordell Hull and Under Secretary of States Sumner Welles. The plan met with the approval of both Hull and Welles. CFR President Norman Davis then gained approval from Hull to begin work on the plan. The Rockefeller Foundation was also involved in the early proposal to offer CFR services to the State Department and contributed \$44,500 on December 6 to enable the work to begin. The involvement of the Rockefellers demonstrated the influence private capitalists would have on the work of the State Department and the trajectory that planning would take.¹⁰⁴ In mid-December, members of the CFR met at Messersmith's home to begin work on studying how the planning would be conducted.¹⁰⁵ Study groups were established to specialize in areas that the CFR felt would be paramount to the US during and after the war. There were five groupings of analysts, each studied particular issues that arose during the war and which the planners felt would affect the peace, which followed. The groups were Economic; Financial; Security and Armaments; Territorial; and Future World Organization. Shortly after their inception, the Economic and Financial groups were merged into one study group.¹⁰⁶ The War and Peace studies group was an intellectual as well as a practical force behind post-war American hegemony. It gave rise to a posture that placed the US at the center of the world political

¹⁰³ L. Shoup. *Shaping the Postwar World: The Council on Foreign Relations and United States War Aims During World War Two*. Critical Sociology, 5(3). 1975. p.9.

¹⁰⁴ G. W. Domhoff. *The Council on Foreign Relations and the Grand Area: Case Studies on the origins of the IMF and the Vietnam War*. Class, Race and Corporate Power, 2(1), 2014. pp.3-4.

¹⁰⁵ L. Shoup. *Shaping the Postwar World: The Council on Foreign Relations and United States War Aims During World War Two*. Critical Sociology, 5(3), 1975. p.10

¹⁰⁶ G. W. Domhoff. *The Council on Foreign Relations and the Grand Area: Case Studies on the origins of the IMF and the Vietnam War*. Class, Race and Corporate Power, 2(1). 2014. p.5

system. Despite allusions to 'liberal democracy' and 'open markets', what was in fact being crafted in the War and Peace group was the basic imperial analysis that would allow American capital to expand all over the world. Different sections of the world were studied to see how they could best complement and not compete with American capital. Reorganizing regional capital, in Latin America and in other areas of the world, and making it complementary to US interests, was particularly important.¹⁰⁷

3.4 The Grand Area

Grand Area policy planning was given significant impetus by German victories in Western Europe in mid-1940. Until then, much of the CFR's activities had involved organizing itself into the study groups that would conduct planning and other administrative tasks. The German conquest of Western Europe added a new dimension to the considerations that the CFR and State Department had in the planning work surrounding Europe and its German trading partners in Latin America. These considerations pointed to the economic concerns and objectives underlying the CFR's worldview. This worldview essentially saw the world as an exploitable resource for American capital accumulation. The Grand Area concept emerged from an awareness of the economic conditions that would be required to support the US economy, as well as thinking about how to deal with the German occupation of Western Europe.

The Grand Area concept was aimed at providing the 'minimal territorial living space' necessary for the United States economy.¹⁰⁸ An analysis of the need to build and maintain a Grand Area conducive to US capital required the consideration of economic and military objectives. A vital

¹⁰⁷ Ibid. p. 8

¹⁰⁸ L. Shoup. *Shaping the Postwar World: The Council on Foreign Relations and United States War Aims During World War Two*. Critical Sociology, 5(3), 1975. p,9

pillar was the need to foster deeper Anglo-American bilateral relations. The intention was to use the existing but weakened British Empire as a vehicle to promote American hegemony, particularly in the Middle East. Cementing access to Asia was also essential. It was identified that both the US and Britain would need a greater shipping capability to unify and harmonise the Grand Area.¹⁰⁹

The CFR planners realized that control of economically productive areas would be critical to how the Grand Area would operate. Western Europe and Japan were identified by the planners as being central to US economic and geo-strategic objectives. These objectives included understanding the economic strengths of the four areas that the CFR had divided the world into. They were identified as follows:

The council refined its analysis from July through September of 1940 with "detailed study of the location, production, and trade of key commodities and manufactures on a world-wide basis and within the framework of blocs [of nations]". The four blocs were (1) the Western Hemisphere, (2) continental Europe and Mediterranean Basin (excluding the Soviet Union), (3) the Pacific area and Far East; and (4) the British Empire (excluding Canada).¹¹⁰

These regions would need to be transformed into complementary markets for US exports. The initial conceptualization of what would be important to the functioning of the Grand Area was being mapped out. These regions were identified as being integral to the Grand Area policy by

¹⁰⁹ Ibid, p. 22

¹¹⁰ G. W. Domhoff. *The Council on Foreign Relations and the Grand Area: Case Studies on the origins of the IMF and the Vietnam War*. Class, Race and Corporate Power 2, no. 1. 2014: 1. p.9

US planners due to their strategic importance and their economic suitability as purchasers of US-made goods that would sustain US industry in the post-war years.

The German attack on the USSR in June 1941 added a new dimension to the planning that had been done thus far. The biggest change that occurred was in the conception of the Grand Area itself. The planners assumed that a defeat of the Axis powers was only a matter of time. Their defeat would open new opportunities that had hitherto not been considered. Up until this time, the planning that had taken place considered 'the German world' to be essentially off limits to Grand Area planning. However, with the eventual defeats of both Japan and Germany, two major industrialized and powerful nations that occupied important geo-strategic locations in the world, meant that the Grand Area now covered virtually the entire world.¹¹¹ The war aims of the US now reflected the strategic analysis that the Council had earlier engaged in. For example, the Japanese advance into Asia was now seen as a direct threat to the US itself.

President Roosevelt in July 1941 said that 'The US had to get a lot of things—rubber, tin, and so forth and so on, down in the Dutch Indies, the Straits Settlements and Indo-China.'¹¹² Japan's further penetration deep into South East Asia aroused great concern in the Roosevelt administration, due to the importance of the raw materials in this region, as well as the fact that this advance cut off British supplies coming from the region and affected the British war effort in Europe. Secretary of State Cordell Hull was a major advocate for blocking the Japanese in South Asia. Under Secretary of State Sumner Welles also agreed that Japan's advance represented a threat to the national interests of the US, due to the natural resources of the

¹¹¹ L. H. Shoup, and W. Minter. *Imperial Brain Trust: the Council on Foreign Relations and United States Foreign Policy*. iUniverse, 2004. P. 141.

¹¹² Ibid. p. 143.

region. A joint meeting of the four study groups in January 1941 agreed that Japan's incursion into South East Asia would be considered a threat to the national interests of the US.¹¹³ This view reflected the emerging worldview that was being formed in the Roosevelt administration as well as CFR and the State Department.

Towards the end of 1941 the CFR and the State Department created a special committee to examine the issue of post-war diplomacy. It was named, The Advisory Committee on Postwar Foreign Policy (ACFPF).¹¹⁴ Secretary of State Cordell Hull gave instructions to Leo Pasvolsky, who was his special assistant, to establish this committee in collaboration with Norman B Davis, leader of the CFR. Its purpose was to provide the president of the US with policy advice on post-war foreign relations with the rest of the world. It was an extension of the planning work done earlier by the CFR and represented an unprecedented level of integration between the CFR and the State Department. The ACPFP's organization was similar to the study groups established by the CFR in 1939. It was made up of three sub-committees studying post-war topics that were considered important by Hull. They were: armament, political-territorial issues, and trade-financial issues.¹¹⁵ These issues mirrored closely the priorities that the CFR had identified earlier, but what was different about the ACPFP was its high level of planning within the US government, and its special contact with and access to the president, mostly through Hull. To integrate the world economy under US leadership, global institutions were needed. The World Bank and the International Monetary Fund (IMF) were created to this end. These

¹¹³ Ibid. p. 143.

¹¹⁴ J. S. Rofer. *Pre-war Post-war Planning: The Phoney War, the Roosevelt Administration, and the Case of the Advisory Committee on Problems of Foreign Relations*. *Diplomacy & Statecraft*, 23(2), 2012. pp.254-279.

¹¹⁵ L. H. Shoup, and W. Minter. *Imperial brain trust: the Council on Foreign Relations and United States Foreign Policy*. iUniverse, 2004.p. 148.

institutions emerged out of the deliberations of the War and Peace studies group at the end of 1941. The US treasury was also involved in the planning of the two organizations. Although the US Treasury was not an official participant in the CFR planning, there was an obvious need for the input of the US Treasury given the economic and financial nature of the Grand Area. The unofficial liaison between the two departments was Alvin H Hansen who worked at the Treasury Department and on the CFR Economic and Financial planning group. The intention of the IMF would be to stabilize the currencies and balance of payments of member nations. The legacy of the Great Depression was still strong, and preventing another economic depression was prominent in the minds of the planners. The World Bank would deal with payments not associated with the two main objectives of the IMF. Harry Dexter White of the US Treasury Department did detailed planning on these two organizations and submitted the proposal for the creation of the IMF to President Roosevelt in May 1942. Shortly afterwards an interdepartmental committee was established to bring these plans to fruition.¹¹⁶

3.5 Lend Lease

In 1941, and with the US still officially not involved in World War Two militarily, the US provided material and capital loans to Britain. Lend Lease was the agreement that would facilitate the delivery of war material from the US to Britain. However, Lend Lease was more than just an agreement to help an ally in wartime. Examining the inner workings and intentions of the organizers of Lend Lease, it can be seen that this was a hegemonic project that would implement aspects of the Grand Area for the first time. The Lend lease Act, which Roosevelt

¹¹⁶ Ibid. p. 168.

signed into law in 1941, arose out of the first major agreement between the United States and Britain in the context of World War Two. The Act's name stemmed from the fact that goods would be supplied on a deferred payment system: they would be 'lent' and then payment would be made at a later date.¹¹⁷ It was called "H.R. 1776, An Act to Promote the Defense of the United States", and it empowered the president to provide 'defense articles' to allies of the United States. The Act empowered the United States to supply its wartime allies selected goods on a deferred payment basis. The Act provided \$2 billion dollars, \$1.3 billion of which was credited to Britain to buy arms from the United States. However, the agreement required that any ships provided to the British would not be required for the defense of the United States and required written consent from 'our highest Army and Navy officers' (H.R.1776, 1941). Britain's need for ships stemmed from the fact that Britain had suffered heavy losses in the Atlantic due to German U-boat attacks. By September 1940, the United States had given fifty obsolete naval destroyers to the British in return for 99-year leases on British colonies in the Caribbean and on Newfoundland for United States military installations.¹¹⁸ The legislation required that Britain, owing to its dire economic situation and inability to pay for goods, would provide other assets in payment for materials provided by the United States.

Section 3 of the Act also empowers the president to require that in return for the disposition of defense articles, any country, for example Britain, would pay with rubber, tin, the transfer of defense plants owned in the US, or any other direct or indirect benefit to the United States. The compelling need for this provision was that Britain, for example, had only enough assets that

¹¹⁷ FRUS. Milestones: 1937–1945 *Lend-Lease and Military Aid to the Allies in the Early Years of World War II*.

¹¹⁸ D.P.E. *Lend-Lease: Its Origin and Development: Part I*. Bulletin of International News 1945: 55-62.p.55.

could be converted into dollars in both the US and abroad, to pay for orders already placed in the US.¹¹⁹ Edward Stettinius, who led the Lend Lease administration, described the Act as ‘a new and important development in the foreign policy of the United States’.¹²⁰ The development that Stettinius describes can be understood as reflecting a completely new geo-strategic environment that the war had created. In this context, Lend Lease was the first tangible expression of United States strategic ambitions over its enemies and allies alike. A critical aspect of the way that the Lend Lease Act was conceived was that the defense of Britain was considered of ‘vital importance to the defense of the United States’.¹²¹

Critical to the implementation of the Grand Area doctrine was US Treasury Secretary Henry Morgenthau Jr. Morgenthau Jr and his department was intimately involved in the strategic planning that had been done before US entry into the war, and fully supported its objectives. Morgenthau’s aim was to shift financial power from New York and London to Washington. The dollar would become the instrument of a global “New Deal”, permitting more socially enlightened economic management. This would require “American financial hegemony”, not only to provide adequate export credit, but also to fund the kinds of social welfare planning about which private enterprise had traditionally been unenthusiastic.¹²² Treasury Secretary Henry Morgenthau Jr led negotiations with British. He fully shared the objectives and worldview that the Roosevelt administration and its planners were pursuing for the post-war

¹¹⁹ 77th Congress 1st Session HOUSE OF REPRESENTATIVES Report No. 18, TO PROMOTE THE DEFENSE OF THE UNITED STATES, January 30, 1941.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed Mr. Bloom, from the Committee on Foreign Affairs, submitted the following REPORT [To accompany H. R. 1776] <http://www.ibiblio.org/pha/policy/1941/1941-01-30a.html>.

¹²⁰ E. Stettinius. *Lend-Lease : Weapon for Victory* (Penguin special). Harmondsworth: Penguin. 1944.p, viii.

¹²¹ DPE. *Lend-Lease: Its Origin and Development: Part I*. Bulletin of International News, 1945. p, 55.

¹²² M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*. Pluto Press. 2003. p, 119.

world.¹²³ The US aspired to replace the British Empire as the dominant world hegemon in the post war period:

The Council expressed clearly, what the post-war strategic aims of the US should be.

They recognized an important opportunity for the US 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 chairman 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."¹²⁴

Achieving this objective would require the dismantling of the British Empire, and subordinating it as a 'junior partner' of the US. The existing British Empire was identified by Morgenthau Jr as standing in the way of US hegemony. Morgenthau negotiated with the British with a view to helping the British fight and win, but not to recover their position as world banker or potential rival.¹²⁵

¹²³ R. Skidelsky. John Maynard Keynes, Vol. 3: Fighting for Freedom, 1937-1946. New York: Viking.[Links]. 2001.

¹²⁴ L. Shoup. Shaping the Postwar World: The Council on Foreign Relations and United States War Aims During World War Two. Critical Sociology 5, no. 3 1975: 9. pp. 32-33.

¹²⁵ M. Hudson. Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance. Pluto Press. 2003. p.119.

3.6 Bretton Woods

The Grand Area required that the US abandon its pre-war isolationism. While it is true that the American state had been increasingly internationalizing in the pre-World War Two period, the Grand Area concept and its 'living space' requirements added a new strategic dimension to the political reality of the American state and its new role as a the core of a US-led world system.

The Bretton Woods conference was one of the most pivotal meetings of the twentieth century.

Out of this conference came the economic structures and agreements that shaped how the world would function until gold–dollar convertibility ended in 1971. Furthermore, this meeting conferred on the US unprecedented hegemonic power. At this conference, the US dollar was instituted as the world's reserve currency. This was done by linking the value of the dollar to gold at \$35 an ounce and then setting the convertibility of the currencies of participating nations to the US dollar. The US, through this arrangement, now had the ability to consume the economic surpluses of foreign nations, thus subsidizing the US economy. This arrangement also allowed the US to export its inflation to foreign nations, thus allowing the US to continually inflate the money supply inside and outside the US. In the 1950s and 1960s, this became a point of contention with the French government of Charles de Gaulle, who accused the US of exporting its inflation to his country and others.¹²⁶ Furthermore, the strength of this system was demonstrated in 1971 when Richard Nixon decided to abandon gold–dollar convertibility. Defaulting on one's international obligations would typically be seen as a sign of profound weaknesses in the economy and the political policy of a country. However, the US was a provider of liquidity to the world, and at the time of Bretton Woods and the Nixon shock, it was

¹²⁶ F. J. Gavin. *Gold, Dollars, and power: The politics of international monetary relations, 1958-1971*. UNC Press Books. 2004. p 24.

the largest economy in the world, and so it was able to default without incident.¹²⁷ As the US was the provider of the world's liquidity, the usual rules of default did not apply. This was because the US could export its inflation, or conversely deflation, by requiring that other nations also revalue their currencies to maintain their value.

This is the profound strength of possessing the world's reserve currency. In effect, it became a tool, which enabled the US to: 1) consume the economic surpluses of foreign nations that were reliant on US capital and 2) export inflation abroad. Domestically, this resolved the problem of how to manage the inflation that had dogged the US in the pre-World War Two period. The International Monetary Fund (IMF) was established as a vital tool of US hegemony. The US as the largest contributor of funds to the IMF gained the largest share of the votes on the IMF board. This gave the US a de facto veto over the financial and political policies of member nations. With the ability to block loans, the US was able to regulate the behavior of member nations. This feature was demonstrated during the Suez Crisis of 1956, a little over ten years after the IMF was established.¹²⁸ The negotiations over the makeup of an international lender that could stabilize currencies reflected the dominant position of the US. Intense deliberations took place between the US and Britain about how a fund like this would operate, and what its objectives should be. Harry Dexter White led negotiations for the US. White had been a treasury official who had assembled a large amount of technical knowledge on financial

¹²⁷ S. Strange. *The Persistent Myth of Lost Hegemony*. International organization, 41(04), 1987. pp. 568- 569.

¹²⁸ M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*. Pluto Press. 2003. p 120.

matters. The primary US aim at the negotiations was to open the British Empire to US capital and use Britain, through the city of London, as a way to access the rest of the world.¹²⁹

John Maynard Keynes led negotiations on the British side. Keynes was in poor health at the negotiations; his case relied on an interventionist model, which gave governments the power to intervene in markets and the financial system. In particular, currency speculation was a key consideration for Keynes, given pre-war currency instability.¹³⁰ The main reason that the US was able to impose its will on the British was that the US was emerging with an enormous industrial and financial capacity that it had built up during the war.¹³¹ Despite the differences between these two countries' economic strengths, a key policy objective for both sides was to maintain full employment. This was a particular concern for the US side, which feared what might happen to US industry if markets could not be found to purchase US-made goods.¹³²

To achieve 'American financial hegemony' post-war US planners would have to reduce the influence of the British Empire, particularly the British imperial preferences that gave preferential trading rights to British colonies and former colonies. Implementing the Grand Area would require the abolition of preferential trading conditions between Britain and its colonies. The imperial preference system discouraged trade between British colonies and other nations, a major impediment to the economic objectives of the Grand Area. Within the Bretton Woods negotiations, US planners now worked to implement this strategy. There were two main factors

¹²⁹ F. L. Block. *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (No. 214). Univ of California Press, 1977. Pp. 59-60.

¹³⁰ B. Steil. *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order*. Princeton University Press, 2013. pp.1-2.

¹³¹ F. L. Block. *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (No. 214). Univ of California Press, 1977. P. 33.

¹³² Ibid. p. 33.

at work here. They were firstly that the US wanted greater access to Middle East oil and secondly, that it wanted to eliminate the British as political rivals to US power.

