Will the Dollar Remain the Reserve Currency?

Is the rising global chorus to replace the dollar a reflection of far deeper problems in the world financial system?

Two dozen noted observers share their outlook.

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A tectonic shift is beginning.

WILLIAM H. OVERHOLT
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For the foreseeable future, the dollar will be the world's largest reserve currency holding and the most important currency for financial security. Only the dollar provides the deep pool of liquidity necessary for massive crisis trades. Only the U.S. Federal Reserve is trusted to act decisively in crises. The euro is a collection of puddles of liquidity and the ECB is not seen as decisive. While U.S. economic policy and stability are questioned, relative to the European Union and Japan the U.S. position continually strengthens.

Beneath that position, however, a tectonic shift is beginning.

The rise of the rest, particularly China, steadily dilutes the importance of the United States. Countries gradually diversify their reserves. Asian swap agreements gradually dilute the importance of dollar liquidity. Denomination of trade in euros grows steadily, in RMB spectacularly. China's ¥2.4 trillion of active swap agreements promote local currency trade and investment.

Second, the Fed is mobilizing resistance to the dollar. The first big decline in the role of the dollar followed the 1971 dollar devaluation, which helped stimulate the subsequent emergence of the euro. Then-Treasury Secretary John Connally dismissed foreign pain with "It's our currency, it's your problem," and other countries reacted. In today's more globalized world, Fed policies are spreading much more pain—property and debt bubbles, inflated prices of staple foods, resultant political instability—over a much longer period of time. While Germany belatedly modified its inward-looking approach to monetary policy just enough to save Europe, the United States has failed to modify Fed norms to befit its hegemonic global role. While Connally's bluntness has been replaced by bureaucratic professorialism, the message is still "It's our currency, it's your problem," supplemented in foreign eyes by "Let the Egyptians eat cake." In a world out of balance, with unusual, aggressive, and distortive monetary policies, there is a vacuum in the international monetary system. The debilitating consequences for the dollar's role will dwarf 1971.

Third, reactions against the widespread U.S. use of sanctions against any institution that clears in dollars and offends U.S. foreign policy have been dramatic. A rush into Hong Kong dollar transactions, to avoid U.S. clearing, has strained Hong Kong monetary authorities' ability to manage the huge surges. Major institutions now avoid SWIFT and CLS because clearing through U.S. firms entails risk of future sanctions. If the stampede continues, this will weaken U.S.-based clearing institutions and evolve away from U.S. dollar proxies to unlinked substitutes.

U.S. refusal to reform and expand the International Monetary Fund and World Bank has backfired. China Development Bank is now more important than the World Bank. Together with originally small initiatives like the BRICS bank and the Asian Infrastructure Investment Bank, this may create a rapidly expanding RMB-based sub-system.

The dollar is secure against challenges from the yen and euro. The RMB currently lacks characteristics of a global currency, including deep, open capital markets, a trusted legal system, and market-determined currency and interest rates. But these weaknesses may fade quickly. The RMB has already surged past the euro as the second currency of international trade. A quarter-century from now, the global monetary system may have two major currencies, the dollar and the RMB, and highly diversified swaps and foreign exchange reserves rather than dollar hegemony. Only if Europe unifies politically could the euro become a co-leader.

Triffin's prediction was wrong, but his concerns were valid.

WILLIAM R. WHITE
Chairman, Economic Development and Review Committee, OECD

The dollar remains the world's main international reserve currency. This dominance has been maintained in spite of a sharp fall in the share of global GDP produced by the United States and a continuous rise in the net external liabilities of the United States. Decades ago, economist Robert Triffin predicted the latter would eventually undermine confidence in the dollar, potentially leading to a crisis that would cause great harm to everyone—including the United States.

Why has this not happened? One reason is that core factors supporting the international use of the dollar remain in place. To this first mover argument must be added simple inertia and the fact that there is no obvious candidate to replace the dollar. True, in some areas other currencies are being used along with the dollar, but the pace of change has been slow and this seems likely to continue. A variety of fears and institutional shortcomings still limit the international usefulness of other currencies. In sum, the future of the dollar's reserve currency status seems quite certain.

Yet to say something could happen is very different from saying something should happen. Triffin's initial concerns remain valid. Albeit interrupted by sharp upward spikes, the effective value of the dollar has been declining since the breakup of the Bretton Woods system. Holders of dollar-denominated assets have thus for years been suffering steady losses, or at least relatively low rates of return. Nevertheless, the decline in the dollar has not led to a current account adjustment sufficient to stop the rise in net foreign debt. At some point, perhaps sparked by political deadlock and fiscal dominance in the United States, the long-awaited crisis could yet materialize.

However, this failure of the external adjustment mechanism is only one of many reasons for suggesting we need to revisit urgently the issue of the international monetary system. First, a wide body of evidence now indicates that "spillovers" from the monetary policies of the large advanced economies, not least the United States, affect other countries. Moreover, the cocktail of suggested protective measures, including "free floating," seems wholly inadequate. Second, global credit and monetary expansion is dangerously unanchored. Whether to push a currency down or to prevent it from going up, central banks around the world have expanded the size of their balance sheets by unprecedented amounts. Given the complexity of cross border interactions, we simply have no idea how all this might end. Third, in the event of a crisis calling for significant international liquidity support, the source of that support is by no means obvious.

Since the breakdown of Bretton Woods, we have had a non-system, devoid of rules, in which every country acts in pursuit of its own short-term interests. It needs to be replaced with a cooperatively agreed system that will avoid the dangerous shortcomings described above. In this way, the longer-term interests of all countries, including the United States, will be better served.

There are no plausible candidates to dethrone the dollar. That is bad news for the U.S. economy.

JOSEPH E. GAGNON
Senior Fellow, Peterson Institute for International Economics

Nothing should ever be taken for granted. Research shows that inertia matters for a reserve currency, but it is not everything. Also important are economic size and openness, macroeconomic stability, and financial policies that encourage or discourage a currency's use by foreigners. On these criteria, there are no plausible candidates to dethrone the dollar in the foreseeable future. That is bad news for the U.S. economy.

Once upon a time, in a world of scarce capital, the so-called "exorbitant privilege" of the United States—that is, the ability to borrow cheaply from the rest of the world—may have been a worthwhile benefit of the dollar's role as the world's premier reserve currency. In today's world of currency wars and zero interest rates, governments want to lend abroad rather than borrow. They send capital abroad to push down the values of their currencies in order to boost exports and economic growth. Official purchases of foreign exchange reserves and other foreign assets—mainly U.S. dollars—have exploded since 2000 to unprecedented levels as a share of global GDP. Some countries go further and actively discourage or prohibit foreign purchases of their currencies, most notably China and, intermittently, Brazil.

