

## The “central state” and the almighty Dollar

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Salvatore Babones

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Recent years have seen a spate of Chinese films about historically looted or stolen art heritage. The most famous was Jackie Chan’s 2012 film *Chinese Zodiac*, but the funniest was surely the 2014 screwball comedy *Horseplay* (*Dao Ma Ji*). An art heist chase movie, the 1960s-inspired *Horseplay* is part *Pink Panther* and part *It’s a Mad, Mad, Mad, Mad World*.

Throughout the film a pair of unlikely art appraisers, played by Wong Cho-lam and Eric Tsang, provide comic relief. Chasing a stolen Tang dynasty sculpture around Europe, Wong’s brainy character turns out to be perfectly fluent in every language they come across—even Czech. Tsang plays his clueless, bumbling employer.

In Prague, the pair get stuck for transportation. Wong’s character asks a driver (in flawless Czech) if he can buy his car. The driver looks at him like he’s crazy. Then Tsang’s character pulls out a thick wad of hundred-dollar bills. The driver gladly takes them and hands over the keys.

Wong’s character turns to his colleague and says: “I didn’t know you spoke Czech!” Tsang’s character responds: “I don’t. I speak the universal language: U.S. dollars!”

That, in a nutshell, is the story of U.S. dollar hegemony. When a Hong Kong purchaser meets a Czech seller in the global marketplace, they don’t do business in Czech koruna, Hong Kong dollars, Chinese yuan or euros. They do business in U.S. dollars.

The preponderance of dollars in foreign currency markets is stable at around 88 percent of all transactions, according to the latest data from the Bank for International Settlements (BIS). Despite repeated predictions of the end of dollar dominance, this figure has bounced between 85 and 90 percent since the BIS started keeping records in 1998. The euro and yuan, at 31 and 4 percent respectively, aren’t even close.

Despite persistent Chinese calls for a new global currency, U.S. dollar dominance is not going to disappear anytime soon. For the last century or more, a bet against dollar dominance has consistently been a losing bet. What the future holds is open to debate, but the past is not a foreign country. If the dollar was dominant even when the United States was less central to the global economy, it is unlikely to disappear today. And it turns out the dollar-dominated world we live in today has been around much longer than most people realize.

### Hegemonies past and present

The latest proclamations of the end of American dominance have come in the wake of the election of Donald Trump as the next president of the United States. The Nobel Prize–winning economist Paul Krugman wrote in his *New York Times* column that the United States may now be “a failed state,” and Dutch journalist Peter Thal Larsen proclaimed that Trump’s victory spells “the demise of the American global order.” American University professor Amitav Acharya has used the occasion to once again proclaim the “end of American world order.” Oswald Spengler would be proud.

The German philosopher Oswald Spengler published *The Decline of the West* in 1918, in the midst of World War I. In it, he described the final decadence of Western civilization, the end of democracy

and the rise of new Caesars to concentrate all power in their own hands. And if Britain and France had constituted the entirety of Western civilization in the early twentieth century, history might have turned out as Spengler predicted.

But by the time of World War I, Europe was no longer the center of the world. The dominant realist view is that World War I was a war of hegemonic transition as a rising Germany challenged a British Empire in relative decline. And the widely used historical GDP estimates produced by economic historian Angus Maddison bear this out. They show Germany's GDP rising rapidly to overtake Britain's in 1908. The autocratic East was on the rise, and Germany might have won the war in 1914.

What hegemonic transition theorists usually fail to mention is that the same data shows that the United States overtook the United Kingdom way back in 1872. By 1913, American GDP was 12 percent larger than that of Germany and the United Kingdom combined. World War I was not a war for global hegemony. It was a war for regional dominance in Europe. The United States was already the global economic hegemon, and soon to become the global hegemon tout court.

In 1922, the American historian Charles Beard recorded the words of a French economist whose identity seems sadly to be lost to history. According to Beard, the unnamed Frenchman said that:

“One fact dominates all others: the rise of the United States to world hegemony. Lord Robert Cecil [architect of the League of Nations] has compared the position of the United States after the Great War with that of Great Britain after the Napoleonic wars. That comparison is not quite exact; because the British hegemony was then essentially European while that of the United States today is universal.”

The United States pulled the financial strings of Europe and the world throughout the 1920s, financing the German reparations payments without which the British and French governments could not survive. “Dollar diplomacy,” the prewar Taft administration template for American dominance in Latin America and the Far East, was extended to the whole world after World War I. The ultimate withdrawal of American financial support was arguably the ultimate cause of the Great Depression and World War II.

The “central state”

President James Monroe asserted American hegemony over the New World as early as 1823, but what came to be known as the Monroe Doctrine only became effective toward the end of the nineteenth century. By 1904, Theodore Roosevelt's big stick was unambiguous and clear—and felt all over Latin America. In the 1909–13 era of dollar diplomacy, the United States was unambiguously the central state of the Americas, overwhelmingly more powerful than any other state in the region.

After World War I and even more clearly after World War II the United States became the central state in the international economy of the entire non-Communist world, and after 1991 that status became global. The United States does not control the global economy—it never has, not even during the heyday of the Bretton Woods currency system—but it was and is at the center of the global economy.

The central status of the United States is reflected in the fact that it is the top export destination for many more countries than any other, and has been for as long as data have been available. The rise of China as an export market has come at the expense of other countries, not at the expense of the United States. Moreover, many of the goods other countries export to China are intermediate goods, used for assembly into products that are ultimately bound for the United States.

Most people forget that the United States is by far the richest large economy in the world. The GDP per capita statistics for Germany and Japan are roughly on par with those of Alabama and Mississippi, respectively. Not only is the United States the richest large economy, but it is also the largest rich economy. The European Union may be comparable in size, but its degree of internal integration is much lower than that of the United States.

In Chinese, the word for “central state” is zhongguo. It just so happens that Zhongguo is also the Chinese name for China. China in Chinese is not the land of the Qin dynasty or the home of the Han people, but merely the central state, rendered poetically in English as the Middle Kingdom.

Today the United States is truly the central state (zhongguo) of the global system. China has a name for that too: tianxia (“all under heaven”). The U.S. dollar is not merely the currency of the central state. It is the currency of the global system, the universally accepted means of payment of the American tianxia. As such, it is idolized, fetishized, romanticized and even worshipped. But most of all, it is needed. Even the Islamic State levies taxes in U.S. dollars.

In the darkest days of World War II, when Japan convened the 1943 Tokyo conference bringing together the leaders of its puppet governments from all across Asia, the conference had to be held in English. Even as American bombs fell on Tokyo, there was no other practical choice. In today’s polyglot world, the global economy needs a common currency even more than it needs a common language. The obvious currency to use is the currency of the central state. The U.S. dollar is the one language that everyone speaks.