These objectives were first conceived of in the Lend Lease period of negotiations between the US and Britain. However, it was during the Bretton Woods phase that these two main objectives began to materialize as policy objectives. President Roosevelt began to demand concessions, such as the loss of British colonial possessions, from Prime Minister Churchill, which the British side 'bitterly' accepted, as they had little choice.¹³³ It was unlikely that in the foreseeable future countries dependent on US resources for their reconstruction would seriously interfere with US domestic policies. However, the reverse, an extension of US influence over other countries, was clearly possible.¹³⁴ Economic means would be used to maintain US hegemony over the rest of the world; this was particularly the case in the Western hemisphere. The US wanted to maintain a network of military bases in the region to prevent any nation or coalition of nations from challenging US dominance. US concerns about Soviet intentions also featured heavily in the decision to build a military infrastructure in the Western hemisphere.¹³⁵

3.7 The Marshall Plan

With the Western hemisphere and Japan now accepting US leadership, the US had two main objectives. The first was to turn the Grand Area into a consumer market for US goods, and the second was to counter Soviet influence in Western Europe. With the war now concluded in the Allies' favor, the US turned to rebuilding Europe as a market for its goods. On the trade front,

¹³³ A. Callinicos. *Imperialism and Global Political Economy*. Polity. 2009. p. 169.

¹³⁴ M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*. Pluto Press. 2003. p. 138.

¹³⁵ Ibid. p. 170.

one major concern occupied US interests in Europe: how to prevent the under-consumption of goods, which was one of the factors that precipitated the Great Depression. Europe was still recovering from the effects of the war and its currencies and gold reserves were insufficient to meet the twin tasks of rebuilding and consuming US exports. The mechanism through which the objectives of the Grand Area would be fulfilled would be a plan devised by Secretary of State George Marshall, the Marshall Plan.

The Truman administration believed that the lack of dollars in Europe would lead to another economic crisis in that continent, thus jeopardizing the plans that the US had made before and during the war. By 1947, the year the Marshall Plan went into effect, US hegemony faced a threat. The US began to grow concerned that European nations, led by Britain, would refuse to use the dollar for continental trade unless a flow of cheap dollars was maintained. Such a refusal would directly undermine the premise of the Grand Area. The Bretton Woods institutions had not been designed for this purpose and furthermore had not been capitalized sufficiently to continually supply a lifeline to Europe, but faced with no other feasible option, the US kept the flow of dollars open to Europe.¹³⁶ Two of the three leading pre-war industrial nations, Japan and Germany were now under US dominion, the third being the Soviet Union, which was however not integrating under US 'leadership', and was attempting to implement its own world system. With Europe and Japan now dependent on US capital, a power shift had occurred in these regions in the US's favor, the dollar was critical:

¹³⁶ C.C.S. Newton. The Sterling Crisis of 1947 and the British Response to the Marshall Plan. *The Economic History Review*, 37(3), 1984. p.391

The U.S. dollar was the lynchpin of the transatlantic and transpacific deal. Freer trade depended on monetary stability, which, in turn, depended on the special role of the dollar. While governments in Western Europe and Japan committed to defending the value of their currencies relative to the dollar, the U.S. government took on the more formidable obligations of maintaining a fixed value for the dollar in terms of gold and of agreeing to accept dollars from other central banks in exchange for gold at that fixed rate. By upholding a pledge that the dollar was “good as gold,” U.S. officials provided the confidence that public and private actors needed to embrace the special reserve and liquidity functions of the dollar in the world economy.¹³⁷

The post-war era created a new geo-strategic environment for the US. Oil considerations were of critical importance in the exercise of US hegemony. In the pre-war period as late as 1938, much of Europe still used coal as its main industrial power source.¹³⁸ Two opportunities presented themselves at this point for the US in exerting hegemony over Western Europe. The first was to move Western Europe to an oil-based economy. The second was that as the US was the biggest producer of oil at the time, oil would need to be paid for in US dollars.¹³⁹

With the objectives of the Grand Area now coming to fruition, the moment of US world hegemony had arrived.¹⁴⁰ Lend Lease, Bretton Woods and the Marshall Plan represented rapid shifts in global power from Britain to the United States. World War Two precipitated this change in global power, providing the conditions which now suited the designers of the Grand

¹³⁷ M. Mastanduno. System maker and privilege taker. *World Politics*, 61(01), 2009. pp. 129-130.

¹³⁸ D. S. Painter, 1984. *Oil and the Marshall Plan*. *Business History Review*, 58(03), p. 361.

¹³⁹ E. N. Groen. January. The Significance of the Marshall Plan for the Petroleum Industry in Europe. Historical Review of the Period 1947-1950. In *3rd World Petroleum Congress*. World Petroleum Congress. 1951. p. 42.

¹⁴⁰ I. M. Wallerstein. *Geopolitics and Geoculture: Essays on the Changing World-System*. Cambridge University Press. 1991. p. 26.

Area. A long time before the start of the war, the US had surpassed Britain in terms of economic output, but until it entered the war, it had continued a largely isolationist foreign policy. World War Two marks a divide between the isolationist position of the pre-war US and the post-war Grand Area doctrine:

At the end of the Second World War, the United States was the strongest economic center of the world-economy. It alone had emerged from the war with a very advanced efficient industrial network that had been unscarred by wartime destruction ...The moment of US hegemony in the world system has clearly arrived.¹⁴¹

The literature that examines World War Two, its actors and their thoughts, policies and positions in government, is vast. Laurence Shoup, author of *Imperial Brain Trust*, states that there is voluminous literature on World War Two, but not much attention has been paid to the post-war planning work that was carried out, and the long-term objectives of these planners.¹⁴² While Shoup's work on the diplomatic history of US planners is detailed and meticulous, there is no mention of how the Grand Area would function as a hegemonic construction. There exists even less literature on the critical role that the dollar played and continues to play in this regard. This chapter has revealed how the dollar has been vital for creating a world system in which the US has been dominant for so long in a situation where it should have experienced a terminal economic crisis. This chapter has sought above all to establish that: 1) the US did have a hegemonic agenda and that it was designed and implemented during World War Two, and 2) the dollar has been vital to the exercise of that hegemony ever since.

¹⁴¹ Ibid. p. 26.

¹⁴² F. L. Block. *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (No. 214). Univ of California Press. 1977.

The planning that began in 1939 marks the start of a coherent strategy that has endured until now (2016). It fundamentally changed how the US and its people saw themselves and their role in the world. This role placed the US at the center of a world system in which it was the most important actor. This change was precipitated by the economic concerns that elite sections of US society held at the time. Heavily influencing their decisions were concerns about currency stability, the Great Depression that was still a recent memory, and domestic factors such as full employment and industrial over-capacity. The world system and the institutions that were created to govern it were designed to meet US domestic objectives. The rest of the world would need to be reorganized economically to suit these objectives, and this reorganization was a prime concern for the planners and underlying this concern were their 'living space' objectives for the US economy. The policies enacted at Bretton Woods were backward looking in nature. They tried to solve the problems of 1920s and 1930s unemployment, currency instability and economic growth to support the US economy and population. It quickly became apparent by the mid-1950s that new problems had emerged that were unanticipated by wartime planners, and that the Bretton Woods system would be unsuitable for dealing with these problems. These problems included the US deficit needed to finance US troops in Europe, and the paradoxical problem of maintaining the US dollar's world reserve function while it also served its domestic function in the US – the Triffin Dilemma.¹⁴³

¹⁴³ International Monetary Fund, *Money Matters: An IMF Exhibit- The Importance of Global Cooperation, System In Crisis 1959-1971*, accessed 22 August, n.d, https://www.imf.org/external/np/exr/center/mm/eng/mm_sc_03.htm

Chapter 4: Global fracture.

4.1 Introduction

This chapter analyses the period from 1955 to 1974. It identifies and analyses broad trends that emerge and how they affect the ability of the US to maintain hegemony. The Suez Crisis of 1956 was a good demonstration of the United States' newfound international hegemony. By threatening British deposits at the IMF and the value of the Pound, the US was able to force the British out of Egypt and consolidate US hegemony in the critical nation of Egypt. In the 1950s, problems due to the Bretton Woods agreement become apparent. The convertibility of US dollars held by foreign central banks, particularly French banks, into gold became evident as the supply of dollars outside the US began to increase relative to the price of gold. The government of Charles de Gaulle felt that the French were subsidising the US standard of living and threatened to demand gold for their dollar assets. In 1958, Belgian-American economist Robert Triffin argued that there was an inherent contradiction between a nation using its own currency in world trade and the domestic conditions and policies that it pursued. The contradiction lies in the conflicting demands of exporting inflation abroad through deficit spending, and maintaining the value of reserves held by foreign creditors. Oil trading was conducted exclusively in dollars from 1974 onwards under the Nixon Saudi agreement. To provide context regarding the importance of oil, a brief history of the complex relationship between the US and Saudi Arabia is given. The 1974 arrangement between Saudi Arabia and the US is the beginning of the petrodollar phenomenon.¹⁴⁴ The fortunes of the US hegemony became inextricably linked with

¹⁴⁴ B. Gokay. *Two Pillars of US global hegemony: Middle Eastern Oil and the Petrodollar*. 2015. p.10.

this arrangement, and defending the petro dollar became vital for the US to maintain hegemony.

4.2 Suez Crisis

By the mid-1950s, Arab nationalism, with Egyptian president Gamal Abdel Nasser as its leading proponent, was becoming too prevalent for the US to ignore. The Eisenhower administration made a strategic decision that Nasser 'must be cut down to size'.¹⁴⁵ The Middle East region and North Africa were viewed through the lens of global geo-strategic strategy, was considered vital to US interests. Britain was still the dominant hegemon in the Middle East at the time of the Suez Crisis. This region was increasingly becoming important to US interests in light of the Cold War.¹⁴⁶ Although the US was able to supply its own oil needs domestically, US Secretary of State John Foster Dulles believed that in the event of war with the USSR, Middle East and West Asian oil would be essential to the ability of the US to fight and win.¹⁴⁷ Control of the Suez Canal would therefore be crucial in the event of hostilities.

The flashpoint of the Suez Crisis occurred when Nasser nationalized the Suez Canal. This in turn prompted an invasion by the British, French and Israelis. The US however objected to this invasion and responded in a unique way that was reflective of the new US hegemony. The US used financial means to put an end to the invasion. There is a connection between the financial strength of the US in the post-World War Two world and how the IMF was used by the US to block British reserves in Egypt while at the same time the Pound Sterling 'came under sustained

¹⁴⁵ M.S. Venkataramani. *Oil and Us Foreign Policy During the Suez Crisis 1956-7*. International Studies, 2(2), 1960. p.15.

¹⁴⁶ C. C. Kingseed. *Eisenhower and the Suez Crisis of 1956*. LSU Press. 1995. p.3.

¹⁴⁷ M.S. Venkataramani, 1960. *Oil and Us Foreign Policy During the Suez Crisis 1956-7*. International Studies, 2(2), pp.105-152, p.111

pressure on international markets' that was 'viscerally orchestrated' by the US.¹⁴⁸ Until the British agreed to accept this resolution however, the run on the Pound that had begun in September of 1956 would continue, leaving the British economy in severe danger. There were two separate but intertwined concerns that the British side had in dealing with the speculative attack on the Pound. The first was the inflationary effect of speculation on the Pound, which was orchestrated by the US treasury. The second was that the cost of oil would rise as the value of the Pound fell. In 1949, the Bank of England (BoE) had set the exchange rate for the Pound at \$2.80.¹⁴⁹ The BoE felt that this rate was appropriate to combat the inflationary effects of having to pay excessive prices for oil.¹⁵⁰ By selling Pounds on the international market, the US treasury was able to affect a political solution favorable to its strategic interests. Furthermore, the US refused to lend the British the \$1 billion they required to shore up the Pound until they agreed to accept a ceasefire. The US also suspended oil shipments to the British in order to pressure the British side to accept the terms of the ceasefire.¹⁵¹

When the British turned to the IMF to help break the run on the Pound by borrowing capital, they also saw their efforts frustrated. The US was the only member nation of the International Monetary Fund to have a veto over decisions.¹⁵² The British were unable to mobilize enough votes at the IMF to break the US veto.¹⁵³ This power of veto was a critical advantage that the US had over other nations in dictating what policy decisions were taken in the financial realm, and this advantage had broader geo-strategic consequences such as the British acquiescence to US

¹⁴⁸ D.M. Andrews. *International monetary power*. Cornell University Press. 2006. p.7

¹⁴⁹ J.M. Boughton. *Northwest of Suez: The 1956 Crisis and the IMF*. IMF Economic Review, 48(3), pp.425-446. 2001. p.12

¹⁵⁰ Ibid p12

¹⁵¹ C. L. Cooper. *The Lion's Last Roar: Suez, 1956* (New York: Harper & Row, 1978), 190

¹⁵² M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*. Pluto Press. 2003.

¹⁵³ J. M. Boughton. *Northwest of Suez: The 1956 crisis and the IMF*. IMF Economic Review, 48(3), pp.425-446. 2001. p.16

demands over the Suez Crisis. As soon as the British agreed to the terms of the ceasefire, they found that attacks on their currency ceased and the money that they had requested from the IMF was available.¹⁵⁴

The Suez Crisis demonstrates the strength of the US position in relation to its allies. The crisis showed that while the US was a relatively new power in the Middle East, it was able to get its way through currency manipulation coupled with blocking British requests at the IMF. The most important aspect of the crisis from a hegemonic perspective did not take place in the Middle East, even if the invasion sparked the crisis. The currency crisis that the British experienced was orchestrated in New York and Washington. That the British lacked the capability to sell bonds in order to monetise their way out of their currency predicament demonstrates the supremacy of the US dollar and US financial markets. Although the Pound was still influential in world trade, it was used only within the Sterling area, making its reach and demand limited. The US on the other hand was able to manipulate and issue capital at will by issuing dollars as required and forcing other nations to purchase these dollars through Treasury bond purchases to maintain parity with the dollar. This would eventually become an issue for European nations in the 1960s.

4.3 French dollar frustration

An important trend that became apparent in the 1950s highlighted an intrinsic problem in the Bretton Woods system. A contradiction existed between the expenditures of the US government, mostly associated with the defence costs associated with defending Europe and

¹⁵⁴ P. Lahav. *Suez Crisis of 1956 and Its Aftermath: A Comparative Study of Constitutions, Use of Force, Diplomacy and International Relations*, The. BUL Rev., 95, 2015. p. 1346.

Asia from the USSR, and the convertibility of dollars held by foreign central banks into US gold. As the dollar was partially pegged to gold at a rate of \$35 an ounce in 1944, the US had to run budget surpluses and applied a practical conversion rate in order to maintain confidence in the dollar. A problem with the Bretton Woods system was that it was not anticipated during the negotiations in 1945 that such large defence expenditures would be required far into the future. For example, US defence spending on NATO caused the US to run larger and larger budget deficits into the 1950s and 1960s.¹⁵⁵ Such large debts had the effect of reducing the value of US treasury assets held by foreign central banks. In effect, the US was exporting its inflation to other nations in an attempt to maintain deficit spending. US defence expenditure consumed all of the deficit spending in the 1960s.¹⁵⁶ By 1968, the US gold stock had been reduced to \$10 billion dollars, down from \$21 billion in 1951.¹⁵⁷

There was significant contention between the US and France over the deployment of US forces to Europe during the 1960s. The deployment of these forces served a political role because it prevented Europe from becoming quasi-independent through the formation of a Franco German bloc.¹⁵⁸ The most pressing issue for the US and Europe was how to pay for the deployment of these forces. The US, and particularly the French and British governments, was concerned about the system of gold-dollar conversion and how NATO and US deployments would be paid for. A complex interlinking of concerns emerged for both sides that spanned the realms of security, finance and defence. President Charles de Gaulle argued that the

¹⁵⁵ M. Hudson. *Global Fracture: The New International Economic Order*. Pluto Press. 2005. p. 22.

¹⁵⁶ Ibid. p.22.

¹⁵⁷ Ibid. p.22.

¹⁵⁸ F. J. Gavin. *The Gold Battles within the Cold War: American Monetary Policy and the Defense of Europe, 1960–1963*. Diplomatic History, 26(1), pp.61-94. 2002. p.7.

international payment system allowed the US to live beyond its means. President Kennedy believed that the US financial and military strategy was at the mercy of surplus nations.¹⁵⁹ The problem that both nations faced was the need to find an effective way to deal with deficits and surpluses in the world financial system. Countries that produce surpluses require a store of value and security for their surpluses, such as US securities. The US, with its currency pegged to gold, could not run deficits that were too large, or disequilibrium would occur between the amount of gold and the number of dollars abroad that could return to the US in exchange for gold. If US deficits had continued to rise there would have been insufficient gold to redeem foreign dollar holdings in the event of a collapse of confidence in the dollar.

Economist Robert Triffin noticed this dilemma, which has since become known as the Triffin dilemma. Triffin correctly identified that the US, whose domestic currency served a reserve function, would face a balance of payments crisis in the form of gold convertibility.¹⁶⁰ The Nixon administration initially did not set out to abolish the gold convertibility system.¹⁶¹ The administration expected surplus nations to revalue their currencies upwards. However, it also told nations that held larger reserves of dollars that requesting gold for dollar holdings would be considered an 'unfriendly act' due to the minimal size of US gold reserves.¹⁶²

4.4 The US dollar, Saudi Arabia and oil

The relationship between the US and the Kingdom of Saudi Arabia in relation to oil is long and complex. Its origins can be traced to the recognition of the Kingdom and its rule by King Abd Al

¹⁵⁹ Ibid p.7.

¹⁶⁰ R. Triffin. *Gold and the Dollar Crisis: Yesterday and Tomorrow*. International Finance Section, Department of Economics, Princeton University. 1978. P.2.

¹⁶¹ M. Trachtenberg. *The French Factor in US Foreign Policy during the Nixon-Pompidou Period, 1969–1974*. Journal of Cold War Studies, 13(1), pp.4-59. 2001. p.11.

¹⁶² M. Hudson. *Global Fracture: The New International Economic Order*. Pluto Press. 2005. P. 22.

Aziz in 1931.¹⁶³ The bilateral relationship in the pre-World War Two era was characterised by a 1933 contract awarded to the California Arabian Standard Oil Company (CASOC). COSAC was formed on behalf of Standard Oil Company of California to develop concessions in Saudi Arabia.¹⁶⁴ This was the first major development concession to the US by Saudi Arabia. By 1938, commercially viable reserves of oil had been found at Dammam Well No. 7 along the Gulf Coast.¹⁶⁵ In 1944 CASOC was renamed the Saudi American Oil Company (ARAMCO) after the US government nationalised one-third of the company.¹⁶⁶ Harold Ickes, petroleum coordinator for national defence at the State Department, advised President Roosevelt that 'It is our strong belief that the development of Saudi Arabian petroleum resources should be viewed in the light of the broad national interest'.¹⁶⁷ US energy security, and by extension national security, was now linked with a Kingdom on the other side of the world. Stork (1984) argues that mechanised military forces were now consuming vast oil resources, and the US had learnt from the defeat of the Axis powers in World War Two that this vital commodity would be essential in the operation of the US military. In 1944 Saudi Arabia produced 7.8 million barrels of oil and almost all of that production was used by the US military (Stork 1984 47). In the immediate post-war period, most of the oil produced in Saudi Arabia continued to be used by the US military. In 1943 Harold Ickes wrote an article titled "We're running out of oil" in which he argued "if there should be a World War Three it would have to be fought with someone else's

¹⁶³ C. M. Blanchard. *Saudi Arabia: Background and US Relations*. DIANE Publishing. 2010. p.3.