Unfortunately for the U.S. economy, the U.S. government has been unwilling to take effective measures to level the playing field. Such measures could include selling comparable quantities of dollars in exchange for foreign currency reserves, taxing foreign purchases of dollars, and eliminating some of the many exemptions on the U.S. withholding tax on income earned by foreign holders of U.S. assets. None of these measures contravenes international law. All of them would offset the recent upward pressure on the dollar that is threatening the gathering U.S. economic recovery.

By the way, the currency in which oil or other international commodities are priced has no economically meaningful implications. Commodity prices are highly volatile regardless of the currency in which they are quoted. Deep global foreign exchange markets make it equally easy to pay in dollars, euros, yen, or any other currency whose trading is not restricted by its own government or by international sanctions. The power of such sanctions depends on the collective economic weight of the countries that enforce them and not on the currency of the underlying transactions; U.S. banks are not allowed to deal with many Iranian institutions, whether in dollars, rubles, or rials. What does matter is the currency in which commodity exporters hold their earnings. The problem again is too much holding of dollars, not too little.

It is both certain and uncertain!

MOHAMED A. EL-ERIAN
Chief Economic Advisor, Allianz; Chair, President Obama's Global Development Council; and author,* When Markets Collide *(2008)

It is both certain and uncertain! And this is not a contradiction or a cop-out answer. It is in fact a prediction of what is likely to happen absent comprehensive reforms at the national, regional, and global level. Let me explain.

There is no other currency either able or willing to replace the dollar as the world's reserve currency. This is true whether one looks at the euro, yen, or yuan. Also, there is no country in a position to displace the United States as the provider of quite a long list of global public goods. Moreover, in a world that has lost interest in multilateralism and the delegation of national sovereignty that comes with it, there is also no composite of currencies or grouping of countries that can replace the role of the dollar and the United States in the international monetary system.

These realities are likely to persist for quite a while. Indeed, I am quite sure about that. So since essentially you cannot replace something with nothing, the dollar's status as the world's reserve currency will not disappear any time soon. But that is not to say that the role is omnipotent. Far from it.

Absent comprehensive reforms, the status of the dollar—and the seigniorage and influence that the United States derives from it—will apply to a gradually more fragmented and less cohesive international monetary system. This is already evident in the surge in the number and coverage of bilateral payment agreements between countries—the equivalent, if you like, of single pipes that are purposely constructed to go around the established network of long-standing pipes. Under such agreements, most transactions are settled bilaterally, often bypassing the dollar altogether.

Look for the U.S. dollar to retain its reserve currency status but do so in a changing international context. It will remain the unquestioned global conductor, but its influence will apply to a gradually smaller orchestra of transactions (with some parts deciding to opt for a different script altogether). And the longer comprehensive reforms are delayed, the greater the efficiency losses for the global economic system as a whole.

The United States would be better off without the dollar as reserve currency.

JOHN WILLIAMSON
Senior Fellow (retired), Peterson Institute for International Economics

Most economists, unlike most other policy analysts, think that the dollar's reserve currency status is a dubious blessing to the United States. The reason for this judgment is that having the principal reserve currency involves a trade-off: the blessings of being able to finance deficits (and debts) cheaply, versus the loss of an independent exchange rate policy. Most non-economists do not much care about how the exchange rate is determined, which explains their attachment to the dollar's reserve currency role. Personally, I think the United States would be better off without it.

Nevertheless, I expect to see the dollar retain its reserve currency status for the rest of my lifetime (though not for the lives of those much younger than me). The reason for this is the lack of a plausible alternative. The euro looked a likely candidate, until it entered into crisis. The yuan is likely to become a plausible candidate at some date in the future, but it is not at present convertible on capital account and is still *de facto* pegged (albeit crawlingly) to the dollar. The SDR has the conditions to be a good candidate, but getting the international community to live up to the obligations it expressed with respect to the SDR seems hopeless, so this is a non-starter.

This is not to say that there will not be a continuation of the trend toward a multi-currency system. The point is that the secondary reserve currencies will continue to be secondary, in the sense that an incompatibility of payments objectives will still be resolved at the expense of the United States, by a dollar appreciation, since the United States is the only country that exhibits an elastic supply of credits. Other countries may not intervene, but if they determine their supply of credit more or less exogenously, then their payments positions will not deteriorate greatly in response to an increased demand to hold their currency as reserves.

Ultimately this situation will implode, because of increasing U.S. external debts. If there is then available an alternative currency which commands the necessary attributes, including an elastic supply, then the dollar's reserve role will end. The $10 trillion of dollar-denominated external debt (or maybe by then it will be $20 trillion, or $30 trillion) will depreciate, and there will be much bad blood between the United States and its creditors, but it would be unwise to treat this as a constraint on policy. The end of the pricing of oil in U.S. dollars will be a consequence of this development, not a cause. All this will make (or would have made) some of us happy.

The renminbi will gain prominence as an international currency.

JULIA LEUNG

Julius Fellow, Chatham House, and Former Under Secretary for Financial Services and the Treasury Bureau, Government of Hong Kong SAR

The flip side of the question is whether the renminbi will become a global reserve currency that can challenge the dollar's dominant status. The answer is yes, the renminbi will gain prominence as an international currency; yes, the future international monetary system will be multipolar instead of dollar-centric; but no, it won't replace the dollar as the dominant reserve currency in our lifetime.

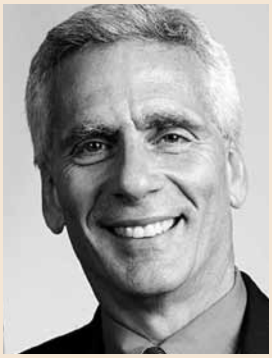
The rise of the renminbi as a global currency would provide a much-needed diversity and balance to the dollar-dominated international monetary system. The problem today is that the great majority of the global supply of liquidity is in dollars, and this supply of liquidity fluctuates along with the monetary and financial conditions of the United States. During the financial meltdown in 2008, there were chronic shortages of dollar liquidity everywhere. When the U.S. Federal Reserve lowered interest rates to zero and embarked on quantitative easing, a wall of money came rushing to the other markets in search of higher yield.

Following the collapse of Lehman Brothers in September 2008, Asian economies were hit by the deleveraging of international banks to bring dollar liquidity back to rescue their parent banks. When the tsunami of money returned, hot money inflows exerted upward pressure on the value of emerging Asian currencies and fueled credit and asset booms. But at the slightest hint of a rate increase for the dollar, such as the Fed's surprise announcement in May 2013 that it would taper its asset purchase program, money flowed out of Asia to seek the safe haven of dollar assets.

