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STEPHAN SCHULMEISTER

Globalization without global money: the double role of the dollar as national currency and world currency

Globalization of markets and enterprises has characterized postwar economic development. As a consequence, national economies have become increasingly interdependent in a process toward a supranational closed system, the world economy. However, the globalization of markets and enterprises has not been paralleled by a globalization of the monetary system—that is, by a transition from using national currencies to the creation of a supranational currency.

Rather, the opposite development has taken place: Ever since the end of World War II, the dollar has been playing a double role in that it has served as national currency of the United States and as key currency of the world economy. As long as confidence prevailed in the United States' commitment to the rules of Bretton Woods, the dollar remained a stable substitute for a genuine world currency. However, the double role of the dollar enabled the United States to finance growing external deficits through "dollar exports," thereby undermining the credibility of the dollar-gold standard and ultimately leading to its collapse.

After the breakdown of the Bretton Woods system, the dollar remained the key currency of the world economy, although a rather unstable one. This is demonstrated by the fact that dollar exchange rates have fluctuated much more strongly than the exchange rates of any other reserve

The author is Senior Fellow at the Austrian Institute of Economic Research in Vienna. He would like to dedicate this essay to Charles P. Kindleberger who succeeded in all his activities—ranging from his contributions to the realization of the Marshall plan and his theoretical and empirical work in international economics with special regard to the inherent instability of financial markets to his studies in economic history and his teaching—to integrate being an economist and being socially useful at the same time. To put it differently: in the conflict between recognition and interest that characterizes the work of economists specifically, Kindleberger gave a clear priority to the production of concrete insights, useful for improvements of economic life, over the production of abstract theories, useful for justifications of economic interests. Valuable comments and suggestions from an anonymous referee, from John T. Harvey and in particular from Michael D. Goldberg are gratefully acknowledged. Special thanks go to Eva E. Sokoll for statistical assistance.

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