¹⁶⁴ D. B. Kultgen. *Saudi Aramco: A Look Ahead*. The Journal of World Energy Law & Business, 7(2), 2014. pp.153-161.

¹⁶⁵ A. A-Ahmed, et al. Security Threats to Saudi Arabia's Oil Infrastructure, The institute for Gulf Affairs, n.d. p.3

¹⁶⁶ T. Mitchell. *McJihad: Islam in the US global order*. Social Text, 20(4), pp.1-18. 2002. p. 17

¹⁶⁷ W. Engdahl. *A Century of War*. Pluto Press. 2004. p.88

petroleum, because the United States wouldn't have it ... America's crown, symbolising supremacy as the oil empire of the world, is sliding down over one eye".¹⁶⁸

The post-war architecture of the Bretton Woods agreement supported US dollar hegemony in the long term. In 1947, five American oil companies supplied Europe's oil needs. This left Europe at the mercy of US oil producers. US oil majors exploited Marshall Plan funds by charging artificially high prices for oil and shipping it to Europe.¹⁶⁹ By further tightening the oil capacity of Europe, the US government prevented the use of Marshall Plan funds to expand European oil refining capacity, making Europe dependent on the US oil majors.¹⁷⁰

Another important factor in how the US dollar came to be a critical oil trading currency and ensure US hegemony in the Middle East was the remittances that were paid to Middle East governments for their oil. In 1949, the Saudi government wanted to review the concession arrangements with Aramco with a view to increasing its share of revenues. To placate the Saudi government, a deal was done whereby Aramco was allowed to offset increased revenues paid to the Saudi government against its tax liabilities in the US. This arrangement placated both parties and secured the goodwill of the Saudi government for continued development of Saudi reserves. The US placed considerable importance on the deal:

¹⁶⁸ D. Yergin. *The Prize: The Epic Quest For Oil, Money & Power*. Simon and Schuster. 2011. p.395

¹⁶⁹ W. Engdahl. *A Century of War*. Pluto Press. 2004. p.89

¹⁷⁰ Ibid p.89

The US considered its interests in Middle East oil industry and the way in which it was organized so vital that it was prepared to forgo, on behalf of its taxpayers the large amount of taxes that it had formally been paid by the companies concerned.¹⁷¹

In the 1950s, a new threat emerged to US hegemony in the Middle East and North Africa: Arab nationalism, coupled with the nationalist tendencies of the Mossadegh government in Iran in relation to oil. Western exploitation of oil, led by the US in the Middle East and North Africa, generated a significant backlash on the part of populations in the region.¹⁷² From time to time this backlash manifested in political regimes that challenged the Western status quo. These political regimes took the form of nationalist governments that sought greater independence from Western exploitation. Ba'athism in Iraq and Syria, Khomeini's Iran and Nasser's Egypt have all played a role in challenging US domination of the region.¹⁷³

One of the first places that oil was nationalised was in Iran under the leadership of Dr Mohammed Mossadegh in 1951. The threat from a successful nationalisation of oil could have had regional implications for US strategy.¹⁷⁴ Although Britain was, still the major hegemon in Iran at this time, any successful exercise of sovereignty on Iran's part could have led to a domino effect in the region in which the exercise of independent nationalism would have had serious effects on the ability of the US to exploit regional oil reserves for US interests.¹⁷⁵ Linking this situation to the US dollar, successful nationalisation of Iranian oil by Mossadegh would have been a blow to the financial position of the British, and this would have caused Britain to

¹⁷¹ P.R. Odell. 6th ed. *Oil and World Power: Background to the Oil Crisis*. Taplinger Pub. 1981. p.36

¹⁷² R.A. Hinnebusch and A. Ehteshami. *The Foreign Policies of Middle East States*. Lynne Rienner Publishers. 2002. p.3

¹⁷³ Ibid, p18

¹⁷⁴ Ibid, p.30

¹⁷⁵ Ibid, p.30

lose prestige in the Middle East.¹⁷⁶ The potential British loss of dollar revenues from nationalisation would have cost the British their single largest source of US dollar-denominated revenue (totalling \$400 million) and would have put Britain at risk of a serious balance of payments crisis.¹⁷⁷ The British were in dire economic straits after World War Two and had become a debtor nation, which in turn made it particularly vulnerable to US actions in the post-war period.¹⁷⁸

In 1960 The Organisation of Petroleum Exporting Countries (OPEC) was formed. Venezuela and Iran were the primary architects of the organisation.¹⁷⁹ There were three main reasons for establishing OPEC. The first was a persistent fear on the part of producing nations of the oil companies' ability to cut prices without consultation. The second was a realisation among more established exporters that the entry of new producers with lower prices might cut into established markets. Thirdly an increased sense of technical competence among oil exporting countries, which gave them the confidence to risk the displeasure of both major oil companies and major oil importing countries by exerting pressure to protect the exporting countries' interests.¹⁸⁰ There was increasing friction between oil companies and host nations over remittances paid for oil production but the overall hegemonic status of the US had not changed. The disproportionate power of the production companies was a source of contention as production companies overwhelmingly controlled remittances:

¹⁷⁶ M.A. Heiss. *The United States, Great Britain, and the Creation of the Iranian Oil Consortium, 1953–1954*. The International History Review, 16(3), pp.511-535. 1994. p.512

¹⁷⁷ D. S. Painter. *The United States, Great Britain, and Mossadegh*. Pew Charitable Trusts. 1993. p.2

¹⁷⁸ M. Hudson. *Super Imperialism-New Edition: The Origin and Fundamentals of US World Dominance*. Pluto Press. 2003. p.282

¹⁷⁹ N. Choucri. OPEC Calming a Nervous World Oil market. *Technology Review*. Jan 1;83 (1):36-45. 1980. p.3

¹⁸⁰ *Ibid*, p.3

Oil production in the Gulf before 1972 was controlled by producing companies or consortia in which the major international oil companies cooperated in a web of interlocking interests. Producing consortia held huge concessions and frequently were the only producers in the company, thus commanding enormous bargaining power vis-à-vis the national government.¹⁸¹

Multinational oil corporations played a critical role in extracting oil from Middle East nations and paying royalties to host governments. Their operations also created friction between host governments and US interests. A 1975 report to the US Federal Energy Administration demonstrates how the US government remained in the “background” on disputes between producers and oil producing nations.¹⁸² The report outlines the balancing act that the US government practised in its approach to Middle East governments, and the extent to which it could act on behalf of the oil companies:

Although the multinational petroleum companies were generally able to cope with these problems, their control over production and pricing decisions was increasingly jeopardized by the nationalistic aspirations of the producer governments and the proliferation of additional firms throughout the international petroleum system. During this period, the US government basically remained in the background and did not attempt to influence or control international supply agreements.¹⁸³

Oil producers were running current account surpluses; this created an increased demand for US dollars as the trading currency of choice, and this favoured the United States. The US was able

¹⁸¹ L. Fawcett. *International relations of the Middle East*. Oxford University Press. 2013. p,107

¹⁸² R. B. Krueger. *United States and international oil. A report for the Federal Energy Administration on US firms and Government Policy*. Nossaman, Waters, Krueger, Marsh, and Riordan Law Firm, Los Angeles, CA. 1975

¹⁸³ *ibid* p.61

to print dollars in exchange for oil and imports from Europe and Japan. International financial stability prevented other nations from printing currency at will to finance their needs. Only the United States, whose currency functioned worldwide in a reserve capacity, could print dollars at will. This phenomenon benefited the US greatly in the oil trade:

Yet this form of leadership came with the potential for exorbitant privileges. If the United States competed for capital unilaterally, and then made other nations come to terms for access to that capital the result would be predatory leadership that that was in no one's interest except that of the United States.¹⁸⁴

Persistent problems regarding dollar convertibility reached breaking point in 1971. A long-term trend that underpins US hegemony was established in 1971 in a secret agreement between the US and Saudi Arabia. This arrangement linked the dollar to the oil trade in an exclusive trading arrangement. US financial dominance, and by extension political dominance, became contingent on the trade of Saudi oil in US dollars. In 1971, President Richard Nixon closed the gold window, stopping the conversion of US dollars into gold. Until this time dollars had been convertible into gold at the rate of \$35 an ounce. Levels of US securities that were being held by foreign central banks were becoming unsustainable for the US, which had a currency whose value was fixed to the value of gold. The main reason that Nixon dropped the gold standard was that the British and French planned to exchange all of their dollar holdings for gold. At Camp David on 15 August 1971, President Nixon instructed Secretary of the Treasury John Connolly to

¹⁸⁴ D. E. Spiro. *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets*. Cornell University Press. 1999. p.4

stop the convertibility of dollars into gold.¹⁸⁵ However, there was a positive for the US dollar: although convertibility had been abandoned, there existed no alternative to the dollar as a viable form of international exchange and reserve medium – the world was now on a de facto dollar standard.¹⁸⁶ When Nixon removed the US from the gold standard, a critical structural change in domestic US and world finances occurred. The US dollar no longer had any peg to an underlying physical commodity determining its value, and at this time, the US dollar became known as a fiat currency.¹⁸⁷

A unique relationship exists between the trade in oil and the US dollar. The origin of this trade can be traced to bilateral deals between the US and Saudi governments. In 1974 the connection between the trade in oil, which was conducted in US dollars, and US security interests, was formalised ‘with the establishment of the United States–Saudi Arabian Joint Commission on Economic Cooperation’.¹⁸⁸ The purpose of this venture was to facilitate closer cooperation between the US and Saudi Arabia with a view to supporting the US economy by promoting the sale of US treasury securities. Critically, the commission was staffed with officials from the US treasury indicating its importance:

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

¹⁸⁵ M. D. Bordo. *The Bretton Woods International Monetary System: A Historical Overview. In A retrospective on the Bretton Woods system: Lessons for International Monetary Reform* (pp. 3-108). University of Chicago Press. 1993. p.80

¹⁸⁶ Ibid p,74

¹⁸⁷ J. D'Arista. *The Evolving International Monetary System*. Cambridge Journal of Economics, 33(4), pp.633-652. 2009. p.559

¹⁸⁸ B. Momani. *Gulf Cooperation Council Oil Exporters and The Future of the Dollar*. New Political Economy, 13(3), pp.293-314. 2008. p, 297

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.¹⁸⁹

This relationship was further cemented in meetings between Saudi officials, and US and at this time, it was decided that the Saudi government would invoice all oil sales in dollars, and not a basket of currencies, as had been the convention until then.¹⁹⁰ The motives of the two sides were very different. The US government's General Accountability Office (GAO) reported that a major benefit to the US would be gained from closer bilateral relations with Saudi Arabia given the 1974 trade deficit that the US was running with the Kingdom.¹⁹¹ The US objective was to get the Saudis to sell oil in dollars only, and then to recycle those dollar surpluses into US treasury bonds, thus supporting 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

¹⁸⁹ Ibid. 297

¹⁹⁰ Ibid. 297

¹⁹¹ United States General Accounting Office. *U.S. Role as Contracting Agent for the U.S.-Saudi Arabian Joint Commission on Economic Cooperation*, NSIAD-84-48: Published: May 14, 1984. Publicly Released: Jun 21, 1984. p.3

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.¹⁹²

This critical deal established a long-term trend in US hegemony. From 1974 onwards, the ability of the US to run larger and larger budget deficits was facilitated by the fact that the oil trade was conducted exclusively in dollars. When the US had few geopolitical competitors in the 1970s, this deal represented a profound strength. However, as the world has become more multipolar, major industrial powers like China and important energy producers like Russia and Iran have integrated into the world capitalist economy. Due to tensions with the US, these nations have identified the oil trade in dollars as being essential the underpinning of US hegemony.¹⁹³

The 1973 Arab oil embargo is an important milestone in the geopolitics of oil. An oil embargo was threatened against the United States if Israel did not adhere to UN resolution 242, requiring it to withdraw from territories it had occupied.¹⁹⁴ The use of oil as a political lever had little if any effect on US policy in the Middle East and specifically US support for Israel during the 1973 Arab–Israeli War.¹⁹⁵ Oil was used by Arab states to achieve geopolitical ends by ending the 1973 war.¹⁹⁶ The embargo demonstrated a complex set of interdependencies in the relationships between oil producers, OPEC members and non-OPEC members.

Furthermore, the geopolitical relationships between Arab oil producers and the US, and the

¹⁹² B. Momani. *Gulf Cooperation Council Oil Exporters and The Future of the Dollar*. New Political Economy, 13(3), pp.293-314. 2008. p, 297

¹⁹³ B. Gökyay. and D. Whitman. *Ghost Dance: The US and Illusions of Power in the 21st century*. Alternatives: Turkish Journal of International Relations, 3(4), 2004. p.77

¹⁹⁴ M. A. Tétreault. *The Political Economy of Middle Eastern Oil. Understanding the Contemporary Middle East/Boulder, CO: Lynne Rienner*, pp.255-79. 2008. p.8

¹⁹⁵ Ibid p. 9

¹⁹⁶ L. Ilie. *Economic Considerations Regarding the First Oil Shock, 1973-1974*. 2006. p.1

strategic relationship of the US with Israel, are all intricate relationships, which are influenced by geopolitical objectives. Arab states had little more than the oil weapon to advance their interests. While oil is a critical industrial commodity, the limits of its effectiveness as a weapon were demonstrated by the embargo. Its only power was its ability to constrain supply, thus forcing up the price, and the effectiveness of the embargo lay in the ability of the price rise to inflict severe economic pain on consuming nations, chiefly the US. US oil companies merely transferred oil from non-Arab producers between themselves so that while Arab oil did not go to the US, oil from other exporting nations did, thus reducing the effectiveness of the embargo.¹⁹⁷ The United States' relationship with Israel complicates its ability to deal credibly with Arab oil producers. The US is treaty bound to defend Israel and simultaneously treaty bound to defend a multitude of Arab nations, which were in the 1970s hostile to Israel. Ensuring Israeli security has long been a critical objective for successive US administrations.¹⁹⁸ The 1973 oil embargo came at a time when oil production in the US had reached its peak in 1972 and then begun to decline, making foreign oil supplies to the US more critical than ever:

Although there proved to be abundant supplies available in the Middle East to replace declining U.S. production, the transition from a world petroleum market centred in the Gulf of Mexico to one centred in the Persian Gulf did not occur smoothly.¹⁹⁹

The 1973 war had little effect on US influence in the region. The oil weapon 'was a blunt instrument'. The problem with the oil weapon is that it is 'harms friends and foes alike' thus

¹⁹⁷ Ibid p.9

¹⁹⁸ Z. M. Khalilzad, D. A. Shlapak, D.A. and D. L. Byman. *The Implications of the Possible End of the Arab-Israeli Conflict for Gulf Security* (No. RAND-MR-822-AF). RAND CORP SANTA MONICA CA. 1997.p. xv

¹⁹⁹ R. E. Parker and R. M. Whaples. *Routledge handbook of major events in economic history*. Routledge. 2013. p. 13

reducing the tactic's effectiveness.²⁰⁰ The oil embargo of 1973 was largely ineffective at securing Arab demands because oil is traded as a commodity that is in global demand and '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'.²⁰¹ The use of the oil weapon also 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.²⁰²

The US was still the primary hegemon in the Middle East. However, the oil embargo was felt in the US, with long lines at petrol stations a direct result. The US also introduced oil saving measures. Several domestic policy changes in the US did occur because of the embargo such as President Nixon introducing a 55 mph speed limit on US highways as well as other measures designed to reduce oil consumption.²⁰³ Despite these changes, US dollar hegemony was still in place. Dollar hegemony is based on the trading of oil in dollars, and because Arab states did not the move oil trade into another currency, petrodollar hegemony was not critically affected.

The period from 1955 to 1974 was a transformative one for US hegemony. This chapter has sought to establish some of the most important international influences during this period, and

²⁰⁰ R. Mabro. *On The Security of Oil Supplies, Oil Weapons, Oil Nationalism and All That*. OPEC Energy Review, 32(1), 2008. p.2

²⁰¹ J. C. Nkomo. *Crude Oil Price Hikes and Issues for Energy Security for Southern Africa*. *Journal of Energy in Southern Africa*, 21(2), 2010. p, 15

²⁰² M. Hudson. To play the hegemon: Fifty years of US policy toward the Middle East. *The Middle East Journal*, 1996. p. 333

²⁰³ S. Horton. "The 1973 oil crisis." *WWW document: Available at: <http://www.envirothonpa.org/documents/The1973OilCrisis.pdf>*. Date visited 23 (2009). p.2

to describe how the US remained in a dominant international position despite the inherent problems of the Bretton Woods agreement. US hegemony itself did not merely change the way in which it was structured internationally. Despite some enormous challenges in the form of large deficits, the US proved to be very versatile in how it organised the financial underpinnings of its hegemony. In the immediate post-World War Two period, the international financial structure that supports US hegemony was shown to be fragile. The inherent problems of the Bretton Woods system came into immediate focus. These problems revolved around US spending on international commitments, particularly NATO.²⁰⁴ While the US economy was dominant internationally, the financial arrangements, which underpinned gold-dollar convertibility, revealed through French and British actions to be less than secure and in the long term unsustainable. As US deficits kept climbing into the 1960s, the convertibility of dollars into gold became problematic. The problem revolved around the Bretton Woods gold price of US\$35 an ounce.

As US deficits kept rising the foreign holdings of US treasury securities far outstripped the amount of gold required to support these securities. The US was relying on holders of its securities to subsidise the US economy by continuing to accumulate US treasury bonds and not demand gold in return. When it appeared the French and British might demand gold, the US responded by saying, 'this would be considered an unfriendly act'.²⁰⁵ The subtext of this attitude was that the US did not have the required gold reserves and was not inclined to revalue gold upwards, thus reducing the value of US securities relative to gold. What this

²⁰⁴ F. J. Gavin. *Gold, Dollars, and Power : The Politics of International Monetary Relations, 1958-1971*. New Cold War History. Chapel Hill: University of North Carolina Press. 2003.