These episodes have underscored a global shortage of diversified safe assets that have accentuated the volatility of cross-border flows, which in turn have posed big challenges to monetary and financial stability in Asia. To cope with this challenge, Asian central banks, as a self-insurance policy, have been accumulating foreign reserves for drawing down to relieve liquidity shortages and to smooth excessive fluctuations to currency markets. This kind of self-insurance is a reflection that Asia is unable to rely on the U.S. Fed to provide dollar liquidity (the Fed has signed currency swap agreements with only two countries in Asia, Korea and Singapore) or unwilling to rely on the International Monetary Fund for liquidity assistance.

The case for Asian countries to embrace the "redback" to provide diversity and therefore stability to the international system is compelling. Many Asian central banks have obtained quotas to invest in RMB reserve assets. They have also signed bilateral currency swap agreements with the People's Bank of China and are keen to build a clearing platform in RMB to replicate the success of Hong Kong's offshore RMB center. The shift from the dollar is taking place most rapidly in the international trade sector, where 15 percent of China's trade and services are denominated in RMB, up from a negligible amount only five years ago. In Hong Kong, there is a fledgling RMB-denominated debt and mutual fund market that has attracted Asian and other international institutional investors seeking to diversify from dollar assets.

But it will be a long time before China's capital markets become deep, liquid, and freely accessible to foreigners, prerequisites for the RMB to become a truly global reserve currency that could threaten dollar dominance.



A diminished role for the dollar could help break a vicious cycle.

JARED BERNSTEIN
Senior Fellow, Center on Budget and Policy Priorities, and former Chief Economist and Economic Adviser to Vice President Joe Biden

It does not make sense to worry about the dollar's status as the world's dominant reserve currency. Instead, the goal should be for currency values to be set in international markets based on their fundamentals, not by surplus countries who manage their currencies by accumulating reserves.

That may sound cavalier to those who believe king dollar must forever reign. But I ask those who have that reaction to consider the fact that our global trading system has for decades been fraught with systemic imbalances contributing to the economic "shampoo cycle"—bubble, bust, repeat—in which we've been stuck. A diminished role for the dollar could help break that costly, vicious cycle.

Contrary to common sense and balanced development, capital has flowed from developing to developed countries, a point observed by Ben Bernanke back in 2005 when he chaired the Federal Reserve. Meanwhile, in the United States we've run trade deficits every year since 1976, averaging -2.4 percent of GDP, and -4 percent since 2000. We've offset that drag on demand by budget deficits and bubbles, both of which have been financed by excess foreign savings from surplus countries.

Central banks in these countries accumulate dollar reserves in order to suppress the value of their currencies relative to ours so as to boost the net exports. But global accounts must balance, and when "currency accumulators" save more and consume less than they produce, other countries—"currency issuers" like the United States—must balance the identities by saving less and consuming more than they produce (that is, run trade deficits).

This is not a morality tale. It is not a tale of profligate Americans versus thrifty Chinese or Germans. If these trade-surplus countries suppress their own consumption and use their excess savings to accumulate dollars, trade-deficit countries must absorb those excess savings to finance their excess consumption or investment. In doing so, they export labor demand, in the U.S. case in the form of millions of better-than-average jobs.

The dollar's reserve status is integral to these dynamics, as it is one of the main currencies the accumulators collect in their efforts to suppress the value of their own currency. To be clear, I am neither arguing for a weak nor a strong dollar, but for one whose value is set by markets. (For the record, that makes me the "free trader" in this debate!)

Thus, when the ECB writes, "The dollar's dominance should not be taken for granted," my response is: the dollar's dominance should not be defended.

The world is gradually evolving toward a multi-currency system.

EDWIN M. TRUMAN
Senior Fellow, Peterson Institute for International Economics

The relevant question is not about the dollar's role as a reserve currency held by other governments, but as an international currency used in private transactions and investments. The private international role of the dollar drives its reserve role.

The world is gradually evolving toward a multi-currency system in the context of increasing economic and financial globalization even though those trends are under some threat of reversal. The U.S. dollar's share in international finance has declined a bit but no other currency has challenged the dollar, and the overall pie is expanding very much faster so that the dollar's absolute role continues to increase dramatically.

Absent a succession of major economic, financial, or political mistakes by the United States, the dollar will continue to be the most important (dominant) international currency for the foreseeable future. We have just been through the most serious global financial crisis of the post-World War II period, with the United States as its epicenter, but the dollar's role is larger than ever. It is an open question whether this benefits the United States on balance, but it is certainly advantageous for the global financial system.

We could eventually see a global system with three blocs.

JÖRG ASMUSSEN
Permanent State Secretary, Federal Ministry of Labour and Social Affairs, Germany, and Former Member of the Executive Board, European Central Bank

The international monetary system is currently largely focused on the U.S. dollar as the dominant reserve currency, with a share of more than 60 percent of global foreign exchange reserves (according to IMF data, which only cover the currency composition of 53 percent of global reserves). The share of the euro in global foreign exchange reserves continued to decline in 2013 to roughly 25 percent. However, economist Barry Eichengreen argued in 2005 that the dominance of the U.S. dollar as an international reserve currency is not insulated from the risk of a reversal, especially if the U.S. current account deficit and the fiscal position are not brought to more sustainable levels. For a long time, a key issue has therefore been how the international monetary system can be reformed to avoid the rise of global imbalances and make the system more stable and resilient.

Some argue that despite the existence of an international financial market that has grown enormously and decreased transaction costs, positive network externalities are still working to the benefit of the dominant currency today. Some take the argument even further, stating the optimum would be to have just one international reserve currency, but today's global market is sufficiently liquid and transaction costs are low, which means that multiple currencies can reach the scale necessary for network externalities to have an effect.

Europe has, in my view, a strategic interest in supporting an emerging multipolar currency system in which there are multiple reserve currencies. According to economist Ewe-Ghee Lim, there are five factors that facilitate international currency status: large economic size, the existence of a well-developed financial system, confidence in the currency's value, political stability, and network externalities. Additional features for currencies that assume reserve status are large-scale current account and financial account convertibility, an independent central bank, a high degree of capital mobility, surveillance of economic policies, and cooperation of monetary policymaking at regional and multilateral levels. To date, the U.S. dollar has dominated the international scene on account of its fulfilling almost all of the criteria. The main challenge facing the euro, the yuan, and other emerging market currencies in becoming international reserve currencies is developing deeper domestic financial markets through which positive network externalities and a wider use of reserves in private sector transactions can arise.