²⁰⁵ M. Trachtenberg. *The Cold War and After: History, Theory, and the Logic of International Politics*. Princeton University Press, 2012. p. 189.

reveals is that the fundamental problem of managing inflation had not been addressed by the Bretton Woods agreement. What the Bretton Woods agreement seems to have done is export US inflation to holders of US securities, while these nations were required produce real value to purchase those securities, hence de Gaulle's indignation at this arrangement. Gold dollar convertibility proved to be unsuitable for the United States given its global hegemonic ambitions in the post-World War Two period. A nation with no hegemonic ambitions may have been able to make this system sustainable, but that topic is beyond the scope of this thesis. The importance of the Suez Crisis from the perspective of dollar hegemony lies in the US's ability to pressure its British ally into accepting a political outcome that it did not believe was conducive to its interests.²⁰⁶ The US tactic of blocking British attempts at the IMF to seek relief for the Pound was a practical demonstration of US financial hegemony at work, and it was made possible by US dominance at the IMF. By far the most critical and long lasting practical example of US hegemony from this period is the petrodollar phenomenon. This arrangement, established in 1974, made US hegemony contingent on oil trading in dollars. This was a source of considerable power for the US. It meant that nations had to acquire dollars in order to purchase oil, and this underpinned US hegemony by creating a demand for dollars independent of the gold standard. The US dollar was de facto backed by Saudi Arabian oil and the exclusive sale of this oil in dollars.

²⁰⁶ R.W. Louis and O. Roger. *Suez 1956: The Crisis and its Consequences*. Oxford University Press on Demand, 1989. p. 11.

Chapter 5: Relative decline of US hegemony.

5.1 Introduction

This chapter is centred on the political economy of key events that affected the reserve status of the US dollar from the 1970s up until the Global Financial Crisis (GFC). The purpose of this chapter is to explain how trends established from the mid-1970s onwards have affected the ability of the United States to maintain hegemony. Momentous events in world history occurred during this period. The USSR collapsed, China integrated itself into the global capitalist economy and the Euro currency came into existence. By dawn of the 21st century, the world system had begun to fracture and new spheres of influence had emerged. The immediate post-World War Two international landscape had all but disappeared.²⁰⁷ The only legacy of the Bretton Woods agreement was that the dollar remained the world's reserve currency, even though the global share of trade conducted with the dollar had declined. To the United States' geo-strategic competitors, it was apparent that the US dollar and its reserve status was a weak spot that they could attempt to exploit to their geopolitical advantage. However, achieving this has proven to be a difficult task. Nevertheless, while the US dollar continued in its reserve capacity, the period studied in this chapter gave rise to the biggest challenges that US hegemony has faced.

In their different ways, the foreign policies of the Carter and Reagan administrations tried to restore the United States to its immediate post-war power. Since the Carter administration particularly, the United States has been in a reactionary mode aimed at stemming a loss of hegemony. The loss of the war in Vietnam, the wave of uprisings and the spread of 'liberation

²⁰⁷ National Intelligence Council NIC, US. Global Trends. "2030: *Alternative Worlds*. National Intelligence Council." *Global Trends* 2030. 2012.

ideology' in the Third World shook the confidence of the United States.²⁰⁸ Many of the figures in the Reagan administration later held leading positions in the George W Bush administration.²⁰⁹ Their desire to restore American primacy drove them to adopt extreme measures. However, the results of their policies only sped up the decline of hegemony.²¹⁰

During the Reagan administration, the policies of the new Federal Reserve chairman Paul Volker came to play an important role in the debt crisis in Latin America and Africa.²¹¹ The 'Volcker shock' as it has been named, was an attempt to re-establish the hegemony of the United States by breaking economically Third World liberation movements. At the end of the Carter administration, Volker played a decisive role in shoring up the dollar as the world's reserve currency. By raising interest rates to record levels, the US forced capital to rush out of emerging markets and into the US financial system. This had the effect of boosting demand for dollars and created economic and financial difficulties for significant parts of the world.²¹²

In the late 1970s, China began to undergo capitalist transformation under the leadership of Deng Xiaoping.²¹³ This change would, in time, increasingly integrate China into the capitalist world economy, resulting in a profound diminution of US hegemony. By the beginning of the 21st century, China had arisen as a separate pole of geo-strategic power. In 1989, the Soviet Union collapsed and by 1991, the Russian Federation was established. The collapse of the USSR as an ideological enemy and military counterweight to the United States led some

²⁰⁸ I. Wallerstein, *The Curve of American Power*. *New Left Review* 40. 2006. p77-94.

²⁰⁹ Ibid p.14.

²¹⁰ Ibid p. 15-17

²¹¹ J. A. Ocampo. *The Latin American Debt Crisis in Historical Perspective*. In *Life After Debt* (pp. 87-115). Palgrave Macmillan UK. 2014.

²¹² K. H. Rasmussen. *The Forgotten Generation: A Debate Concerning and the Debt Crisis*, (Copenhagen: Danish UNICEF Committee). 1987

²¹³ M. E. Martin. *China and the Legacy of Deng Xiaoping: From Communist Revolution to Capitalist Evolution*. Potomac Books, Inc. 2002.

commentators to declare ‘the end of history’ had been reached.²¹⁴ Like China, Russia represented a separate pole of geo-strategic power outside of the political control of Washington. The relevance of these two actors in the world system lies in their ability to act independently of the US. They also have sufficiently large economic bases to enable their own currencies to be used for bilateral trade, bypassing the dollar.²¹⁵

There is debate about whether the Euro could displace the dollar and its role as the world’s reserve currency.²¹⁶ Iraqi president Saddam Hussein, for example, used the Euro to settle oil payments prior to the 2003 invasion.²¹⁷ However, given the recent political and economic instability in the European Union it appears unlikely that the Euro will rival the dollar in any serious way.²¹⁸ The emergence of the BRICS nations (Brazil, Russia, India, China and South Africa) demonstrates not only the multi-polarity of the world system but also its fracturing. This chapter studies the emergence of this fractured, multi-polar world system from 2001 to the Global Financial Crisis (GFC), which began in 2008. How these nations respond to the dollar and its reserve status could have grave consequences for US hegemony.

5.2 Neoliberalism

The neoliberal ideology and its implementation have had a profound effect on the way that the US economy has functioned since it first came to dominate US financial policy. A close relationship was formed between the proponents of neoliberalism and the US government.

²¹⁴ F. Fukuyama. 1989. *The End of History?*. The National interest, (16), 1989. pp.3-18.

²¹⁵ C. Aizhu. ‘Russia, China Agree to Settle More Trade in Yuan and Rouble’, Reuters, Tue 9 Sep 2014 <http://www.reuters.com/article/us-china-russia-idUSKBN0H40X020140909> accessed 1 June, 9, 2014.

²¹⁶ M. Chinn. and J. A. Frankel. ‘Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency?’ In *G7 Current Account Imbalances: Sustainability and Adjustment* 2007 (pp. 283-338). University of Chicago Press.

²¹⁷ W. R. Clark. *Petrodollar warfare: oil, Iraq and the future of the dollar*. New Society Publishers, 2005 .p. xvii.

²¹⁸ B. Eichengreen, 2010. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. Oxford University Press, p. 130.

These proponents included Milton Friedman, Arthur Laffer and Robert Lucas.²¹⁹ The United States government had funded the right-wing economic research of Chilean economists at the Chicago School since the 1950s to counter leftist politics in Latin America.²²⁰ Its creators saw the ideology itself as the best way of securing individual liberty and economic prosperity for society. The origins of neoliberalism date back to the 1950s and the work of Friedrich von Hayek, and its opportunity to dominate public policy were born out of the inflation crisis of the 1970s.²²¹ The ideology lingered on the margins of economic thought from the 1950s to the early 1970s, and its rise to dominance required particular economic circumstances and the support of particular political regimes.

In the 1970s, inflation became an increasingly large problem for the United States. The inflation of the dollar was caused by the Nixon-Saudi decision to trade oil exclusively in dollars. The result was that on the global market, the price of oil rose 400%. When these enormous capital flows were deposited into American and European banks, inflation became a central issue for economic policy makers.²²² Keynesian economic theory seemed to have no answers to the inflation/stagflation problems of the 1970s.²²³ The post-World War Two era, which had benefited Western capital, lasted from approximately 1945 until 1971. By the 1970s, the unique historical circumstances, which had led to consistently high growth rates in the Western world, had broken down. Harvey (2005) argues that by the 1960s, the liberalism of the period immediately after the war that had given rise to high post-war growth rates was no longer

²¹⁹ D. Harvey. *A Brief History of Neoliberalism*. Oxford: Oxford University Press, p. 54. 2005.

²²⁰ M. Fourcade-Gourinchas and S. L. Babb. The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries1. *American Journal of Sociology*, 108(3), pp.533-579. 2002.

²²¹ M. A. Centeno and J. N. Cohen. The arc of neoliberalism. *Annual Review of Sociology*, 38, pp.317-340. 2012.

²²² M. Golan. The secret conversations of Henry Kissinger: step-by-step diplomacy in the Middle East (p. 216). Quadrangle/New York Times Book Company. 1976.

²²³ M. Hayes. *The Economics of Keynes: A new guide to the General Theory*. Edward Elgar Publishing. 2008

working.²²⁴ It caused increasing unemployment and stagflation through a fall in consumer demand, combined with an increase in the money supply generated by oil trading carried out exclusively in dollars.

5.3 The Federal Reserve

The world system began to fracture in the 1970s because of Third World nations attempting to achieve a more equitable set of economic circumstances for themselves.²²⁵ United States foreign policy found itself on the defensive in the 1970s. With the election of Salvador Allende in Chile in 1973, the 1978 Islamic revolution in Iran, and a wave of decolonisation throughout the developing world, the US-centric world financial system was under threat from foreign nations and movements that sought greater independence from the US.²²⁶ In attempting to push back against this movement, the Carter and Reagan administrations adopted financially punitive approaches. The Federal Reserve moved to the forefront of economic planning and the recovery of US economic prospects in the 1980s. The US industrial base was in decline due to Germany and Japan emerging as competitors to the US by the late 1960s, and their competition increased in the 1980s. With the large amounts of capital moving into the United States banking system, a large increase in stock market prices occurred. In light of the declining US industrial base, it is possible to see how the US economy shifted from manufacturing and a focus on maintaining full employment to asset price speculation. This was made possible by the dollar's separation from its gold backing in 1971. With the ability to issue dollars at a limitless

²²⁴ D. Harvey. *A Brief History of Neoliberalism*. OUP Oxford. 2008. Pg.12.

²²⁵ W. I. Robinson. *Promoting Polyarchy: Globalization, US Intervention, and Hegemony* (Vol. 48). Cambridge University Press. 1996.

²²⁶ D. McNally. *Global slump: The Economics and Politics of Crisis and Resistance*. PM Press. 2011. P.27

rate, the United States was able to revive its economy, if only on the back of asset price speculation.²²⁷ This was achieved primarily by raising interest rates to 20% a move which was intended to reduce the independence of nations seeking economic autonomy. This was ‘the Volcker Shock’. Raising rates to this level caused vast amounts of international capital to pour into the US, thus propping up the US bond market and dollar. Conversely, it weakened and ultimately broke many Third World independence movements.²²⁸

In a global context, Volcker had converted the Federal Reserve into a geo-strategic institution aimed at preserving American hegemony, rather than a reserve bank tasked with fighting inflation and sustaining full employment. Engdahl (2009) argues that Paul Volcker was appointed Federal Reserve chairman to preserve the role of the dollar as world’s reserve currency. Characterising this move in class terms, Engdahl (2009) explained how Volcker was sent to Washington to safeguard the dollar as the world’s reserve currency for the benefit of major US bondholders.²²⁹ Having formerly been a banker at Chase Manhattan working for David Rockefeller, Volcker redefined the function of the Federal Reserve from an institution whose mandate was to maintain full employment to an institution that reinforced class division in American society and rolled back many progressive gains made by workers. Primarily, the Federal Reserve under Volker had maintained the US dollar and its world reserve function, which was ‘the key to American financial power’.²³⁰

²²⁷ L. E. Mitchell. *The Speculation Economy: How Finance Triumphed Over Industry*. Berrett-Koehler Publishers. 2008.

²²⁸ F. W. Engdahl. *Gods of Money: Wall Street and the Death of the American Century*. Progressive Press. 2011. p. 288

²²⁹ Ibid, 2011. p. 287

²³⁰ Ibid P. 287

When considered in strategic terms, it can be seen that ‘the Volcker Shock’ restored US hegemony and recentralised the world economy around the US dollar and its reserve status. As Hudson (2005) demonstrated, the world was fracturing along political lines, driven by inequitable economic and financial arrangements of the West, meaning primarily the US.²³¹ While this may seem to indicate that US hegemony was in decline, Strange (1987) argues that it was actually a demonstration of US strength. The US could abandon the gold standard and still its currency retained the global reserve function.²³² Positing this advantage as a structural form of global power, Strange explains that the US had the ability to control the supply and availability of the world’s credit. Furthermore, Strange argues the traditional indicators of national wealth such as gold were no longer relevant because the US was the only nation that could issue dollars and an overwhelming amount of world trade is conducted in dollars. With this in mind, traditional reserves become unimportant when dollars can be produced at will by the United States.²³³ Strange (1987) describes this as moving from an ‘exorbitant privilege’ to a ‘super exorbitant privilege’.²³⁴ Strange’s conclusions concerning the dollar echo those of the former French Finance Minister Valéry Giscard d'Estaing who argued that the dollar and its reserve status represented an ‘exorbitant privilege’ for the US. D'Estaing was indignant; he believed that the US economy and standard of living were being subsidised by foreign nations.²³⁵ However, d’Estaing’s statement was made in the 1960s prior to the abandonment of

²³¹ M. Hudson. *Global Fracture: The New International Economic Order*. Pluto Pr. 2005.

²³² R. O. Keohane. *After Hegemony: Cooperation and Discord in The World Political Economy*. Princeton University Press. 2005.

²³³ S. Strange. *The Persistent Myth of Lost Hegemony*. International organization, 41(04), pp.551-574. 1987. p.568

²³⁴ Ibid, p.569.

²³⁵ B. Eichengreen. *Dollar Dilemma-The World's Top Currency Faces Competition*, The. *Foreign Aff.*, 88, 2009. p.55

the gold standard.²³⁶ Strange's (1987) characterisation of 'super exorbitant privilege' offers an insight into the durability of the US dollar and the organisation of world finance around the dollar. The dollar is essentially the axle around which the world economy revolves. Although foreign nations may be unhappy with this arrangement as d'Estaing's statement attests, there is little they can do short of trying to create an entirely new economic and financial system.

Another important factor arises out of an examination of the dollar's 'super exorbitant privilege' status: To maintain the dollar's unique status, the US must supply the world with the dollars that are required to maintain dollar hegemony. After 1971, the US dollar was produced by fiat. It essentially became a debt instrument used to consume the surpluses of foreign nations. While this was the cause of d'Estaing's complaint in the 1960s, the post-1971 era of the dollar makes this fiat aspect critical to understanding how US hegemony was maintained in the operations of international financial markets. Although the US Treasury issues bonds, they are sold through primary dealers. The primary dealers are major US banks that sell these government bonds all over the world. It is this depth and reach of the US financial system that makes it the most liquid in the world, and this is why, in times of crisis the dollar is often described as a 'safe harbour' for international investors, further offering strength to the dollar and its reserve currency status.²³⁷ Private banks offer the US the ability to project its hegemony globally, even when other sectors of the economy are declining. Alan Greenspan succeeded Paul Volcker as chairman of the Federal Reserve on 11 August 1987. Greenspan's tenure as

²³⁶ B. Eichengreen. *Exorbitant Privilege: The Rise and Fall of The Dollar and the Future of the International Monetary System*. Oxford University Press. 2011. P.4.

²³⁷ P. O. Gourinchas. February. *US Monetary Policy, 'Imbalances' and the Financial Crisis*. In Remarks prepared for the Financial Crisis Inquiry Commission Forum, Washington DC. 2010. p.6

chairman was marked by financial crashes and economic and financial instability.²³⁸ The deregulation drive started by Volcker was continued and expanded by Greenspan. Hera (2012) argues that Greenspan had a negative effect on confidence in the dollar. Greenspan continually cut interest rates and this facilitated a large expansion of debt and a large increase in the money supply.²³⁹ The massive increase in the money supply through low interest rates reduced the value of other countries' dollar-based assets, particularly US treasury bonds, which are the assets most sensitive to movements in US interest rates. In effect, the US was exporting its inflation to the rest of the world, just as Charles de Gaulle had complained decades earlier.²⁴⁰

5.4 The Euro

In the 1980s and until the mid-1990s, there existed no significant alternative to the dollar. When the Euro currency emerged in the late 1990s, it was widely speculated that a potential challenger may have emerged to the dollar. Eichengreen (2011) argues that there is no reason why multiple reserve currencies could not exist together as they had in the past. However, unlike the US, Europe did not have a centralised political leadership and so it was unlikely that the Euro could rival the dollar in any serious capacity, particularly in a time of crisis.²⁴¹ In hindsight, it is clear that the Euro could never significantly replace the dollar in a global reserve function. We can attribute this to the acute political and economic instability the Eurozone is now experiencing. However, the Euro was used by the government of Saddam Hussein to trade in Iraqi oil before the 2003 Iraq invasion.²⁴² Clark (2005) contends that this was a significant

²³⁸ F. W. Engdahl. *Gods of Money: Wall Street and the Death of the American Century*. Progressive Press 2011. p. 304

²³⁹ R. Hera. *The War at the End of the Dollar*, Hera Research. 2012.

²⁴⁰ B. Eichengreen. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. Oxford University Press. 2010 .p.4

³⁷ *ibid.* p.7

²⁴² W. R. Clark. *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar*. New Society Publishers, 2005.

motivating factor for the American-led invasion.²⁴³ However, another factor should be considered when examining why the US might allow a potential challenger to the dollar. To understand why the US allowed the Euro to take a high profile on world currency markets from 2000 until the GFC it is necessary to emphasise the extent to which the European and American economies are co-dependent.

The extent to which the capital markets of the US, Europe are interconnected and co-dependent is a critical consideration. Rickards (2011) argues that one of the main reasons that the US allowed the Euro to appreciate relative to its own currency was because the Eurozone represented an especially large market for US manufactured and agricultural goods. Rickards states, 'A strong Euro keeps up the European appetite for US machines, aircraft, pharmaceuticals, software, agricultural produce, and a variety of goods and services that the US has to offer'.²⁴⁴ Rickards (2011) explains how a strong Euro was beneficial to the US because when the Euro appreciated relative to the dollar, the US was able to export more goods and services to the Eurozone because the dollar was cheaper and this enabled European consumers to consume more US goods. Competitive devaluation of the US dollar relative to the Euro was simply a policy designed to stimulate US exports. Hubner (2007), like Rickards, argues that the US government allowed the appreciation of the Euro relative to the dollar due to the expanding trade deficit of the US. As Hubner (2007) concludes, "the rise of the Euro towards the US dollar is the outcome of a deliberate strategy by the United States to deal with its rising trade balance

²⁴³ Ibid, P.29

²⁴⁴ J. Rickards. *Currency Wars*. New York: Portfolio Penguin. 2011. p.118

deficit and the explosion of the deficit in its current account".²⁴⁵ Cohen (2011) presents an alternative view, arguing that the US would tolerate the emergence of the EU (and by association the Euro), provided that it did not interfere with US designs at a geopolitical level:

But none of this will trigger geopolitical conflict with Washington unless the EU's aspirations begin to spread beyond its immediate neighbourhood to regions more traditionally aligned with the US. The safest bet is that the Europeans will act with restraint to avoid direct confrontation with the US. Arguably, only in the Middle East is there serious risk of significant risk of serious tension²⁴⁶

Both Hubner and Rickards (2007) view currencies as tools of geo-strategic positioning which states use to compete to gain economic and geo-political advantage.²⁴⁷

5.5 BRICS

A critical development that has seen the world system move away from its Bretton Woods orientation is the emergence of the so called 'BRICS' nations. The group is made up of Brazil, Russia, India and China with the addition of South Africa in 2010. The name 'BRIC' was coined by the chairman of Goldman Sachs asset management, Jim O'Neil in 2001. The term was intended to give prominence to these emerging market economies which, it was projected, would have a significant impact on world trade and global growth.