Looking forward, the U.S. dollar will remain the dominant global reserve currency, but its relative position will decline. The contribution of the euro to the stability of the international monetary system will primarily be assessed against economic performance in the euro area itself and the euro area's success in safeguarding financial stability and augmenting potential growth. The enormous market size and financial depth of the euro area are properties that make the euro a credible candidate for an increased international role. The euro can reinforce its role as a global reserve currency only once the euro area succeeds in reestablishing policy credibility. In order to secure this role, the euro area must advance with a much deeper degree of financial, fiscal, and political integration. The euro's reserve role will help other nations integrate into a multipolar currency system. By 2020–2030, many more financial and trade transactions will be conducted in the currencies of China or Brazil. Where could these trends end? Maybe in a global system with three blocs: The U.S. dollar area, the euro area (the euro is already today an important anchor currency for many Eastern European and African economies), and the yuan area. But Asia especially has a long way to go.

The "success" of a currency depends on its ability to become the "symbol of freedom and opportunity."

LORENZO CODOGNO
Chief Economist, Italian Treasury

Since the beginning of the last century, the "consensus forecast" among science fiction writers and futurologists has favored an unstoppable rise of a new (and still to be invented) single virtual currency over the next centuries, likely named "credit," or even "kalganid" as conjectured by Asimov.

As opposed to the futurologists' views, the lesson learnt from historical experience is that no single currency has ever increased indefinitely its weight in international trade and financial markets. Many currencies have appeared and disappeared over time.

Despite Asimov's fascinating insights and the history of humanity, the message from global foreign exchange markets since the 1990s appears to be one of remarkable stability. Turnover has been dominated by the same four currencies (the U.S. dollar, the euro, the yen, and the UK pound sterling), with the only novelty being the entry of the euro, replacing euro area currencies. What is more, the relative shares of each currency have not changed too much either, taking into account the macro trends and the temporary shocks that have reshaped the world economy.

Among the top four currencies, the U.S. dollar has led the pack by a large margin. Only a percentage ranging from 10 percent to 15 percent of total turnover does not involve the North American currency as a counterpart. Unexpectedly, the weight of the U.S. dollar has not fallen, not even during the latest world crisis. By contrast, the share of international reserves held in U.S. dollars has fallen from about 60 percent to less than 40 percent since 2000. The second international currency, the teenager euro, is still excluded from two-thirds of the foreign exchange turnover and represents 25 percent of international reserves, up from 18 percent in 1999. About 30 percent of international debt securities are denominated in euros and the euro has increasingly attracted foreign investment.

Indeed, the role of reserve currency is not only related to its domination in international trade or forex markets, and it is not even related to the capacity of a currency to preserve over time its value and the confidence of investors. The "success" of a currency depends rather on its ability to be an essential part of highly integrated and efficient trade and financial/capital markets, where money, commodities, people, and ideas circulate freely, such that the currency becomes the "symbol of freedom and opportunity," as conjectured by author Jorge Luis Borges in "The Zahir." This was true even for salt, despite its perishability, for a long period after the Iron Age. This also explains why the gold standard finally collapsed, despite the fact that gold is an almost ideal reserve of value.

The lesson for the dollar, the euro, and possibly for other currencies as well, is twofold. First, no currency can play a major international role if not within the context of free trade and flows of people and knowledge. Second, the euro is destined to increase its importance and challenge the dominance of the U.S. dollar only if the European Union ensures political stability, no break-up risks, and true common banking and capital markets. Rather than "One currency, one market," it should be the other way around: "One market, one currency."

The dollar's position is even more secure than it was a few years ago.

STEPHEN G. CECCHETTI

Professor of International Economics, Brandeis University, Commentator, www.moneyandbanking.com, and former Economic Adviser and Head of the Monetary and Economic Department, Bank for International Settlements

While it's true that the United States may be forced to share the exorbitant privilege someday, the dollar's position as the world's reserve currency is even more secure today than it was a few years ago.

Since the industrial revolution, there have been only two currencies that have led in international use: the UK pound and the U.S. dollar. While the pound led before 1914, the dollar rose rapidly in importance thereafter, with both currencies playing leading roles during the inter-war period.

I draw four lessons from history. First, over the past two hundred years, the two currencies that served as the leading international means of exchange both benefited from reliable legal systems with independent judiciaries that efficiently enforce property rights backed by a stable political system. Second, by 1880, the U.S. economy was larger than the United Kingdom's, but the dollar was barely used abroad for the next thirty years. By 1914, when the dollar began its ascendancy, the United States was the leader in world trade and its economy was more than double the size of the United Kingdom's. So, an economy's size alone does not make its currency an international leader.

Third, the rise of a new international currency requires effective financial markets and institutions, in addition to a supportive external environment. Between 1914 and 1929, many things happened. Two stand out. The Federal Reserve, which began operating in late 1914, promoted the rapid expansion of U.S. financial markets, including short-term instruments (bankers' acceptances) where foreign investors could park their holdings of

U.S. dollars and foreign borrowers could raise funds. In addition, World War I forced the European combatants, including the United Kingdom, off the gold standard for a decade. By contrast, the United States was able to maintain this commitment, giving the dollar a leg up on the competition.

And fourth, two currencies (or more?) can play a leading role together for some time, as the pound and dollar did in the 1920s and 1930s. Portfolio diversification favors such multiple currency regimes. What we don't know is how stable such a regime would be. Scale economies lower transaction costs and concentrate liquidity. The greater the scale economies, the more likely it is that one leader will emerge from the competition. While the recent research suggests these economies are small, the issue is far from settled.

This all suggests that the dollar's place is secure. U.S. financial markets seem likely to remain accessible and attractive to investors for some time to come. And the U.S. political and economic system is relatively stable. In the end, the recent upheavals in Russia and the Middle East, as well as the continued instability in Europe, have strengthened the dollar's position.

Only Americans can undermine the dollar's status, and even that will be difficult.

RICHARD N. COOPER
Maurits C. Boas Professor of International Economics, Harvard University

The U.S. dollar will not disappear any time soon, meaning for several decades at least. Its role may diminish in relative terms, especially as direct transactions between the euro and the yuan build up, as now permitted and encouraged by China. But that is consistent with continued growth in the international role of the dollar as the world economy grows and gradually shifts away from Europe for demographic reasons.

It is an illusion to believe U.S. monetary policy plays a large, not always welcome, role in the world economy because of extensive worldwide use of the dollar. U.S. monetary policy is important because of the large size of the American economy, the even-larger relative size and coherence of U.S. money and capital markets, and property rights secured by law and by a relatively impartial judicial system to settle disputes. The U.S. dollar has become widely used for similar reasons—the effect, not the cause—and by now, like the widespread use of English, enjoys large network externalities, under which widespread use reinforces widespread use. These will not go away soon, despite Russian and Chinese official rhetoric. Only Americans can undermine them—and even that would not be easy, as the U.S.-originated financial crisis illustrated.

The dollar will remain the reserve currency.

HOLGER SCHMIEDING
Chief Economist, Berenberg Bank

The U.S. dollar will remain the world's favorite reserve currency for the foreseeable future. The greenback has no real match anywhere else. The euro lacks the global reach of the dollar. The eurozone's market for sovereign bonds and bills remains fragmented whereas U.S. Treasuries are traded in a uniform, big, and liquid market. The Chinese renminbi is a long way from challenging the preeminence of the dollar.

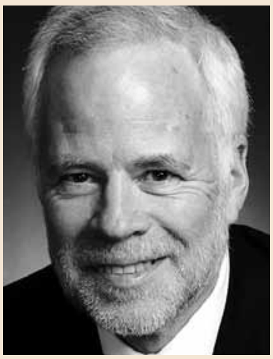
Of course, China and other large and rising emerging markets will push for their own trade to be settled more and more in their own currencies. As the share of the dollar in global trade finance continues to slide, countries will have less reason to stabilize the exchange rate and to hold dollars in reserve to pay for a few months of imports in case of need. That will strengthen demand for the renminbi and some other currencies. Also, the renminbi and other formerly exotic currencies will play a stronger role in global financial flows. But this will not suffice to dethrone the greenback.

One obvious if modest argument for the dollar as the key reserve currency in the future is that the biggest reserve accumulator of all, China, cannot hold its own reserves in renminbi. After all, we are talking about foreign exchange reserves here. Most of China's reserves will likely remain in dollars, with euros as the number two reserve currency.

More importantly, foreign exchange reserves are not just an instrument to stabilize exchange rates and finance imports for a while if export revenues suddenly dry up. Countries also accumulate reserves to protect themselves against major mishaps. When they invest such reserves, they want to be on the safe side. As a result, they tend to invest in big and liquid safe havens.

China and other emerging markets will likely lack this safe haven status for a long time to come. China is a one-party dictatorship with an uncertain political future in the longer run. It offers neither the rule of law nor the long-term political predictability of mature Western democracies. For how long will the ever-more-educated and self-confident citizens of China tolerate one-party rule? The United States does have serious longer-term problems as well, mostly with its entitlement programs such as Medicare. But while the United States may have some significant and contentious fiscal austerity and entitlement reform coming its way in some years, China may be facing the risk of a political revolution if the contrast between one-party rule and an ever-more-mature urban population becomes too stark.

Long-term investors in China incur legal and political risks far beyond those in the United States. For that reason, countries are likely to continue to use the U.S. dollar as the safe haven of choice for the bulk of their foreign exchange reserves for a long time to come.



I see no shift from the dollar.

BARRY EICHENGREEN
George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of California, Berkeley

The "old view" of international currencies (the terminology is due to Jeffrey Frankel) suggests that shifts from one dominant international currency to another tend to occur slowly, because network externalities are strong and the advantages of incumbency are great. This is in contrast to the "new view," which suggests that network increasing returns are not all that pronounced in our highly articulated twenty-first-century financial world, enabling central banks and investors to shift rapidly from one global currency to another. While I subscribe to the new view, I see no evidence of an impending shift from the dollar to an alternative. Sharp shifts occur only when the issuer of the incumbent international currency is deeply troubled and its rivals are taking effective steps to enhance the international attractiveness of their national monies. The United States today is not the United Kingdom after World War II. And neither the eurozone nor China is in as strong a position as America in 1945.

An RMB bloc is developing in Asia.

CHI LO
Senior Economist, BNPP IP (Asia) Ltd., and author,
The Renminbi Rises: Myths, Hypes and Realities of RMB Internationalisation and Reforms in the Post-Crisis World
(Palgrave Macmillan, 2013)

The world is getting impatient with the dollar's dominance in the global markets. Global central banks are starting to diversify their reserves out of the dollar. Meanwhile, China's renminbi has been building up momentum on internationalizing its global status. In just five years, it has climbed to being the second most-used currency (overtaking the euro) in trade finance and the seventh most widely used payment currency in the world, according to SWIFT.

Empirical research also shows that an RMB bloc is developing in Asia, set to displace the dollar bloc in the region. Since 2008, the RMB has increasingly become an anchor currency in Asia which the movement of the regional currencies has tracked more closely than the dollar and euro. The RMB is also being studied for its role as an alternative asset held in the official reserves.

If China continues its structural reforms to liberalize its capital account, the RMB would likely become the third major reserve currency after the dollar and the euro within a few years. This may sound shocking, but it is not. Each of the current third-largest reserve currencies, the Japanese yen and the pound sterling, accounts for only 4 percent of global central bank reserve allocation.

These developments have led some to argue that the RMB might be in a process to unseat the dollar as the global reserve currency. While the world may have lost confidence in some of America's economic policies, the more relevant point is whether other countries' (notably China's) policies command more confidence. This doubt underscores the inertia of the dollar global dominance.

The strength of the dollar in the wake of the subprime crisis, even though the crisis was of the United States' own making, consolidates its safe-haven role. The depth and liquidity of the U.S. Treasury market means that it is the only major financial market to function smoothly during a financial crisis. The euro has structural problems behind it that are creating doubts about its long-term survival. The yen is hamstrung by Japan's debt-deflation quagmire and the lack of structural reforms. The Swiss bond market is too small to accommodate central bank reserve flows, let alone the cross-border private sector and speculative flows.

So the dollar remains the only super reserve currency by default. The RMB will erode but not displace its global status simply because China suffers from a credibility problem. To China, the big question is whether it can use RMB internationalization as a means to kick-start deeper structural reforms to resolve its credibility problem. To the world, the process of the RMB's ascent will cause volatility in the global monetary order, but it will inevitably have to incorporate the RMB as a major currency in the future.

The answer is at neither extreme. For now there is no viable alternative.

MILTON EZRATI

Senior Economist and Market Strategist, Lord, Abbett & Co., and author,* Thirty Tomorrows: The Next Three Decades of Globalization, Demographics, and How We Will Live *(2014)

The answer is at neither extreme. Though the dollar dominates less than it once did and will continue to lose some ground in this regard, it will remain, and for a long time to come, the only currency able to serve as the world's global reserve.