²⁴⁵ K. Hubner. *Euro Dollar Puzzles* in J. Roy and P. Gomis-Porqueras. eds. *Euro and the Dollar in a Globalized Economy*. Ashgate Publishing, Ltd. 2007. p.32

²⁴⁶ Ibid 48

²⁴⁷ J. Rickards. *Currency Wars*. New York: Portfolio Penguin. 2011. p37, K. Huber. *Euro Dollar Puzzles* in J. Roy and P. Gomis-Porqueras. eds. *Euro and the Dollar in a Globalized Economy*. Ashgate Publishing, Ltd. 2007.

Purushothaman and Wilson (2003) projected that the combined economic output of the BRICS would surpass that of the G6 by 2050, 'if everything went right'.²⁴⁸ O'Neil argued that the G7 framework 'should be adjusted to incorporate BRICS representatives'.²⁴⁹ O'Neil's assessment is important in two ways. Firstly, these nations were some of the fastest developing economies of the global south, with purchasing power parity (PPP) for the BRIC nations at the end of 2000 being 23.3% of world GDP.²⁵⁰ Secondly, these nations represented the emergence of a multi-polar world system that challenged notions of United States hegemony. Whether or not they will become a serious challenge to US hegemony is still a matter of speculation.²⁵¹

The economic growth of these countries is what links them together. By 2000, their combined growth rate exceeded that of the G7.²⁵² Of critical importance, for this difference in growth rates is that these economies were rapidly industrialising (with the exception of Russia) and exporting large quantities of manufactured goods and raw materials. Russia, like South Africa, is a virtual rentier economy. It is almost totally reliant upon its exports of oil and natural gas. Furthermore, the BRICS nations received large amounts of foreign investment from the West. Whereas Western economies were more mature and had already been through the industrial phase of development, these nations were able to import large amounts of Western machinery and technology to help achieve in decades a level of development that had taken the West significantly longer.

²⁴⁸ D. Wilson and R. Purushothaman. *Dreaming with BRICs: The path to 2050* (Vol. 99). Goldman, Sachs & Company. 2003. p.2.

²⁴⁹ J. O'Neil. "Building Better Global Economic BRICs. 2001." Goldman Sachs, Global Economics Paper 66 2013.

p. 1.

²⁵⁰ *ibid*

²⁵¹ C. Layne. *The waning of US hegemony—Myth or Reality?* A review essay. *International Security*, 34(1), 2009. pp.147-172.

²⁵² J. O'Neil. "Building Better Global Economic BRICs. 2001." Goldman Sachs, Global Economics Paper 66 (2013).

There are important dissimilarities between the BRICS countries. Some of them have little reason to be allies if the past tensions between Russia and China and those of the present between China and India, are any indication. Since the collapse of the USSR, Russia and China have experienced increasing border tensions. This tension was particularly pronounced between 2005 and 2010. China failed to support Russia's response in the brief Georgian conflict in 2008. Furthermore, Russia has feared the increasing 'Sinofication' of its Far East.²⁵³ Tensions between China and India have occurred due to their Himalayan border and its length, with both nations taking tit-for-tat actions.²⁵⁴ Their economies and political systems differ greatly. China is the only single party state among the BRICS nations. The BRICS nations share no cultural and historical heritage in common, unlike Western countries. Within the BRICS grouping only China, Russia and India share borders. There are critical geo-strategic motives, which are critical to the operation of the BRICS bloc. The most important feature of the BRICS is their rapid economic growth, and due to this the possible dilution of a US-centric world system. These nations exercise more independent nationalism than do traditional US partners.

China is arguably the most important member of the BRICS and requires specific analysis. The most dynamic development in the world economy over the last 30 years has been China's integration into the global capitalist economy. Its integration began tentatively with a series of meetings between US officials and the Chinese government between 1971 and 1974. Henry Kissinger was sent by President Nixon to engage the Chinese in diplomatic talks on an issue of mutual concern, the USSR. Its brief border conflict with the USSR in 1969 led China to put aside

²⁵³ M. Haas. *Russian-Chinese Security Relations: Moscow's Threat from the East?*. Clingendael, Netherlands Institute of International Relations. 2013

²⁵⁴ H. Zhang. and M. Li. *Sino-Indian border disputes*. Analysis, (181). 2013.

ideological differences and pursue a more pragmatic approach towards the US. In its resumption of diplomatic relations with China, the principal objective of the US was to isolate the USSR by engaging China diplomatically in a so-called 'triangular relationship'.²⁵⁵ This relationship was characterised, for example, by the US 'playing the Soviet card' against China as a diplomatic strategy, before the USSR could play 'the China card' in its relationship with the US.²⁵⁶ At this time, Chinese and American relations were characterised by their mutual antagonism towards the USSR. This US-China rapprochement allowed China to open itself to Western investment and to begin its steady integration into US world system.²⁵⁷

From 1974 to 2007, the Chinese gross national product increased from US\$142 billion to approximately US\$3.5 trillion.²⁵⁸ The expansion of the Chinese economy in this period raised China's prominence in the global economy to extraordinary heights. The most important transformation to emerge from China's rapid economic development was its geo-strategic competition with the US. One of the most critical developments arising from this competition was the creation of the Shanghai Cooperation Organisation (SCO) in 2001.²⁵⁹ The SCO had six founding members, China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. This alliance has the potential to reduce the influence of the US in central Asia. This is due to the current political trajectory of the region. The influence of Russia and China particularly are of concern to US planners. The political systems and the increasing reach of these two nations

²⁵⁵ E. Goh. *Nixon, Kissinger, and the "Soviet Card" in the US Opening to China, 1971–1974*. Diplomatic history, 29(3), pp.475-502. 2005. p. 476

²⁵⁶ *ibid*

²⁵⁷ E. Economy. *China Joins the World: Progress and Prospects*. Council on Foreign Relations. 1999.

²⁵⁸ China Statistical Yearbook. *Purchasing Power Parity (PPP) for Chinese Yuan* is estimate according to [IMF WEO \(October 06, 2015\)](#) data; Exchange rate of CN ¥ to US\$ is according to State Administration of Foreign Exchange. 2015.

²⁵⁹ M. De Haas and F. P. van der Putten. *The Shanghai Cooperation Organisation*. 2007.

represent major political challenges to US power in Central Asia.²⁶⁰ The SCO had evolved from the earlier Shanghai Five grouping²⁶¹ and it encompasses most of the Eurasian landmass. The central Asian nations of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, combined with Russia, possess vast reserves of gas and oil.²⁶² The SCO represents a loose coalescence of interests in Central Asia. The presence of this organisation in such a critical region has vast implications for how US hegemony in the region will be maintained, if at all. Zbigniew Brzezinski's critical study, *The Grand Chessboard* (1998) gives ideological and theoretical insight into US motives and views in the Eurasian region. Brzezinski states:

For America, the chief geopolitical prize is Eurasia. For half a millennium, world affairs were dominated by Eurasian powers and peoples who fought with one another for regional domination and reached out for global power. Now a non-Eurasian power is preeminent in Eurasia—and America's global primacy is directly dependent on how long and how effectively its preponderance on the Eurasian continent is sustained.²⁶³

The SCO and its attitude to the dollar are also of critical importance. China and Russia are the major strategic competitors of the US in the Central Asian region.²⁶⁴ Moreover, China is the region's biggest consumer of oil and Russia is its biggest producer. They have already

²⁶⁰ E. Rumer, R. Sokolsky, and P. Stronski. *US Policy Toward Central Asia 3.0*. Vol. 25. Carnegie Endowment for International Peace. Last modified January 2016. 2016

²⁶¹ M. De Haas and F. P. van der Putten. *The Shanghai Cooperation Organisation*. 2007 P.7

²⁶² U. Javaid and A. Rashid. *Oil and Gas Potentials of Central Asian Republics and Relations with Pakistan*. South Asian Studies, 30(1), p.127. 2015. p.132.

²⁶³ B. Brzezinski. *The grand chessboard: American Primacy and its Geostrategic Imperatives*. Basic Books. 1998. p.30

²⁶⁴ E. Rumer, R. Sokolsky, and P. Stronski. *US Policy Toward Central Asia 3.0*. Vol. 25. Carnegie Endowment for International Peace. Last modified January 2016. 2016.

expressed their intentions to move away from the dollar.²⁶⁵ The SCO could provide another multilateral forum for these nations to build cooperation and expand their hegemony in this region.

5.6 The collapse of the USSR and the emergence of rouble nationalism

The collapse of the Soviet Union was one of the most pivotal moments of the twentieth century. When the USSR imploded in 1991, it was argued by Francis Fukuyama that the 'end of history' had come and that liberal democracy and market economics had won the ideological battle between communism and capitalist liberalism.²⁶⁶ When the USSR ceased to exist, the last impediment to US global hegemony ended and an era of unipolarity was declared.²⁶⁷

Unipolarity can be defined by the lack of a significant geo-strategic competitor to the US.²⁶⁸ The bipolar world that was characterised by the Cold War had ceased to exist and the United States appeared to be at the zenith of its power, politically, economically, militarily and culturally.²⁶⁹

At the beginning of the Cold War, the USSR was seen as a threat by the US and Western Europe. As communism spread throughout the world, the US grew concerned at this new threat.²⁷⁰ This view prevented Western European self-determination and ensured the region would be a critical area within the US hegemonic orbit. Evan Ambrose-Pritchard demonstrates how the EU

²⁶⁵ T. Durden. The Demise of Dollar Hegemony: Russia Breaks Wall St's Oil-Price Monopoly, Zerohedge, accessed 25 May, 1 December 2016. <http://www.zerohedge.com/news/2016-01-12/demise-dollar-hegemony-russia-breaks-wall-sts-oil-price-monopoly>. 2016.

²⁶⁶ F. Fukuyama. *The end of history?*. The National Interest, (16), pp.3-18. 1989.

²⁶⁷ C. Krauthammer. "The Unipolar Moment." Foreign affairs 70.1, 23-33. 1990.

²⁶⁸ *ibid*

²⁶⁹ M. Beeson. *The Rise of the "Neocons" and the Evolution of American Foreign Policy*. 2009. p.1

²⁷⁰ Foreign Relations of the United States, Vol. 1. "U.S. Objectives with Respect to the USSR to Counter Soviet Threats to U.S. Security", (Washington, D.C.: Government Printing Office, Department of State, 1948), pp. 663-669

was a US-led project from the beginning. The US has since the 1940s pursued a policy of European integration aimed at making this vital sphere easier to control.²⁷¹

However, Russia still existed as a separate pole of geo-strategic power. The Russian Federation came into existence in 1991 after the dissolution of the USSR. The Russian Federation owes its existence to the failure of the coup led by Gennady Yanayev, who was unable to gain enough support to roll back the policies of glasnost and perestroika. Emboldened by the failure of the coup, Yeltsin had the Supreme Soviet adopt a document that gave precedence to Russian law rather than Soviet law.²⁷² There were no transnational institutions to bind Russia to the hegemony of the United States, such as the European Union or NATO. While both Russia and the United States had experienced a loss of hegemony, in the 1990s the US dollar still remained as world's reserve currency. The collapse of the USSR had no effect on the underlying dollar-centric structures that gave rise to US hegemony. While the Cold War that existed from 1917 to 1991 ended, geo-strategic competition continued between the US and Russia, with the US expanding eastward in violation of an agreement made between Mikhail Gorbachev and Ronald Regan.²⁷³

The accession of Vladimir Putin to the Russian presidency in 1999 initiated the reorientation of Russian policy away from the Yeltsin era. Putin's economic policies put an end to the shock

²⁷¹ Sputnik. *Another Reason for Brexit: EU 'Was a CIA Project from the Beginning'*, Sputnik, accessed 14 June, 1 June 2016, <http://sputniknews.com/europe/20160501/1038913349/brexit-european-union-cia-project-analysis.html>

²⁷² CVCE. *From Soviet Federalism to the Creation of the Commonwealth of Independent States* (CIS) accessed 14 June, 13, September 2012, http://www.cvce.eu/content/publication/2008/9/4/caa796f9-24f0-4e25-98da-4e98b20f18c8/publishable_en.pdf

²⁷³ A. C. Lynch. *Putin Succession and Russian Foreign Policy*, The. Brown J. World Aff., 14, 2008. p. 61

therapy enacted earlier in the decade by acting Prime Minister Yegor Gaidar.²⁷⁴ While relations did not return to the overt hostility of the Cold War era, Russia was nevertheless viewed by Washington as a strategic rival. This was the period of the Cold Peace between the US and Russia. However, Russia continued its purchases of US treasury securities, demonstrating the strength and influence of the dollar. Russia has come to be one of the most 'dollarized countries in the world'.²⁷⁵ In the 1980s and 1990s Russians preferred US dollars to their domestic currency due to the economic hardships they endured, first as a result of the collapse of the USSR and then as a result of 'shock therapy' of the 1990s. Through the strong global price of oil and gas, by 2004 Russia held \$73 billion in foreign reserves, 70% of which were denominated in US dollars.²⁷⁶ By 2008, Russia had accumulated \$384 billion of foreign reserves with up to \$160 billion denominated in US dollars.²⁷⁷

The Russian central bank has had a policy of supporting the US dollar even though there is not a large amount of trade between the US and Russia. The large holdings of US dollars in Russia's reserves are due to the price boom in petro carbons and the fact that the US dollar is the primary currency in this trade. This financial position dates back to the nineties when the USSR collapsed and Russia underwent market reforms.²⁷⁸ In 2006, Russia's attitude towards the dollar began to change. Johnson (2008) argues that there are three currents in Russian politics that have prompted moves away from the dollar. Firstly, frustrated with US foreign policy,

²⁷⁴ P. Desai. *Russian Retrospectives on Reforms from Yeltsin to Putin*. The Journal of Economic Perspectives, 19(1), pp.87-106. 2005. p.88

²⁷⁵ E. Helleiner. *Political Determinants of International Currencies: What Future for the US Dollar?*. Review of international political economy, 15(3), pp. 354-378. 2008.

²⁷⁶ J. Johnson. *Forbidden Fruit: Russia's Uneasy Relationship with the US Dollar*. Review of International Political Economy, 15(3), pp.379-398. 2008. p.380

²⁷⁷ Ibid. p 380.

²⁷⁸ Ibid. pp.380.

particularly due to the Iraq war, Russia sought ways to become integrated into the US-dominated global economy. Secondly, Vladimir Putin's nationalistic domestic agenda focused on utilising the rouble within Russia and promoted its use internationally. Thirdly, the dollar's value relative to the Euro in 2006 put at risk Russia's financial and economic stability.²⁷⁹ A decline in the value of the dollar relative to the Euro and the rouble means that Russia's US-dominated treasury assets would begin to lose value.

Because of this, in 2006 significant sectors of Russian society, combined with business and government officials, urged moves away from the dollar.²⁸⁰ There is a strong desire in Russian political circles to move away from using the dollar in domestic and international trade. The recognition on the part of Russian officials that the US could be vulnerable due to its dependence on the dollar's current status in international trade opens another strategic space where Russia could retaliate against US policies that it deems hostile to its interests. In the long term, replacing the dollar to a significant enough extent with the rouble or alternative currencies combined with gold would demonstrate that dollar hegemony, while still dominant globally, could be undermined. The success of Russia's currency diversification will depend on Russia's ability to establish new financial institutions and the strength of existing ones. The influence of Russian institutions is minimal in international finance when compared to the reach of the IMF, for example, or Western banks. Alternative trading and reserve currency arrangements will require institutions that are not under the control of Western powers. Bilateral agreements with countries that are also geopolitical adversaries of the US, China being

²⁷⁹ Ibid. p.381.

the most notable, offer opportunities to create alternatives. If Sino-Russian cooperation reaches a level where both countries feel that the interests they have in common outweigh their differences, such as the China–US rapprochement in the early 1970s, then powerful alternatives may begin to take shape. Alternative spheres of influence can begin to emerge around alternative currencies and the unifying effect of having common geo-strategic adversaries. It is this kind of cooperation that Zbigniew Brzezinski (1997) felt critically threatened US hegemony in the Eurasian sphere.

Chapter 6: The cleanest dirty shirt

6.1 Introduction

This concluding chapter analyses the US dollar hegemony from the Global Financial Crisis of 2008 onwards. No concrete predictions will be offered given the fluid state of world politics and economics. There is an incalculable number of variables at work in the realm of political economy that could affect dollar hegemony and possible alternatives to it. What this chapter does offer is an analysis of trends that appear to be emerging in the 21st century world system.

The geo-political adversaries of the US, and the US government itself, know the critical importance that the dollar plays in the function of US foreign policy and the construction of US hegemony. The dollar's significance is highlighted in the *Global Trends 2030: Alternative Worlds* report. Global Trends are reports published every five years by the National Intelligence Council, beginning in 1997.²⁸¹ *Global Trends 2030* examines geopolitical, environmental, social, and security-related issues as well as other important global trends. These trends are examined from the perspective of how they might affect the global position of the United States by 2030. How these global trends may affect the US dollar and its reserve status are briefly scrutinised.²⁸² This chapter will offer a detailed geopolitical analysis of how the US dollar may be affected by the dynamics of these global trends.

²⁸¹ National Intelligence Council, US. *Global Trends. "2030: Alternative Worlds*. National Intelligence Council." *Global Trends 2030*. 2012.

²⁸² Ibid. p. xii

There is significant debate over what role the dollar will play in the future. The participants in this debate fall into two broad camps. There are those such as Stokes (2013), Fields and Vernengo (2011), Eichengreen (2011) and Prasad (2012) who argue that there will be little if any serious challenge to the dollar and its reserve status.²⁸³ They argue that alternative financial institutions have not been developed, and that there is a lack of confidence in the governments of the geo-political adversaries of the US, such as China, Russia and Iran. Eichengreen (2011) argues that because the European Union lacks a unitary political executive, the Euro is an unlikely contender for replacing the US dollar as the world's reserve currency. The limited scope of the bond markets of its geopolitical competitors and volume of currency trading? When compared to the US FOREX market, underlines Eichengreen's conclusion.