To be sure, headlines create the impression that the greenback is in steep decline. The U.S. economy seems to have lost much of its former dynamism and growth potential, while Washington's economic policy is neither as clear-headed nor as reliable. Other countries, China in particular, have striven to give their respective currencies a higher international profile, including in the seemingly crucial oil trade. Even the International Monetary Fund and the United Nations have voiced a desire to see the dollar lose status, the former advancing as a substitute global reserve the special drawing rights (SDR) basket of currencies it has managed for years. And these are only some of the more prominent elements in the picture.

Yet the dollar has lost less in reality than in the headlines. It remains the world's most traded currency, accounting, according to the Bank for International Settlements, for 87 percent of the global total up from 85 percent in 2010. Its nearest rival in this regard, the euro, constitutes only 33 percent of the global total. Almost 90 percent of the world's trade contracts are written in dollars, even when an American is not part of the deal. For all the media coverage, only 1.5 percent of the world's trade contracts are written in Chinese yuan, and these always include a Chinese party. The dollar constitutes some 63 percent of the world's reserve holdings, down only slightly from 71 percent in 2000. Again, the euro is the next closest rival at a distant 23 percent.

This resilience speaks less to hidden American strength than simply to the lack of a viable rival. Though the world asks legitimate questions about U.S. policy and the U.S. economy, it also asks plenty of questions about other economies. China struggles to make a fundamental economic transition, the eurozone remains mired in a severe and protracted fiscal-financial crisis, Japan's economy stagnates, and Russia, having become a petro-economy, offers less stability than ever. Meanwhile, the dollar remains the only currency that can combine still-formidable economic backing with the broad, liquid, and open financial markets that are essential for global players to trade the global reserve actively, find repositories for their holdings in it, and do so under the rule of law so that none fears either arbitrary taxation or expropriation. The yuan fails on all these counts, as does the ruble. Sterling can offer the world adequate financial markets and the rule of law, but neither the UK economy nor the reach of its trade are sufficiently large. The euro can offer such qualities as well as size, but its ongoing crisis leaves questions about the future shape of its zone and even the currency's survival. Surely someday, a viable substitute will arise, but for now there is none.

The dollar will not be replaced.

GEORGE R. HOGUET
Global Investment Strategist, State Street Global Advisors

Global investors and policymakers need to think of the world in probabilistic, not deterministic, terms. While nothing in history is foreordained, the odds strongly favor that the U.S. dollar will be the world's principal reserve currency twenty years from now, even as the world gradually moves to a multiple reserve currency system. Why? The United States benefits from some well-known attributes. Despite the propensity for capture by special interests and limited ability to plan for the long term, the U.S. political system is one of the most plastic and stable in the world. Importantly, the United States has broad, deep, and liquid financial markets, including a short-term bill market, which makes it possible for global savers and investors to "park" money. The United States is a center of global innovation, including information technology, which is transforming work and play. America is the world's foremost military power, and likely to be so for some time. And macroeconomic policymaking in recent years in the United States has proved more tractable than in Europe or Japan.

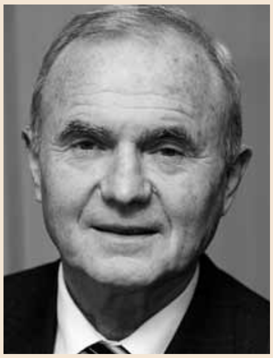
None of this suggests that U.S. policymakers should be complacent in addressing the country's medium-term fiscal deficits, tax code distortions, declining social mobility, uncompetitive primary and secondary school education system, and many other issues. But what are the alternatives?

The internationalization of the renminbi is proceeding apace, and many central banks are now investing a small portion of their reserves in yuan. Further, the share of world exports settled in renminbi is now roughly 17 percent, up from just 1 percent roughly eight years ago. And China has put into place many swap lines and is rapidly developing renminbi clearing mechanisms.

But China will need large institutional and market reforms before the renminbi can seriously challenge the dollar. These include: deposit interest rate liberalization and the elimination of financial repression; a fully developed yield curve; full capital account convertibility; and greater transparency and institutionalization of central bank policymaking. All of this will take time. And it is a mistake to think that the growing use of the renminbi as a vehicle currency, capital account liberalization, and fully developed reserve currency status will all proceed at the same pace. Further, China has not yet signed the IMF's Special Data Dissemination Standard.

Among the world's other principal reserve currencies, it is hard to imagine that economic performance in the eurozone, Japan, and the United Kingdom will seriously rival that of the United States in the foreseeable future. Further, the Special Drawing Right is a moving target with no lender of last resort and limited liquidity. Sovereign wealth funds could promote the development of a private SDR market, but seem disinclined to do so. Middle East oil producers, given security ties to the United States, are very unlikely to request payment in anything but dollars.

In sum, there is information in the fact that the U.S. dollar rallied in the global financial crisis, and that the founding documents of the BRICs New Development Bank and Contingency Reserve Agreement denominate initial contributions in dollars. The dollar's share of total global reserves will likely continue to fall gradually, but it will not be displaced as the world's principal reserve currency.



Geopolitics could reverse all extrapolations of present trends.

OTMAR ISSING
President, Center for Financial Studies, Goethe University Frankfurt, and Founding Member, Executive Board, European Central Bank

Nothing lasts forever, but the dollar will stay with us for a long time. We know from history that the role of leading international currencies tends to change only very slowly. This is best understood by considering the main factors which are the basis for the emergence of a national currency to this international role. These are the breadth, liquidity, and openness of domestic financial markets, the stability of the currency and confidence in its future stability, and the size, strength, and international linkages of the domestic real economy. Network externalities work in favor of the "incumbent."

There are no signs that the dollar might lose its "exorbitant privilege" in the foreseeable future. However, that does not mean the U.S. currency will not have rivals. The euro has established its role as the second most important international currency. While overall still far behind the dollar, in some markets like those for bonds and notes it even outstrips the dollar. Yet as long as EMU does not overcome its well-known problems, the euro will not further expand its role in the international monetary sphere. With the renminbi, another candidate has already entered the scene and any reasonable forecast is predicting a kind of tripolar monetary system.

Geopolitics, however, could reverse all extrapolations of present trends.

The U.S. dollar is far from being challenged.

DIANA CHOYLEVA
Head of Macroeconomic Research, Lombard Street Research, and co-author, **American Phoenix** ***(2011) and*** **The Bill From the China Shop** ***(2006)***

The global financial crisis undermined the market's confidence in America's financial system. But six years later, the United States is the only major economy which has rebalanced and the role of the U.S. dollar as a store of value in the world is far from being challenged.

America is on the cusp of raising interest rates after five years of unprecedented monetary ease and some worry the economy is not ready. The focus of their anxiety is the surge of government debt after the global financial crisis. True, government debt has risen at an alarming pace to counter necessary deleveraging in the private sector. But America hasn't just substituted public debt for private debt. It has purged its excesses one by one, restoring the underlying health of its economy.

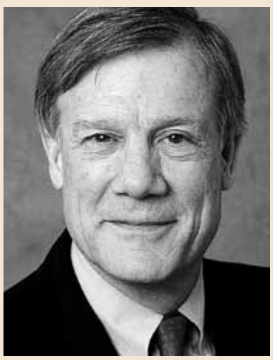
U.S. households were at the center of the debt crisis, but for them needed debt reduction has now come to an end. Based on the return of debt service cost to a historical average associated with no housing market trouble, U.S. household debt is no longer excessive as a share of income. Non-financial corporate debt has risen in the past couple of years, but the ability of firms to service this debt is way better than during the bursting of the dotcom bubble.

Turning to public sector debt, contrary to popular perceptions Washington has not bankrupted America. The government ran a counter-cyclical fiscal policy in the wake of the crisis, but it began to tighten its belt in 2010. The aggressive fiscal squeeze since then has brought down the primary budget deficit to a level which will be consistent with a stable debt-to-GDP ratio at 106 percent by 2015 if nominal GDP growth was 5 percent and the effective interest rate 3 percent.

Quantitative easing was instrumental in pushing through the external rebalancing that the United States needed by making the dollar competitive. An investment-led recovery will see America producing more of what it consumes at home. Shale energy has also lent a hand. U.S. firms are set to gain export market share and domestic share from foreign firms. Such a recovery will drive employment and wage growth rather than have firms invest to substitute capital for labor, fueling consumer spending in turn. Record profit margins may get squeezed but this could well be more than offset by higher sales.

Over the past decade some have argued that the euro or the renminbi could threaten the dominance of the dollar. But the euro area continues to be plagued by excess debt, and China has seen its debt rise at an alarming pace since the crisis. The euro area is sliding into deflation while China's growth has weakened sharply over the past three years. Both face painful and prolonged adjustment.

The dollar's role in denominating trade and for settling transactions globally is set to diminish, but its safe haven status and as such dominance as the global reserve currency remain uncontested.



The prominent role of the dollar has little to do with the dollar's reserve status.

JAMES E. GLASSMAN
Head Economist, Chase Commercial Bank, JPMorgan Chase

The U.S. economy with its open, deep, and liquid financial system has provided an important source of global stability in recent decades. Access to U.S.

markets has enabled impoverished developing economies, where more than half the world's population resides, to modernize and lift their living standards. The accumulation of $10 trillion of dollar assets by international bodies since the late 1980s—more than half of that is comprised of Treasury securities—has been by their choice, not something foisted on them by the United States. It is a result of the economic development over the last two decades that could not have been accomplished without the help of the advanced economies. The increase in holdings of dollar assets by international investors mirrors a $10 trillion cumulative U.S. trade deficit over that period. The enlarged U.S. trade deficit has been the result of decisions by emerging countries to open their borders and link up with the U.S. and global economies. As some academics have posited, this development is similar in spirit to the stability brought by the Bretton Woods dollar-gold exchange rate system after World War II. Outsized international holdings of dollars pose no threat to global stability.

The prominent role of the dollar in the global financial system has little to do with its perceived reserve status. Reserve currencies have become a secondary consideration as the global community has evolved toward floating exchange rate regimes. In contrast to the bygone era of fixed exchange rate systems, most countries no longer need to hold foreign exchange reserves to maintain fixed-currency pegs or to protect their currencies from capital flight.

The accumulation of dollars by international bodies is a byproduct of impoverished nations' ambitious development agendas. Naturally, trade balances between developing and advanced economies at first will be lopsided, given the limited purchasing power of poor nations. Developing economies would face enormous challenges if they were unwilling to hold surplus dollars they accumulate in trade with the United States. This is why China's $4 trillion in dollar holdings—$1.3 trillion of this is held in U.S. Treasury securities—parallels a $3.6 trillion cumulative trade surplus with the United States since the early 1990s. It is also why Russia's voluntary holdings of $115 billion of Treasury securities has paralleled a $194 billion cumulative trade surplus with the United States since the collapse of the Soviet Union.

Fears that international investors are vulnerable to the actions of the Federal Reserve are unfounded. For sure, the Fed will sooner or later remove its stimulative policies, and probably sooner than the central banks in the other advanced economies. But the Federal Reserve's aim to promote full employment and 2 percent inflation provides an important underpinning for dollar-denominated fixed income assets. All investors, domestic and foreign, would be in jeopardy if the Fed allowed an inflation threat to build. At the same time, thanks to the Federal Reserve's increased transparency, dollar-denominated assets already reflect an assumption (understanding) that the Federal Reserve will, over the next several years, remove its accommodative policy stance.

The global financial system faces little to no risk of a tectonic shift away from a dollar-centric international financial system. The accumulation of dollar assets, which is almost entirely voluntary, will gradually slow down as living standards and domestic consumption in developing countries expand. That will in time accompany greater balance in international trade and capital flows. This will be a matter of decades, however, and not years, with the living standard in the developing Asian economies for example—which have been quite successful—at levels enjoyed in the advanced economies that were last seen in the 1930s.

In that distant and promising future, students of history likely will be perplexed by the worries at the turn of the millennium about the dollar's high profile in international capital markets.

We may well see the emergence of a more multipolar international monetary system.

ANDREAS DOMBRET

Member of the Executive Board, Deutsche Bundesbank

The U.S. dollar has been the prime international reserve currency for decades. When assessing its future, we would do well to recall the critical conditions for becoming and remaining an important reserve currency. These conditions include the size of the economy, foreigners' trust in the stability of the currency, a robust and efficient legal and institutional framework, sound economic and financial policies, and deep and liquid financial markets.

By these standards, the U.S. dollar will likely preserve its leading role going forward. Even with China catching up, the U.S. economy will remain the largest in the world for the foreseeable future. U.S. financial markets are unrivaled, and investors' confidence in the political and economic framework, in particular in Federal Reserve policy, remains high. Even the global financial crisis, which originated in the United States, has not undermined confidence in the U.S. dollar. On the contrary, some contend that it has even strengthened the U.S. dollar's prominence in global finance because market participants regard U.S. dollar-denominated assets, notably U.S. government securities, as a particularly safe haven.

The euro area is facing specific challenges in the aftermath of the sovereign debt crisis which are weighing on the euro. Nevertheless, the euro clearly remains the second most important reserve currency despite a slight decline in recent years. It also plays an important role in all relevant market segments. The adherence to agreed rules and the implementation of institutional and structural reforms in Europe will be important for the future international role of the euro. Much has already been achieved, especially in the context of the forthcoming banking union.