The opposing argument is that the dollar is in the process of being replaced in its trading and reserve capacities. Proponents of this view such as Collins (2013) and Roberts (2013) cite the frustration of geo-political rivals such as China, Russia and Iran. They feel that using alternatives to the dollar is one way that they can retaliate against the US. This tactic is based on the recognition that the dollar and its status are vital to the continued exercise of US dominance in the world. Their aim is to replace the dollar in bilateral trade, particularly trade in oil, given its critical strategic status. They believe that by replacing the dollar with their own currencies, or the Euro in a basket of currencies, they may be able to extricate themselves from dollar

²⁸³ D. Stokes. *Achilles' Deal: Dollar Decline and US Grand Strategy After the Crisis*. Review of International Political Economy, 21(5), 2014. pp.1071-1094, D. Fields and M. Vernengo. *Hegemonic Currencies During the Crisis: The dollar Versus the Euro in a Cartalist Perspective*. Review of International Political Economy, 20(4), 2013. pp.740-759, B. Eichengreen. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. 2011. Oxford University Press, E. S. Prasad. *The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance*. Princeton: Princeton University Press. 2014.

hegemony.²⁸⁴ By reducing demand for dollars in the vital oil trade, the 'petro dollar' and 'petro bond' phenomena may be undermined.²⁸⁵ Such an outcome would have catastrophic implications for the US economy and the ability of the US to maintain ever-increasing budget deficits and national debts, without consequences.

Arguments that the dollar is approaching the end of its post-Bretton Woods status and special oil trading status are championed by Paul Craig Roberts (2007; 2013), Doran (2012) and Clark (2004).²⁸⁶ Their assessment of the dollar is based on the geo-strategy of US rivals who are seeking ways to undermine the influence of the US and promote their own in important areas of the world. For China, these areas include the Middle East as well as Central and South Asia. China aims to operate both unilaterally and bilaterally with Russia. Examples of this strategy are Russia becoming China's largest source of crude oil, and Russia's willingness to accept payments in yuan.²⁸⁷

Proponents of the argument that the reign of the dollar will end point to possible spheres of influence emerging in the world and claims that this will negate the need for a global reserve currency. This would solve the problem of competitor nations that do not possess sufficiently

²⁸⁴ R.K. Simah. *Currency Dictatorship. The Struggle to End US Dollar Hegemony*, Global Research, accessed June 24, January 17 2016, <http://www.globalresearch.ca/currency-dictatorship-the-struggle-to-end-us-dollar-hegemony/5501829>

²⁸⁵ *ibid*

²⁸⁶ P. C. Roberts. *Chinas Threat to the Dollar is Real*. World Bulletin. Accessed 7 November. 11 August 2007.

<http://www.worldbulletin.net/author/paul-craig-roberts/868/chinas-threat-to-the-dollar-is-real> P. C. Roberts. *The Dying Dollar*. Paul Craig Roberts, Institute for Political Economy. Accessed 7 November. 22 November 2013.

<http://www.paulcraigroberts.org/2013/11/22/dying-dollar-paul-craig-roberts/> C. Doran. *Iran and the Petrodollar Threat to US Empire*. New Left Project. Accessed 7 November. 8 August 2012.

http://www.newleftproject.org/index.php/site/article_comments/iran_and_the_petrodollar_threat_to_u.s._empire W. R. Clark. *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar*. New Society Publishers, 2005.

²⁸⁷ R. Pank. Goodbye Petrodollar: Russia Accepts Yuan, Is Now China's Biggest Oil Partner. Russia Insider. Accessed 29 May. 3 February 2016, <http://russia-insider.com/en/politics/saudi-arabia-has-lost-asia-russia-now-chinas-biggest-oil-partner/ri12611>

developed currency markets or the institutional and political capacities needed to promote their currencies to the same levels of global usage as the US. In smaller geographic spaces, or in bilateral trade, the deep liquidity in currency markets and payment transfer systems that are needed in global markets do not need to exist. Smaller-scale arrangements such as these are typically made with the intention of pushing back against the geo-political dominance of the US.²⁸⁸

The GFC which began in 2007 brought into sharp focus the state of the US economy and its finances. The GFC demonstrated the openness and depth of the US financial system in relation to the rest of the world. The GFC also demonstrated the resilience of the US dollar as a major reserve currency. US hegemony has been in decline for decades.²⁸⁹ The GFC demonstrated the strong financial appeal of the US for international investors. The dollar's function as a form of 'safe harbour' during the crisis was apparent as international investors flooded the US with capital, fearing instability in foreign markets.²⁹⁰ This influx in foreign capital caused the dollar to increase in value while other currencies such as the Brazilian Rael and the South African Rand depreciated significantly.²⁹¹ However, during the GFC the movement towards multi-polarity in the world system continued.

The creation of multilateral institutions and the strengthening of existing institutions that are outside the political control of the US have been increasing. The creation of the Chinese-led Asian Infrastructure Investment Bank (AIIB) is a god example of this. Such a wide-ranging

²⁸⁸ P. Koenig. "The Collapse Of The Western Fiat Monetary System May Have Begun" April 24. Accessed April 25, 2016. <http://www.informationclearinghouse.info/article44524.htm>

²⁸⁹ M. Hudson. *Global fracture: the new international economic order*. Pluto press. 2005.

²⁹⁰ B. J. Noeth. and R. Sengupta. *Global European banks and the financial crisis*. *Review*, 94. 2012. p.461.

²⁹¹ M. Nissanke. *The Global Financial Crisis and the Developing World: Transmission channels and fall-outs for industrial development*. 2009. p.11.

initiative which covers an enormous geographic space, and which deals with the critical strategic resources of oil, natural gas and rare earth minerals, has long-term implications for US hegemony.

The Russian-led Collective Security Treaty Organisation (CSTO) is a multilateral military organisation and has been characterised as a Russian-led NATO.²⁹² The CSTO and the Shanghai Cooperation Organisation (SCO) are military security organisations that are dedicated to counter terrorism and the collective security of their members. Both are multilateral organisations outside the influence of the US in critical energy spheres. Zbigniew Brzezinski (1998) emphasises the importance of Eurasia to US primacy, and he argues that attempts should be made to maintain US hegemony in Eurasia for as long as possible. Brzezinski states that it is imperative for US power in Central Asia that ‘that no Eurasian challenger emerges, capable of dominating Eurasia and thus also of challenging America’.²⁹³ In 2014 it was proposed that the SCO and the CSTO should combine.

6.2 Arguments against dollar collapse

Predictions of United States collapse have been made before. In 1968 Ernest Mandel predicted a dollar crisis for the United States. Mandel was partially correct; there was a crisis in 1971 when Richard Nixon took the United States off the gold standard and allowed the dollar to float freely. This was a crisis in gold to dollar convertibility. A lack of physical gold meant that the United States could not possibly redeem dollars for gold. Rickards argues that,

²⁹² M. De Haas. The Collective Security Treaty Organization: On its way to a “NATO of the East”. *Central Asia Policy Brief*, 26. 2015.

²⁹³ B. Brzezinski. *The Grand Chessboard: American Primacy and its Geostrategic Imperatives*. Basic Books. 1998 .p.xiv.

If the price of gold was too low, the problem was not a shortage of gold but an excess of paper money in relation to gold. The excess money was reflected in rising inflation in the United States, the United Kingdom and France.²⁹⁴

Stokes (2013) argues that perceptions that the US was on the verge of a dollar collapse, and fears of a loss of hegemony, are overblown. He argues that despite the economic problems of the US such as persistently high national debts and deficits, US allies have little incentive to abandon the dollar. Furthermore, he argues that geopolitical adversaries of the US also have little reason to dump the dollar. He believes that US allies such as Japan and South Korea have no incentive to fundamentally challenge the current financial architecture given their security reliance on the US, and that contenders to US primacy in Asia also have little incentive to challenge the status quo given the complex and integrated nature of financial economic relationships.²⁹⁵ There is also the recurring argument in this position that there currently exists no good alternative to the dollar. Similarly, Kirchner (2008) argues that the likelihood of a US dollar collapse is overstated. He argues that predictions of dollar decline have been made before and have proven incorrect. Similar to Stokes (2013), Kirchner points to the lack of alternatives to the dollar as the main reason that the dollar continues in its reserve capacity.²⁹⁶

Barry Eichengreen is another analyst who believes that there is little possibility of the dollar losing its reserve status. His argument is that while the United States is distressed economically, its strength lies in the belief it has fewer problems than any potential rivals.

²⁹⁴ J. Rickards. *Currency wars: The making of the next global crisis*. Penguin. 2011. p.85.

²⁹⁵ D. Stokes. "*Achilles' Deal: Dollar Decline and US Grand Strategy After the Crisis*." *Review of International Political Economy* 21.5 2014: 1071-1094. p.18- 19.

²⁹⁶ J. Kirshner. "Dollar primacy and American power: What's at stake?." *Review of International Political Economy* 15.3 2008: 418-438. P.420.

While the US may be experiencing domestic problems, they pale in comparison to the internal problems of its potential rivals. The US still possesses the largest economy and the largest and most liquid financial markets, and it has favourable population demographics, with rising birth rates.²⁹⁷ While Eichengreen is correct in stating that the United States is the largest economy in the world, his argument does not fully consider the long-term trends. His argument rests on the belief that there is no good alternative to the dollar. The Euro is often dismissed by the critics of those who predict the collapse of the US in the near term. As Eichengreen notes of the Euro,

The euro is a currency without a state. When the euro area experiences economic and financial problems, as in 2010 there is no powerful executive branch with the power to solve them.²⁹⁸

Eichengreen identifies the lack of an executive branch as a major obstacle to the Euro being an effective alternative to the US dollar. When economic crises arise, decisive political responses are required. It is common for individual European states to put their own interests first. In contrast, when China or the United States needs to make a decision or take action, the approval of the states in the US or the provinces in China is not required. China and the United States, therefore, are much more capable of rapid reactions to economic crises. This can have the effect of delivering confidence to investors around the world.

Eichengreen also raises the possibility that multiple reserve currencies could exist simultaneously. For several reserve currencies to exist as international mediums of exchange,

²⁹⁷ B. Eichengreen. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. Oxford University Press, 2011. p .8.

²⁹⁸ Ibid p.7.

there would need to be a world system in which no country used its currency to further its own strategic interest. Like Eichengreen (2011), Fields and Vernengo (2013) argue that neither the Chinese yuan nor the Euro satisfy the requirements for the world's reserve currency status. Their arguments focus primarily on the Euro, as they believe that the Euro is unable to perform the same risk-free asset role that they claim the dollar performs. They argue that the hegemon based on using its currency in a reserve capacity has the ability to create global demand. The dollar's status allows the hegemon to create social, political and economic conditions that mitigate against instability and the 'risk of contagion' between nations.²⁹⁹

Fields and Vernengo's (2011) view rests on the inability of the European Union to construct political realities that are conducive to furthering its interests. This likely has to do with the Bretton Woods institutions being born out of post-World War Two planning by the CFR and State Department.³⁰⁰ No similar crisis has yet arisen to propel the Euro to international reserve status similar to the dollar. While the European Union does possess deep and liquid financial markets and well developed financial institutions, it lacks a political motive and mechanism to take the Euro to the final step of currency hegemony.

Since the 1970s, China has been on a rapid trajectory of capitalist development. There has been a vast amount of speculation in recent years about the possible role that the Chinese yuan might play as a reserve currency in place of the dollar. There are several strands to this argument. Most arguments that cast doubt on the adoption of the yuan as a reserve currency

²⁹⁹ D. Fields and V. Matías. "Hegemonic currencies during the crisis: *The Dollar Versus the Euro in a Cartalist Perspective*." Review of International Political Economy 20.4 2013: 740-759. p.14.

³⁰⁰ Notter. H.A. *Postwar Foreign Policy Preparation, 1939-1945* (Vol. 3580). Department of State. 1949.

cite the fact that the yuan is not a free-floating currency. This makes the yuan unsuitable to hold the same status as the dollar, given that it is difficult to acquire. Furthermore, Chinese financial institutions lack the scale of their US counterparts. This situation has its roots in the export-led development that China has pursued since its opening to the West in the 1970s and particularly the 1980s. To function as a reserve currency in place of the dollar, or to even take up a share of the economic activity currently conducted in dollars, the yuan would have to be floated on the open FOREX market, making it freely convertible by nations and companies wishing to use it. However, floating the yuan in this way is only one concern voiced by those who doubt the ability of the yuan to supplant the dollar.

China is the largest non-US holder of US Treasury securities, and this is sometimes offered as a reason why the Chinese government would not want to see the yuan appreciate. It is speculated that if the yuan were to be transformed to a free floating currency, then the value of US treasury securities would depreciate and thus the Chinese would lose large amounts of value that they had invested in these assets. However, there is a critical problem with this scenario. The Centre for Strategic and International Studies (CSIS) based in the United States argues that China is a long way from making the yuan an international reserve currency that can rival the dollar at any point in the near or medium-term future. The main argument of the CSIS is that given the size of China's US treasury holdings, the Chinese government is likely to rapidly replace the dollar with its own currency. It is believed that if the value of the dollar fell, China would lose a large amount of wealth due to its US Treasury holdings:

On the contrary, Beijing has accumulated around 1.4 trillion in U.S. dollar reserves and is keen to avoid any precipitous decline in the dollar's value—which would in turn devalue its own holdings.³⁰¹

While it would seem likely that the Chinese would lose a large amount of the value of their US assets by the full liberalisation of the yuan, the Chinese have been steadily increasing their purchase of gold in recent years.³⁰² For the People's Bank of China, gold acts as a means of storing national wealth. Furthermore, the price of gold would likely increase as well if a fall in the demand of US dollars were to occur. While this is highly speculative, the possible consequences, including the reactions of international capital markets and investors to a loss of the dollar's international dominance, cannot be ignored. It is unknown how confidence within capital markets would be affected because investors who have for decades dealt with the US dollar and the US government would have to contend with the Chinese government and its policies.

Another argument against predictions of the yuan's internationalisation is that the Chinese government appears to have no specific timeline or stated policy for the internationalisation of the yuan.³⁰³

Using the yuan in bilateral trade would in effect be replacing the dollar as an international reserve currency without a specific announcement for doing so. It would have the further effect

³⁰¹ M. Murphy. and J. Y. Wen. *'Is China Ready to Challenge the Dollar'*, report of the CSIS Freeman Chair in China Studies, Centre for Strategic Studies and International Studies: Washington, October. 2009. p.1.

³⁰² A. Hewitt. *China's Gold Market: Progress & Prospects*, World Gold Council, accessed 29 May, n.d, http://www.lbma.org.uk/assets/blog/alchemist_articles/Alch74Hewitt.pdf

³⁰³ M. Murphy. and J. Y. Wen. *'Is China Ready to Challenge the Dollar'*, report of the CSIS Freeman Chair in China Studies, Centre for Strategic Studies and International Studies: Washington, October. 2009 p. 15.

of building up a yuan surplus in the Central Bank of China's trading partners, thus allowing them to trade directly with China and bypassing the dollar. As China's economic growth continues and its bilateral trade increases, this may be an unannounced way that China could pursue internationalisation of the yuan without its dollar securities depreciating.

6.3 Arguments for US dollar replacement

There are several strands to the argument for the short- to medium-term replacement of the US dollar as the world's reserve currency. If the dollar were to be replaced it is expected that the US would lose a fundamental lever for maintaining its dominant position in the global economy. The different strains of this argument generally share the following beliefs: 1. Foreign holders of US treasuries want to replace the US dollar as a bilateral trading currency, for a variety of reasons, primarily economic and strategic. 2. Substituting the dollar as the world's reserve currency is one way that nations can resist United States hegemony. 3. Nations want to trade in oil without using the dollar.

A major proponent of the above arguments is Paul Craig Roberts who was the Assistant Secretary of the Treasury for Economic Policy during the Reagan Administration from 1981 to 1982. Over the last several years Roberts has written extensively about the dollar, and as a former high-level employee of the Treasury he has a very good understanding of the functioning of the dollar as world's reserve currency. Roberts argues that United States hegemony is fundamentally reliant on the dollar remaining the world's reserve currency. He highlights the ability that the dollar's reserve status grants the US. He argues that protecting its status is vital to the US's continued ability to wage wars and run large budgets and national

debts without economic problems. Roberts asserts that protecting the reserve status of the dollar is critical for the US. Roberts links the dollar to the ability of the US to be a superpower.³⁰⁴

In this scenario, keeping the dollar as the world's reserve currency is essential for the continuous exercise of United States power in the world. This view is based on the notion that forcing foreign nations to trade in the dollar will keep US bond yields low and thus not place an unsustainable burden on US financing. However, Roberts believes the continued use of the dollar as a reserve currency will not halt its decline. He argues that large Asian trading partners of the US cannot continue to accept depreciating dollars in exchange for goods and services that they supply to the US. Roberts argues that China is seeking to foster its own domestic market as a means of boosting economic growth and lessening its dependence on being an export nation. Japan, he believes, hopes that it will be able to more deeply participate in East Asia's economic development if the dollar's dominance is ended.³⁰⁵

Energy is a vital sphere in which dollar hegemony exists. The possible decline of the dollar in oil trading is one of the most debated areas of the weakening of the dollar. The argument is that if geo-strategic competitors can significantly replace the dollar in this vital trade, then the ability of the US to remain an agent of hegemonic power will be critically undermined because the demand for dollars will decrease and this will push up US interest rates and make debt servicing more expensive for the US. China, as a large consumer of oil and a geo-strategic competitor of

³⁰⁴ P. C. Roberts. *Washington Signals Dollar Deep Concerns*, Paul Craig Roberts: Institute for Political Economy, accessed November 2013, 18 May 2013, <http://www.paulcraigroberts.org/2013/05/18/washington-signals-dollar-deep-concerns-paul-craig-roberts/>

³⁰⁵ P. C. Roberts. *Impending Destruction of the US Economy*, Counter Currents.Org, Accessed November 2013, 29 November 2007, <http://www.countercurrents.org/roberts291107.htm>

the US, often features in this argument. Oil trading in the yuan is of critical importance in this debate. There are two important features here. The first is that by trading oil in the yuan, China will be able to internationalise its currency on a bilateral basis with important oil trading nations such as Russia or Saudi Arabia. Secondly, oil trading in yuan would undermine the petro dollar by subverting the Saudi–US deal of 1974.

Dan Collins (2013) argues that the gradual replacement of the dollar in oil trading has the capacity to critically undermine the economic position of the United States. China’s rapid development from the 1980s until now has been conducted through the dollar. However, the Chinese are now gradually replacing the dollar in their bilateral oil trade with Russia.³⁰⁶ At a time when the United States is still experiencing economic and political distress, this development has the capacity to deal a powerful blow to United States’ economic position in the coming years. Collins emphasises the deteriorating industrial base of the US and the collapse of its housing market as critical economic weaknesses.³⁰⁷ With the US economy and financial system being supported by the Federal Reserve, challenges to the dollar’s reserve status would be unwelcome developments. Collins points out that the US now faces a fundamental problem: it consumes more than it produces and exports.³⁰⁸ In the immediate post-World War Two period the US was a major exporter and the dollar was a feature of the post-war financial system. However, with the US now in an export deficit, trading partners of the US are now accepting depreciating dollars for their exports.³⁰⁹

³⁰⁶ Collins, D. *Rise of the Petro Yuan*. Financial Sense. Accessed 25 May, 15 April 2013.
<http://www.financialsense.com/contributors/dan-collins/rise-petro-yuan>

³⁰⁷ Ibid.

³⁰⁸ Ibid.

³⁰⁹ Ibid.

Fields and Vernengo (2012) point out that for a currency to achieve reserve status it must be used in oil transactions.³¹⁰ President Saddam Hussein attempted to replace oil trading in dollars with Euros. Clark (2005) argues that this approach is one way that nations could defy the dictates of Washington:

It is now obvious the invasion of Iraq had less to do with any threat from Saddam's long-gone WMD program and certainly less to do with fighting international terrorism than it has to do with gaining control over Iraq's hydrocarbon reserves and in doing so maintaining the U.S. dollar as the monopoly currency for the critical international oil market.³¹¹

The underlying US motive was to shore up the dollar and its reserve status. Clark (2005) reveals that maintaining the dollar and its petro currency status is a geo-strategic imperative, even amongst enemy nations. Iraq stood to earn a large economic surplus if it moved its oil payments to Euros. Engdahl (2004) argues that preventing this occurrence was one of the main factors motivating the Iraq war of 2003. He argues that American hegemony depends on the petro currency phenomenon established in 1975. The Iraq war was one way of warning other nations not to abandon this system:

³¹⁰ D. Fields and V. Matías. *"Hegemonic Currencies During the Crisis: The Dollar Versus the Euro in a Cartalist Perspective."* *Review of International Political Economy* 20.4. 2013: 740-759.

³¹¹ R. W.Clark. *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar*. New Society Publishers, 2005.

All indications are that the Iraq war was seized on as the easiest way to deliver a deadly pre-emptive warning to OPEC and others, not to flirt with abandoning the Petro-dollar system in favour of one based on the euro.³¹²

Clark (2005) argues that the United States' decision to invade Iraq was largely motivated by the desire to maintain the dollar as the currency that oil would primarily be traded in. Clark (2005) placed the dollar in the context of United States' foreign policy. In Clark's view the policy actions of successive US governments beginning with the 1973 oil shock have been motivated by the necessity to maintain the dollar as the primary trading currency for oil.³¹³ It is important to bear in mind that it costs the United States very little to issue dollars and treasury bonds. A foreign nation must produce real value relative to the dollars it wishes to acquire. This is how the United States' economy is subsidised by much of the rest of the world, and why any shift away from the dollar would represent an existential threat the United States economy and its hegemonic power in the world.

Clark (2005) divides the 20th century into three distinct phases in which United States foreign policy can be understood. Each of these phases relates to quantitative changes in the world system and the United States' reactions to them. The first phase begins with the oil shock of 1973. Clark argues that it is at this crucial point in history that the dollar became a petro currency. However, it is important to note that within this phase the dollar was no longer convertible into gold, President Nixon having abandoned the gold standard two years earlier. With the dollar no longer redeemable for gold, a new commodity anchor in the form of oil

³¹² F. W. Engdahl. *A New American Century? Iraq and the Hidden Euro-Dollar Wars*. Global Research, accessed 30 May, 9 February 2004, <http://www.globalresearch.ca/articles/ENG401A.html>

³¹³ R. W. Clark *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar*. New Society Publishers, 2005. p.21.

would give the dollar a new function. Until this time the dollar had been redeemable for gold at \$35 an ounce.³¹⁴ There was an almost immediate problem that arose when the dollar was converted into a free floating currency. What would stop other nations from purchasing oil in their own respective currencies such as the British using the Pound Sterling or the Japanese using the yen to purchase oil from Middle Eastern producers? President Nixon conducted negotiations with the largest oil producer, Saudi Arabia, in which the Saudis agreed to sell oil in dollars and no other currency.³¹⁵ This had the effect of forcing other nations to first acquire dollars to purchase oil, thereby creating a demand for dollars and thus sustaining the United States economy. The powerful status that the dollar holds was a direct result of secret negotiations that were launched by the Nixon Administration in 1974. US Treasury Secretary William Blumenthal made a secret deal with the Saudis. The US would act a guarantor of the Saudi regime, which would only sell oil denominated in dollars. With the Saudis only willing to now accept oil payment in dollars, Europe and Japan were forced to acquire dollars, thus supporting the dollar as a petro currency.³¹⁶

This arrangement conferred enormous political, financial and economic power on the United States. As the only currency that the world's largest oil producers were willing to accept, the United States dollar effectively became the world's money for the purchase of the most critical industrial commodity. It also had the equally important effect of creating an increased demand for United States Treasury bonds. The demand for this particular financial security enabled the

³¹⁴ M. D. Bordo D. Simardand and E. N. White. *France and the Bretton Woods International Monetary System 1960 to 1968*. In *International monetary systems in historical perspective* (pp. 153-180). Palgrave Macmillan UK. 1995. p.6.

³¹⁵ B. Momani. *GCC Oil Exporters and the Future of the Dollar* Forthcoming in *New Political Economy*. 2008. p.1.

³¹⁶ R. W. Clark. *Petrodollar Warfare: Oil, Iraq and the future of the Dollar*. New Society Publishers, 2005. p.20.

United States to continue spending at will while in effect having foreign nations subsidise its economy by purchasing the only currency available for oil sales. It is this critical arrangement that the United States must maintain for its world hegemony to remain viable.

Iran is another country that has tried to replace the dollar in its oil trade. Iran's approach also gives legitimacy to the argument that the dollar will decline rapidly as a commodity reserve currency if replaced in oil trading. Iranian–US relations have been frozen since the revolution in 1979:

Iran poses a far more serious threat to the U.S. than its disputed nuclear aspirations.

Over the last few years, Iran has unleashed a weapon of mass destruction of a very different kind, one that directly challenges a key underpinning of American hegemony: the U.S. dollar as the exclusive global currency for all oil transactions.³¹⁷

Doran demonstrates how the dollar is the key focus of the United States government. Iran's insistence that its oil be traded in a currency other than dollars demonstrates that nations that object to United States policy have identified that the dollar is the United States' Achilles heel.

Doran (2012) concludes that far from successfully isolating Iran, the United States' policies towards Iran will actually speed up the demise of the dollar as an oil trading currency. By forcing Iran and its trading partners to use alternative currencies for oil purchases, the policy of trying to isolate Iran is proving to have the opposite effect while at the same time undermining United States:

³¹⁷ Doran, J. Iran and the Petrodollar Threat to U.S. Empire, New Left Project, accessed November 2013, 8 August 2012, http://www.newleftproject.org/index.php/site/article_comments/iran_and_the_petrodollar_threat_to_u.s._empire

The U.S. has shot itself in the foot. Far from isolating Iran, the sanctions are potentially speeding up the demise of the dollar's dominance by forcing Iran to explore alternative currencies. That so many other countries are so willing to support Iran in direct defiance of the sanctions is what the U.S. clearly bet against. It might end up as the biggest foreign policy blunder in American history.³¹⁸

One example of how Iran has been able to directly defy the United States and trade oil outside of the dollar is in its bilateral trade with India. The new Iranian government elected in June 2013 led by President Hassan Rouhani has called for new negotiations with India over bilateral payments for Iranian oil. Because of international sanctions, Iran cannot use traditional payment mechanisms such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT). However, Iran has been able to bypass these sanctions by accepting payments in rupees. The Rouhani government in Iran feels that a new currency or currencies are needed to settle oil payments. The Indian government is also keen to save its foreign exchange reserves:

Since Iran is facing sanctions that restrict its transactions in dollars or euros, our options are open to pay in yens or yuan's in a 55:45 ratio with rupees. If none of these payment plans works out, we'll have to look at other destinations like Iraq or Saudi Arabia.³¹⁹

By not allowing Iran to trade in dollars, the United States is indirectly speeding up the replacement of the dollar in this critical trade. The validity of Doran's (2012) argument that the

³¹⁸ Ibid.

³¹⁹ J. Shine. India pushing Iran to Accept Rs for Oil Imports, rediff Business, accessed November 2013, 1 October. 2013. <http://www.rediff.com/business/report/india-pushing-iran-to-accept-rs-for-oil-imports/20131001.htm>

United States is 'shooting itself in the foot' is apparent in the diversification of currencies for settling bilateral oil payments. However, it is not just Iran that is using currencies to undermine US hegemony. Iran is a major oil producer; India is a major consumer. According to OPEC, Iran produces 3.7 million barrels of oil per day. This demonstrates that the world is becoming more multipolar, since 3.7 million barrels of oil cannot be easily replaced. As emerging economies' demand for oil increases, it seems apparent that the United States will have an increasingly difficult time trying to isolate Iran as long as there are alternative currencies to trade in. It is unlikely that the dollar will soon be replaced to a significant degree as a currency that nations wish to conduct their oil payment transactions in. However, the dollar only needs to be replaced to a limited extent to have a critical effect on the exercise of United States hegemony and the financial transactions that underpin it.

Another aspect to the argument that the dollar hegemony will come to an end' is the international payment system that global trade is conducted through. Currently, the world's banks trade primarily through the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system. This confers a large amount of power on the nations that control this institution, primarily the US. Iran was one nation that was excluded from the system due to international sanctions, thus isolating it completely and preventing the country from accepting payment for its foreign trade.³²⁰ To mitigate this strategic weakness China is developing the China International Payment System (CIPS). This system will be outside the control of the US and is an avenue for nations to settle bilateral payments. CIPS will help to

³²⁰ M. Arnold. *Europe's Banks Begin Tentative Return to Iran*, Financial Times, accessed 30 May, 3 April 2016, <http://www.ft.com/cms/s/0/75dc8d7e-f830-11e5-803c-d27c7117d132.html#axzz4A6SVEGwe>

continue the internationalisation of the Chinese yuan as an important trading currency.³²¹ This system will help streamline what has until now been a difficult method for using the yuan to settle payments. CIPS demonstrates the continued dilution of US financial hegemony. By establishing a competing system, China is creating the infrastructure necessary to challenge the dominance of the dollar.

Debates revolving around the potential replacement of the dollar reveal that the dollar's status is vital to US dominance. Its status is embedded in the makeup of the world economy and the distribution of power amongst nations. While the debate surrounding the future of the dollar is not new, there are now important differences to the debates which occurred in the 1960s, 1970s and 1980s. Firstly, the main geo-strategic competitors to the US, China, Russia and Iran, are not part a US-centric security system. China and Russia have integrated themselves into the world economy. Iran, whilst also part of the world system, has been isolated from the world economy since the Iranian Revolution in 1979. What these three nations share is an ability to see themselves as participants in the world system who do not need to rely on the US for their security. The Japanese yen was considered for a time in the 1980s to be a possible rival to the dollar.³²² That possibility quickly disappeared. Leaving the US-sponsored security system in favour of its own defence would impose an enormous cost burden on the Japanese state and it does not have the inclination to do so. Japan has no motive to move away from the US in any serious manner, given the obvious security and economic imperatives at work. Japan does not possess enough control over the international institutions necessary to make the yen a

³²¹ G. Waldau. China launch of renminbi payments system reflects Swift spying concerns, Financial Times, accessed 30 May, 8 October 2015, <http://www.ft.com/intl/cms/s/0/84241292-66a1-11e5-a155-02b6f8af6a62.html#axzz4A6SVEGwe>

³²² M. Steger. P. Battersby and J. Siracusa. eds. *The SAGE Handbook of Globalization*. Sage. 2014. p.259

hegemonic currency. Japan also lacks the military capability to protect the security needs of other nations that would use its currency in an exclusive trading capacity, as is the case in the US–Saudi security arrangement.

Dollar hegemony requires the political support of other nations, particularly large countries such as China and Russia. These nations are large trading nations whose capital requirements are significant. China, for example, has managed to accumulate approximately \$3.2 trillion in US denominated securities.³²³ A feature often overlooked by those who argue that the dollar's future is secure at least for now is the question of how much longer the Chinese will continue to hold US securities, particularly in a low interest rate environment and with inflation outstripping US bond yields. Holders of US denominated securities are losing capital to the US through low interest rates; this arrangement is not sustainable in the long term. Prasad (2012) and Stokes (2013) argue that the dollar is secure for now, given the lack of an alternative for the title of world's reserve currency. Their arguments depend on the perpetuation of an interconnected world system with a dominant hegemon using its currency and institutions to regulate world trade. However, as a more multipolar world system comes into being the currencies of other nations are becoming more prominent in global trade. The Global Trends 2025 report states that the 'international system—as constructed following the Second World War—will be almost unrecognizable by 2025.'³²⁴ Spheres of influence centred on large market-oriented states, and the influence they project in their immediate regions, are having a major impact on how the global economy operates and how power is distributed. In this scenario

³²³ Trading Economics, *Chinas Foreign Exchange Reserves 1980 2016*, accessed 24 June, n.d, <http://www.tradingeconomics.com/china/foreign-exchange-reserves>

³²⁴ National Intelligence Council (US). *Global Trends 2025: A Transformed World*. National Intelligence Council. 2008. p.1

there are similarities to the pre-World War Two era from approximately 1899 to 1939. The US held sway over Latin America and the Caribbean in the western Pacific. The Spanish were the last geo-strategic competitor to US influence in this region and had been forced out following their defeat in the Spanish American war. The Russia Empire, and then the Soviet Union, controlled Eastern Europe. The British Empire was still influential but as a major hegemon had already ceded economic dominance to the US in the late 19th century and early 20th century.³²⁵ Eichengreen (2011) argues that this was period in which multiple reserve currencies could exist simultaneously.

In the 21st century, the geo-strategic competitors of the US are establishing multilateral financial and economic projects that are independent of the US. These institutional developments represent tangible ways in which US hegemony is being challenged. They are no longer based on the ideological struggles that commonly fuelled similar efforts in the twentieth century. The terms 'free trade' and neoliberalism may have been tarnished because of the GFC, but free trade as a development and geo-strategic goal remains.³²⁶ The development of China's New Silk and Maritime Roads, which together are termed the 'One Belt One Road' (OBOR) project, in conjunction with the Asian Infrastructure Investment Bank (AIIB) and SCO, along with Russia's CSTO, represent a continued fracturing of global US hegemony. The internationalisation of the yuan as a global reserve and trade currency through bilateral currency swaps and transmission through the AIIB represent powerful trends that combine to offer alternatives and challenges to US hegemony. In the long term, it may be the case that

³²⁵ B. Eichengreen. *Exorbitant Privilege: The rise and fall of the Dollar and the Future of the International Monetary System*. Oxford University Press. 2011. p.17.

³²⁶ M. Marcelo. "The financial crisis and the dollar hegemony." *Austral: Brazilian Journal of Strategy & International Relations* 1.1 2012: p-125. P. 129

China will establish itself as a new core, with Central and South Asia being on the periphery. It has been projected that by 2050 the BRICS nations would account for more economic output than the G6 today.³²⁷ Long-term predictions like this are fraught with difficulty given the myriad of factors that can affect the long-term prosperity of the societies that make up the BRIC nations. Whether or not the BRIC nations are able to maintain the shared vision they currently have over the next 30 to 40 years remains to be seen. However, the emergence of the BRICS nations still warrants analysis given the scale of their combined economic output and divergence away from US hegemony.

China's OBOR project is vast in its conception. The project aims to build 3000 km of road, rail and pipelines over the next 15 years.³²⁸ The project will create a sphere of influence that will integrate Eurasia into China's economic and strategic orbit. Brzezinski (1998) identifies the enormous strategic importance that the Eurasian sphere has for the US. The region holds two of the world's three most economically productive regions. It also as a whole has a large population and immense natural resources. Controlling this region confers on the hegemon an enormous amount of strategic power and its loss would likely leave Western Europe and the US peripheral to Chinese influence.³²⁹ The OBOR involves several intersecting strategic objectives for China. The first is to diversify energy supply and energy transport to China away from the US-controlled Strait of Malacca. The second objective is to make nations such as Iran, Pakistan and Afghanistan politically important to China, given the importance that the US places on

³²⁷ D. Wilson and R. Purushothaman. *Dreaming with BRICs: The Path to 2050. Emerging Economies and the Transformation of International Business: Brazil, Russia, India and China (BRICs)*, 1. 2006. pp.1-2.

³²⁸ T. Zimmerman. *The New Silk Roads: China, the U.S., and the Future of Central Asia*, NYU Centre on International Cooperation, accessed 1 June, October 2015, http://cic.nyu.edu/sites/default/files/zimmerman_new_silk_road_final_2.pdf

³²⁹ Z. Brzezinski. *The Grand Chessboard: American Primacy and its Geostrategic Imperatives*. Basic Books. 1998. p. 31.

these nations for its own geo-strategy. These three nations were recently granted observer status at the SCO and may become members in future.³³⁰ The third objective is to give China greater and more secure access to the Middle East. The OBOR initiative would also give China a larger market for its goods and services. Thousands of kilometres of rail line built by China will integrate the Eurasian region. On 23 January 2016, President Hassan Rouhani and Chinese President Xi Jinping signed a \$600 billion railway plan to link Iran, Shanghai in China and Western Europe.³³¹ The deal represents an important development in relations for both nations. By signing this deal, Iran will be able to counter Western attempts at isolating it. Furthermore, it gives Iran a vital economic lifeline. From China's perspective, it will be able to weaken the US strategically by subverting US attempts to isolate Iran, thus frustrating US strategy in the Middle East and South Asia. The OBOR initiative also extends to the vital energy sphere. Again, Iran will play an important role here. Pipelines will further integrate Iran with China's economy. Because of China's energy needs, it is conceivable that China will see Iranian security as vital to its own. The 'peace pipeline' that will be constructed under the OBOR initiative will run from Iran through Pakistan and into Western China. This project has been opposed from the beginning by the US as counter to its strategic interests.³³²

Energy security and domestic economic concerns are a driving force in China's approach to Central Asia. In the 1980s China was self-sufficient in oil. However, given its rapid economic development in recent decades the country has become dependent on energy imports. In an

³³⁰ Putz, C. India and Pakistan to Join SCO, Is Iran Next? The Diplomat, accessed 2 June, 26 May 2016, <http://thediplomat.com/2016/05/india-and-pakistan-to-join-sco-is-iran-next/>

³³¹ Sputnik. *New Silk Road: Iran to Connect Europe, China by Train Route*, Sputnik, accessed 1 June, 15 February 2016, <http://sputniknews.com/business/20160215/1034800797/iran-china-train-silk-road.html>

³³² A. Cohen L. Curtis & O. Graham. *The Proposed Iran-Pakistan-India Gas Pipeline: An Unacceptable Risk to Regional Security*, Heritage. Org, accessed 2 June, 30 May 2008, <http://www.heritage.org/research/reports/2008/05/the-proposed-iran-pakistan-india-gas-pipeline-an-unacceptable-risk-to-regional-security>

attempt to mitigate oil reliance on unstable regions like the Middle East and Sub-Saharan Africa, China is attempting to diversify its supplies. Furthermore, China wishes to become less reliant on Russian energy in spite of large deals that have recently been signed.³³³ China is reluctant to further deepen energy ties to Russia because China is prevented by Russian policy from making investments or taking on partnership agreements with Russia in respect to energy development.³³⁴ China would prefer to bypass Russia by directing its trade with Europe along the OBOR corridor through Central Asia. Russia sees itself as the dominant power in Central Asia, and China has been cautious about not granting Russia too much leverage by allowing its trade routes to go through Russia.³³⁵ There is an obvious strategic concern on the part of the Chinese over granting Russia the ability to disrupt the flow of Chinese trade.³³⁶ By building, this vast OBOR project, China hopes to create an integrated sphere of influence based on economic cooperation. This project has the potential to reduce Europe to a peripheral area of Central and East Asia, with the US, given its geographic distance, more isolated from a large market and energy sphere. By shifting the strategic focus from water to land and creating a vast inland corridor, China is creating a strategic zone less favourable to US military supremacy.³³⁷

An important trend emerging is the internationalisation of the Renminbi (RMB) as a trading currency. As the RMB grows in international prominence, there is speculation over how this will affect the role and primacy of the US dollar in international trade. Despite the size of the Chinese economy, the RMB makes up only a fraction of international trade.