The yen is laboring under a protracted period of subdued growth in Japan due to structural weaknesses. In the medium to long term, the renminbi, as the most important emerging market currency, has great potential to play a growing role in the international monetary system. The Chinese economy is the second largest in the world, and the Chinese authorities have intensified their efforts to foster the internationalization of the renminbi. However, some crucial preconditions still need to be fulfilled before the renminbi can become a truly international reserve currency. These include full convertibility, open and liquid financial markets, and a sound legal and institutional framework.

In the end, although the U.S. dollar can be expected to remain the prime international reserve currency for the foreseeable future, we may well see the emergence of a more multipolar international monetary system with multiple reserve currencies. This process will take time, however, as inertia and network effects work against new contenders. It will also be market-driven and cannot be imposed by national authorities or international organizations.

A reserve currency has to satisfy certain global needs.

HANNES ANDROSCH
Former Finance Minister and Vice-Chancellor, Austria

There have been many important international currencies through the ages—from the Greek drachma to the Roman denari and, more recently, the Dutch guilder, sterling, and the dollar. Not all have been reserve currencies in the accepted sense of today, but all have been preeminent due to the importance of the issuing country in regional or global affairs during the era. The present importance of the dollar is based on several factors, not least that the United States accounts for about 20 percent of global GDP, more than any other nation. Its political influence is greater still, given that it can count on the European Union and Japan among others as close and supportive allies.

But North America's share of the world's population peaked at around 7 percent in 1950, and is about 5 percent today. The economic power of the United States is clearly based on an unequal distribution of global resources; this is unlikely to last forever. The long-term, international role of the dollar could depend on such considerations as they are psychologically important. Nevertheless, almost 98 percent of foreign exchange transactions, where the U.S. dollar is the dominant vehicle currency, are not trade-related, so other factors are also important.

In 1860, the United Kingdom was the main exporter of goods and services, and 60 percent of world trade was invoiced in sterling. The importance of the dollar grew steadily after World War I and this was officially recognized when the dollar became the anchor currency in the global system under Bretton Woods. In the 1960s, this arrangement was described by Valèry Giscard d'Estaing as an "exorbitant privilege," reflecting that a reserve currency country could run current balance of payments deficits without ever having to redeem the assets provided in exchange. Whether this benefit is truly "exorbitant" is not entirely obvious. First, the reserve currency country can be rocked whenever the international community loses confidence in the integrity of the currency. Second, the reserve currency country is required to safeguard the purchasing-power stability of the global money supply if it wants to maintain the "privilege." These impose significant constraints on domestic economic policy options.

In 1975, OPEC ratified a scheme brokered by Kissinger two years earlier to establish the dollar as the invoicing currency for oil. The role of the dollar was assured, not only as the global numeraire, but also as the currency of settlement. This effectively headed off an incipient threat from the deutsche mark, the perennial paragon of financial stability. Since then, the dollar has never looked back, despite some grumbling by regional malcontents.

And it is unlikely to in the foreseeable future. A reserve currency has to satisfy certain needs. Its value must be acceptably stable, global availability must be sufficient to meet global liquidity requirements and, ideally, there should be large and liquid markets for low-risk financial assets in the currency. None of the likely pretenders, the euro or the renminbi, come close, nor do synthetic reserve assets such as the SDR.

Eventually the world will have a greater number of currencies of comparable significance.

IGOR FINOGENOV
Chairman of the Management Board, Eurasian Development Bank

In our view, the key factors that underpin the dollar's reserve status are the ample supply of relatively high-quality securities denominated in dollar, and well-organized markets where they may be traded, rather than the role of the dollar in international trade. It is more probable that the latter is a function of the former than vice versa—trade is conducted in dollars because, globally, much of financial wealth is kept in dollar-denominated instruments rather than the other way around. Thus, the size of dollar-denominated debt may be what makes the dollar a predominant reserve currency and not a threat to its role as such, though it is true only as long as that debt is deemed high-quality.

Also, we are not sure if changes in arrangements in the trade of crude oil alone, which constituted 8.7 percent of the total international trade in 2013 according to the data by the International Trade Centre, may be enough to bring a radical shift in the role of the dollar in the global economy.

For reasons stated above, we think that it will not be easy to wean international trade off the dollar in the short- and mid-run. At the same time, and for the same reasons, that weaning is more likely to happen in the longer run. With financial development of major economies outside the current group of financially developed ones, the choice of assets that will be no less secure than those provided by the U.S. entities, and will probably offer higher yields, will broaden. As a result, more currencies will be able to claim the reserve status. Actually, the world has been moving in that direction for quite a while. For example, the advent of the euro was a huge milestone in that process.

International trade will probably follow suit and be conducted in several major currencies. Though the dollar's role in trade may linger longer than its unique reserve status out of habit and convenience, it will be prone to sudden shifts. Those may be expedited by events such as a sudden loss in confidence in the U.S. macroeconomic policy, though we do not think that we are having such an episode now (and the recent appreciation of the dollar to the other currencies shows that). The attempts to use the dollar's role as a political lever are probably a more significant threat to it. Not unimportant effects on the dollar's status may have changes in exchange rate regimes maintained throughout the world. In particular, the further weakening or ending of the peg to the dollar by China and weakening such pegs (or choosing other currencies to peg to) by the Gulf countries may somewhat reduce their need in dollar reserves.

To conclude, we think that the dollar's role as a reserve currency and its role in trade are supported by the United States' high degree of financial development and not likely to diminish sharply in the short- and even mid-term. Nonetheless, the dollar is not uncontested even now and eventually the world will have a greater number of currencies of comparable significance. The dollar will remain very big in that system in any case, though its role may be reduced relative to potential if the United States makes some extreme blunders either in the field of macroeconomic policy or by aggressive politicization of the international finance.

The dollar is not in question.

HELMUT SCHLESINGER
Former President, German Bundesbank

This is more than a million-dollar question. My experience with the old deutschmark/dollar parity included watching the price of the dollar calculated in deutschmarks sinking from DM4.20 in 1950 to DM1.50 in 1999. The role of the dollar as reserve currency was sinking, while the role of the deutschmark was growing from nothing to around 20 percent. Since 2000, the price of the dollar *vis-à-vis* the euro has fluctuated strongly but is now more or less the same as it was fourteen years ago. In between, the role of the euro as reserve currency grew over the years but is now stagnant. Is it not the same with the yen? Other competitors as reserve currencies are gaining share, but as long as U.S. monetary policy is playing the guide for other important currency areas—for better or worse, I leave the question open—the dominant role of the dollar is not in question. ◆