³³³ C. Brugier. China's way: the new Silk Road. *European Union Institute for Security Studies*, (14), pp.1-4. 2014. p.4.

³³⁴ Ibid p.3

³³⁵ Ibid. p.3

³³⁶ Ibid. p. 3

³³⁷ Ibid. p. 4

In 2009, the Governor of the Peoples' Bank of China (PBoC) Zhou Xiaochuan proposed changes to the international monetary system (IMS) aimed at promoting the use of Special Drawing Rights (SDR).³³⁸ His essay raised the Triffin dilemma first pointed out in the 1960s by Robert Triffin.³³⁹ The inclusion of the Triffin dilemma can be seen as an implicit criticism of the US given the size of its growing budget and trade deficits, and the conflict that this creates between the domestic and international demands on the dollar.

The Triffin dilemma also offers a theoretical justification for change in the IMS. It is critical to draw a distinction between reserve currencies and trade currencies. A trade currency can be used to make bilateral payments. This is the most rapid form of RMB internationalisation. China has been engaging in a multitude of currency swap agreements globally. Since 2009, China has signed currency swap agreements with 32 countries. This helps promote the RMB as an international currency and simultaneously promotes Chinese penetration into important regions of the world such as the immediate Asian region and the Middle East.³⁴⁰

There are several tactics implied in Xiaochuan's approach to international currencies and the strategic goals that they are designed to meet. Greater internationalisation of the RMB would increase competition with the dollar. China's approach in this regard is to work cooperatively while simultaneously creating parallel structures such as the Asian Infrastructure Investment

³³⁸ Z. Xiaochuan. *Reform the International Monetary System*. People's Bank of China, Beijing. 2009. p.1.

³³⁹ Ibid. p.1

³⁴⁰ B. Steil and D.Waker. *The Spread of Central Bank Currency Swaps Since the Financial Crisis*, Council on Foreign Relations, accessed 4 June, 2015, http://www.cfr.org/international-finance/central-bank-currency-swaps-since-financial-crisis/p36419#!/?cid=from_interactives_listing

Bank (AIIB). Such institutions are designed to increase Chinese autonomy and freedom of action in relation to more Western-dominated institutions.³⁴¹

If a currency is to remain or become hegemonic, it is essential for there to be a demand for that currency. The internationalisation of the RMB could serve as a strategic instrument in a fashion similar that of the US dollar during and after World War Two.

While there are obvious differences in context, the geo-strategic positioning of a large power seeking to draw other nations into its economic and thus political orbit are similar. Following the Spanish American War the US was free to internationalise the dollar in its region and to pass laws necessary for US capital penetration. This approach also serves to reduce or exclude entirely the influence of competing powers. Until recently, China has had its attempts to gain greater reforms to the IMF frustrated. Only in 2016 did China, along with the other BRICS, gain a greater share of voting rights at the IMF.³⁴² Xiaochuan (2009) focuses heavily on analysing special drawing rights (SDR).³⁴³ Xiaochuan argues that a global currency is needed to mitigate the problems associated with having the currency of one nation performing an international trade and reserve function. He proposes the creation of an SDR through the IMF to mitigate the Triffin dilemma.

Such a move would end the dominance of the US dollar and its reserve function. By creating an SDR issued through the IMF and weighted more accurately to reflect economic size, the US dollar would be forced to share its reserve function with other currencies. It would be expected

³⁴¹ S. Heilmann M. Rudolf M. Huotari and J. Buckow. China's shadow foreign policy: parallel structures challenge the established international order. MERICS China Monitor, 18. 2014. p.1-3.

³⁴² The BRICS Post. *IMF reforms: China, India, Brazil, Russia Get Greater Say*, The BRICS Post, accessed 4 June, 28 January 2016, <http://thebricspost.com/imf-reforms-china-india-brazil-russia-get-greater-say/#.V1Kr8r55JW8>

³⁴³ Z. Xiaochuan. *Reform the International Monetary System*. People's Bank of China, Beijing." 2009.

that the US would lose its ability to run large budget deficits and national debts. In this scenario, the implications for US deficit spending are apparent. The US military budget would have to be reduced sharply, costing the US its treasured military supremacy.³⁴⁴

This chapter has sought to define some of the critical trends that are emerging in the world system and their relevance to US dollar hegemony. In 2012, the Chairman of the National Intelligence Council Christopher Kojm stated,

‘We are at a critical juncture in human history, which could lead to widely contrasting futures. It is our contention that the future is not set in stone, but is malleable, the result of an interplay among megatrends, game-changers and, above all, human agency.’³⁴⁵

Human agency was essential to the US dollar becoming world’s reserve currency after 1945 and to the influence of the geo-strategic conception that it embodied, ‘the Grand Area concept’. US hegemony was also the product of a unique moment in history. The power of the US economy and productivity after World War Two were overwhelming. Potential competitors to the US either had been defeated in war or were pursuing a different development course, such as Maoist China and the USSR. These conditions allowed the US to create a world system to its advantage. The US hegemony that followed shaped how the world developed for decades to come.

³⁴⁴ J. Kirshner. ‘Dollar Primacy and American Power: What’s at Stake?’, *Review of International Political Economy*, 15(3): 418–38. 2008.

³⁴⁵ National Intelligence Council, US. *Global Trends. "2030: Alternative Worlds*. National Intelligence Council." *Global Trends 2030*. 2012.

It appears at this time that China does not yet have such a grand scheme mapped out, a possible 'Chinese Grand Area'. The Grand Area concept divided the world into regions according to their usefulness to the US economy. The OBOR strategy will be influential but lacks the global vision and geo-strategy to truly challenge US world dominance. The OBOR does however create an important sphere of influence in a critical strategic region that is not under the direct control of the US, as identified by Brezinski (1998).

Debates over whether the dollar will continue as the world's reserve currency will continue. There are credible points to be made on both sides of the debate. Those that argue that the position of the dollar is secure, or at the very least secure for the foreseeable future, base their argument on the weakness of potential competitors. They point to the post-GFC strengthening of the dollar as proof that the position of the dollar and US hegemony are secure. It is true that the dollar has emerged from the GFC of 2007 in a good position. The continuation of dollar hegemony is contingent on nations continuing to hold the dollar as a reserve currency and continuing to use it as a trading currency. The largest foreign holder of US securities, China, has recently stopped purchasing US treasury bonds in an effort to boost its own currency.³⁴⁶ The continued internationalisation of the RMB, while only in its rudimentary stages, does pose a tangible challenge to the dollar. There is also concern in Russia over the role that the dollar plays in US geo-strategy. Russia has taken steps to replace the dollar in its oil trade with the rest of the world.³⁴⁷

³⁴⁶ P. Gillespe. *China Leads Global US Debt Dump*, CNN, accessed 5 June, 17 February 2016, <http://money.cnn.com/2016/02/17/news/economy/china-us-debt-dump-central-banks/>

³⁴⁷ T. Durden. *The Demise Of Dollar Hegemony: Russia Breaks Wall St's Oil-Price Monopoly*, Zerohedge, accessed 5 June, 12 January 2016, <http://www.zerohedge.com/news/2016-01-12/demise-dollar-hegemony-russia-breaks-wall-sts-oil-price-monopoly>

The emerging trends such as the internationalisation of the RMB and the OBOR initiative may take decades to manifest in meaningful change to the ways in which the world system operates. The US economy overtook that of Britain in the 1870s.³⁴⁸ However, it was not until 1945 that the US was in a position to become a hegemonic power of global proration. How China and other powers will react to the relative decline of US hegemony remains to be seen. While the dollar still experiences speculation about its future, it appears to be for now the 'cleanest dirt shirt in the hamper'.³⁴⁹

Conclusion

The central argument of this thesis is that the United States dollar has been vital to the exercise of hegemony in the post-World War Two era. There are two main reasons for making this claim. The first is the political motive with evidence that planners inside the US government, and closely associated with the Council on Foreign Relations (CFR), made plans to pursue a hegemonic agenda in the post-World War two era, the 'Grand Area'. The evidence, in the form of original source documents compiled by Laurence Shoup and William Minter, demonstrate this well.³⁵⁰ The second reason for making this claim is the financial aspect. This section of the argument is reliant on a reconceptualization of the dollar as an instrument that allows the US to function in a hegemonic way. The US National Intelligence Council (NIC) asserts

³⁴⁸ S.N. Broadberry. *How Did the United States and Germany Overtake Britian? A Sectoral Analysis of Comparative Productivity Levels, 1870–1990*. The Journal of Economic History, 58(02), pp.375-407. 1998.

³⁴⁹ P. Schiff. *Currencies Depend on Faith, Gold Doesn't*. Euro Pacific Capital Inc. accessed, November 23, 2016, 22 July 2015, http://www.europac.com/commentaries/currencies_depend_faith_gold_doesn%E2%80%99t

³⁵⁰ Laurence S., and William ,M . *Imperial brain trust: the Council on Foreign Relations and United States foreign policy*. iUniverse, 2004.

The fall of the dollar as the global reserve currency and substitution by another or a basket of currencies would be one of the sharpest indications of a loss of US global economic position, strongly undermining Washington's political influence too.³⁵¹

Of particular importance in making this argument, and offering it as a legitimate explanation for dollar hegemony, are two key moments in history. They are the Bretton Woods conference of 1944 and the US-Saudi deal struck in 1974. Both these moments in post war history are instructive in presenting a convincing case for dollar hegemony. First, the Bretton Woods conference positioned the US at the center of world in economic terms and established the World Bank and International Monetary Fund (IMF), the most important structures in world finance.³⁵² These institutions make the world peripheral to US finance in that much of the rest of the world became locked into financial structures, which they have little room to maneuver. French and British frustration with US deficit spending is a good example of this.³⁵³ Second, the 1974 agreement between the US and Saudi Arabia created the petro dollar and petro bond. Forcing nations to acquire dollars to purchase oil created a massive demand for US dollars. This agreement, that still exists to this day, demonstrates the power that the US still enjoys. It also demonstrates that the world is still contingent on US actions in the world economy. This agreement shows the extent to which Saudi Arabia integrated into US financial and security systems. In so closely linking the dollar with the Saudi regime a contiguous link between these two nations formed.

³⁵¹ National Intelligence Council (NIC). US. *Global Trends. 2030: Alternative Worlds*. National Intelligence Council. Global Trends 2030. 2012.

³⁵² William, E. . *Gods of Money: Wall Street and the Death of the American Century*. Progressive Press, 2011.

³⁵³ F. J Gavin. *Gold, dollars, and power: the politics of international monetary relations, 1958-1971*. UNC Press Books, 2004.

The second major theme that emerges from the research is the balance of payments issues. Rather than being temporary and confined in nature, crises around balance of payments have been the norm and not the exception. Ironically, these crises represent the normal function of the world financial system during this time. The dollar went from strength to strength unfazed by each successive crisis, beginning with the 1907 New York share crash and continuing to the 2008 financial crisis. Even prior to the 1907 crisis, the 1893 gold hoarding crisis began to draw private banks and the US government closer together, eventually leading to the creation of the Federal Reserve in 1913.³⁵⁴ Ongoing crises have allowed the dollar to strengthen its position each time. This is due to two factors. The US possesses a large and liquid financial system in the form of private banks, supported by the Federal Reserve. This ensures they can rapidly deploy capital, if only between themselves and European and Japanese banks. The second factor in there is no alternative at this stage to the dollar. There are debates over the merits of gold reserves and special drawing rights SDRs. However, in times of crisis private banks and investors demand immediate action on the part of government, as evidenced in 2008. The 2008 crisis represented a banking crisis, with overleveraged banks indebting themselves beyond the value of their assets. With such large government bailouts of the banks, it may yet produce a sovereign crisis, with government debt becoming the cause of crisis. The effect of this scale of crisis may potentially lead to a war or a new Bretton Woods type conference and nations with large stockpiles of gold will have a significant advantage in any negotiations.

³⁵⁴ W, Engdahl. *Gods of Money: Wall Street and the Death of the American Century*. Progressive Press, 2011. p, 34.

The US, as a major economic and financial actor prior to World War Two saw a significant demand for its liquidity. The balance of payments between Europe and the US was a significant issue before and after World War Two. World War One saw western governments take on large debts to finance war spending.³⁵⁵ Soon after the Bretton Woods conference, balance of payments with Europe again became a problem. F.J. Gavin (2004) demonstrated how the cost of US deployments to Europe during the Cold War increased the balance of payments with Britain and France in particular.³⁵⁶ This situation manifested in the abandonment of the gold standard in 1971. Since this time, the world economy has operated on a US dollar standard with an ever-ballooning US deficit. Despite this, some argue that the ability of the US to abandon the gold standard in fact reflected US strength.³⁵⁷ Even after the 2008 crisis, the dollar strengthened its role as the world's reserve currency, just as it did after the 1971 dislocation from its partial gold backing. This is not to say that the dollar is invincible, just that it demonstrates the persistent nature of the dollar in the world economy and so far its resilience to crises of differing kinds and the lack of a viable replacement, or willingness to use or find one, on the part of foreign governments or corporations. The dollar's entrenched position may therefore be its ultimate advantage.

³⁵⁵ R. Higgs, *Government and the Economy: The World Wars*. No. 59. Working Paper, 2005.

³⁵⁶ Gavin, Francis J. *Gold, dollars, and power: the politics of international monetary relations, 1958-1971*. UNC Press Books, 2004.

³⁵⁷ S, Strange. "The Persistent Myth of Lost Hegemony." *International organization* 41, no. 4 (1987): 551-574, R Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton University Press, 2005.

In concluding, it is important to consider the current geopolitical situation regarding the dollar. Since the 1970s, the US has experienced a decline in its absolute hegemony; this is most noticeable when compared to the period from 1945 1970.³⁵⁸ This is due to several broad movements in geo politics. These changes include the independence of former European colonies, the integration of China into the world economy and the increasing technological parity of competitor nations to the US such as China and Russia. After the Soviet Union collapsed in 1991, US world hegemony seemed secure.³⁵⁹ This presents an obvious contradiction with the previous assertion that US hegemony has experienced a decline since the 1970s. In considering this problem, it may be more accurate to say that with more actors joining the world system and seeking their share of resources, global political hegemony o the US has decreased marginally. This means that the US must consider a multiplicity of views and actors in the world system. Examples of this include the minimal support for the US war against Iraq in 2003. The US had to withdraw a resolution for the war in the UN Security Council.³⁶⁰ Another example is efforts by the US to keep nations from joining China's Asian Infrastructure Investment Bank (AIIB).³⁶¹ The dollar remains the world's reserve currency and primary oil trading currency however. This indicates that if US hegemony is to be seriously challenged a fundamental change in the structure of the world economy and its associated financial structures has to occur. Given the passage of time, this may eventuate over the course of decades or centuries.

³⁵⁸ M, Hudson. *Global fracture: the new international economic order*. Pluto Pr, 2005.

³⁵⁹ C, Krauthammer. "The unipolar moment revisited." *The national interest* 70 (2002): 5-18.

³⁶⁰ N, Chomsky. *Hegemony Or Survival?*. London: Hamish Hamilton, 2003.

³⁶¹ R, Wittol. "Beijing's Challenge to the Global Financial Architecture." (2015).

The central question that surrounds the US dollar and its world reserve standing is how long can the dollar remain as the world's reserve currency? Chapter 6 examined this question in detail. There are two broad schools of thought on this topic. They are broadly defined as declinists and non-declinists. Declinists generally hold that the end of US hegemony is ending sooner rather than later. This is due to several factors; the emergence of China coupled with the other BRIC nations, the increasingly difficult financial situation of the US, and the movement away from the dollar and its world's reserve function. Non-declinists, believe that the increasing role that China is playing in the world system are overstated. Particularly as China's GDP is less than that of the US and the reach of its financial institutions is extremely limited. Likewise, China has no internationally focused financial bodies such as the US based World Bank or IMF that are international extensions of domestic power, nor is Chinese military power, and reach, as extensive.³⁶²

Critical consideration of these factors suggests that the world system is moving towards a diffusion of power based around spheres of influence, centered on nations that have a strong core in their global region. China is the obvious core in the Asia Pacific region. The European Union holds influence in Western, Southern and Central Europe. Russia, despite its reduced sphere of influence since 1991, retains its global significance given its energy reserves and nuclear arsenal. The US is strong and resurgent in Latin America, its traditional 'backyard', and

³⁶² DoD, U. S. "Military and Security Developments Involving the People's Republic of China 2017: Annual Report to Congress." (2017).

in the Middle East given its multitude of military bases and relationships with regional client regimes. However, Chinese, Russian, Iranian and Turkish influence is steadily increasing.³⁶³

There US dollar has held a unique position in world economics and finance since World War Two. It is the most important currency through which global trade is conducted. The status the dollar has enjoyed in this regard has conferred a large degree of power and freedom of action on the US government, an 'exorbitant privilege'. How much longer this system can continue is unknown and predictions to gauge this possibility have proven wrong in the past. As the world system as it emerged after WW2 moves further into the past, the global distribution of power is becoming more diffuse. The structures and momentary circumstances in history that gave rise to US hegemony are being challenged by emerging powers for a range of reasons. It may be that now the US is slowly moving to the periphery of the world system and peripheral nations will hold increasing importance in the coming decades.

³⁶³ L, Hindy. A Rising China Eyes the Middle East, The Century Foundation, 6 April 2017, accessed 11, July, 2017, <https://tcf.org/content/report/rising-china-eyes-middle-east/>, G. M. Lerner, In Turkey, US loss is Chinas Gain, The Diplomat, 31 January 2017, 11 July , 2017, <http://thediplomat.com/2017/01/in-turkey-us-loss-is-chinas-gain/>

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