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THE ASSYMETRICAL DOLLAR-BASED MONETARY SYSTEM AND GLOBAL FINANCIAL IMBALANCES

This paper aims to describe the shortcomings of today's dollar-based monetary system and comparing them with the concept of the currency union elaborated by Keynes in the 1940s that still have several useful aspects that could be taken into account in the future reform of the current monetary financial system. The hegemony of the dollar and the mutual dependence of the USA and China that is responsible for the global imbalances cannot be sustained any longer. At the same time, the crisis could accelerate initiatives to establish a global equilibrium and a new super-sovereign global unit of account.

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Since the collapse of the Bretton-Woods system the global financial system has been more or less characterised by a global financial imbalance. By this definition we mean the synchronicity of the following processes: (1) the rising current account deficit of the USA, contrasted with the current account surpluses of developing, emerging economies; (2) the accumulation of American financial instruments, especially government bonds, in the central bank reserves of certain emerging economies (China, India, Brazil, Russia, Arab countries); (3) the record high consumption in the USA and the all-time low savings, contrasted with the further increase in the savings rate in developing countries, even exceeding the rather high investment rate; (4) the tendency in emerging economies to peg their currencies to the dollar in some form; (5) the liquidity and speculation in the global economy that has grown many-fold compared to previous periods and the real economy.

Academic and political debate on the global economic imbalance has been going on for years, trying to find an answer to the question of whether it is a 'necessary evil' or constitutes an unsustainable situation for the global economy with inherent systemic risks. *However, in my opinion, the current global economic crisis highlighted the weaknesses of the dollar-based system, the unsustainable character of the unipolar global system, and the necessity to reform multinational financial organisations, such as the International Monetary Fund.* As György Csáki (2009) writes: over the past decades, the aforementioned '*global financial disequilibrium has been one of the highest risks of the global economy. However, the unlimited trust in the dollar had prevented this imbalance from surfacing as a financial crisis.'* The blame for it 'surfacing' now cannot be laid solely at the doors of the United States or China. The very tight commercial and financial ties that have developed over the last decade – referred to as Chimerica based on Ferguson's terminology (2009) – have created a 'financial marriage', which after the turn of the millennium made it possible for both economies to proceed at pace along the 'global economic highway'.

Nevertheless, the increasingly obvious weaknesses of the current reserve currency system, the abundance of global liquidity and the deficiencies of the global system of supervision and regulation highlighted the problems of this marriage, and it is increasingly likely we will see a 'divorce' in the coming years. China drove herself into the 'dollar trap' as Krugman (2009) put it in The New York Times. This draws our attention even more closely to the problems of the current system of the reserve currency.

Summers (2004) called the global financial disequilibrium the '*balance of financial terror*' prior to the outbreak of the global economic crisis; in which all actors had an interest in a '*hard landing*', i.e. in avoiding a global economic crisis. The global economy was driven on the one hand by US consumption and on the other hand by Chinese production and savings. This relationship mentioned earlier constituted a *semi-optimal balance*, which at the same time was a *constraint or*

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necessity for both countries. If China had stopped purchasing US government bonds, this would have brought about serious unforeseen consequences – severe depreciation of the dollar, a negative impact on wealth, the rearrangement of the map of geopolitical powers, the reversal of international capital flows, galloping global prices and the narrowing of export possibilities.[1]

Since both the US and the European banking system fell to their knees as a result of the spreading crisis on the US subprime mortgage market, before the collapse of the financial terror balance, literature has increasingly been discussing the role of a *global disequilibrium in the emergence and deepening of the current global economic crisis*. Many believe that the broadening imbalance together with poor risk management and insufficient market supervision made a significant contribution to the emergence of the crisis.[2] Several of those authors[3] had already proposed the reform of the international monetary system on several occasions, but their concept called the 'new Bretton Woods' system has not been implemented by economic policymakers.

THE HEGEMONY OF THE DOLLAR AND THE GLOBAL ASYMMETRIES

A monetary system with a national currency as the key currency – in this case the dollar – is called asymmetrical. This peculiar situation is well illustrated by the *paradox* of *Robert Triffin*. According to this paradox, as long as *a country provides the whole world with its own currency, it cannot guarantee the stability of the currency and its exchange rate*. Farkas (2010) amongst others is also of the opinion that due to the above-mentioned factors, the current trend has more cons than pros. This is the point where the differences between the current system and the monetary system envisaged by Keynes are the most pronounced. Keynes had the idea of a supranational credit money, a super currency in international accounts, which would not have been dependent on the economy or government of any member of the clearing union. *This symmetrical equilibrium system would not enable such serious global imbalances to emerge.*

The shortcoming of the dollar's hegemony is due to the fact that international liquidity is ensured by the central bank of the USA, the Federal Reserve. Costabile (2008) summarises the asymmetries of the current system in six points, which I will discuss by contrasting them with the advantages of the Keynesian system.

The greatest error of the current key currency system is that it is *unilateral* and the issuing country *plays a prime role*. The currency of the key currency country (hereinafter: country 'K') plays a key role both in international trade accounts and the pricing of commodities and services. For a non-key currency country (hereinafter: country 'N') to be able to get involved in foreign trade, they need to accumulate the key currency at an institutional level. This, on the one hand, makes trade accounts more comfortable, while on the other hand, it makes the economy more immune to external economic shocks[4]. Developing, emerging economies, especially Asian countries, pay close attention to the accumulation of dollar reserves by central banks, which is primarily justified *by the painful experience of the Asian crisis in 1997-98*. To mention but one example: China, the country with the world's largest reserve, accumulated a reserve of USD 2,399 billion by the end of 2009, more than two-thirds of which is in USD-denominated instruments, mostly bonds (Inotai, 2009). However, the accumulation of the key currency can also be motivated by other factors. By constantly purchasing the key currency, emerging economies *prevent the over-appreciation of their own currencies* vis-à-vis country 'K', which *helps them safeguard their competitive advantages*. This is necessary because these groups of countries – Asian countries – see export-orientated economic growth as being the key to the development of their economies; however, in doing so they drive themselves into a *dollar trap*, as emphasised countless times by Krugman (2009) and other recognised economists. Zhou (2009), governor of the Chinese central bank, also acknowledged this implicitly when in a speech in March 2009 he envisaged the *reform of the international monetary system* and the need for a *new key currency independent of any national economy*. Finally, the need to prepare for *speculative attacks* that are frequent in times of economic instability represents a further

motive for accumulating a key currency. In the absence of such preparedness, country 'N' is vulnerable to the rapid, manipulative reversal of capital flows[5]. Summarising the above, the accumulation of the financial instruments of country 'K' by country 'N' puts country 'K' at an advantage, in a leading position in the international economic and political arena which facilitates its asymmetrical position. In other words, country 'K' pays for imports and services its debt with its banking system debt, and theoretically, not even the expansion of monetary supply can limit this[6].

By contrast, in the Keynesian plan, no nation would have a prime role similar to that of the USA, and consequently, no country's central bank would have to establish foreign currency reserves.

Secondly, the special situation of the key currency's country in the global economy also stems from the fact that it is the USA who profits from the *seigniorage* resulting from the issuing of the global money. In the Keynesian symmetrical monetary system, country 'K' would not exist because the credit money, the bancor, used in international trade would be issued by a monetary organisation established by the community of nations. Therefore, the seigniorage would not enrich any one country.

Thirdly, the monetary policy of the key currency's country is not tied by the strict rules that 'N' countries have to comply with. The demand for the currency of country 'K' is constant due to the role of the key currency in the global economy, therefore, it *does not have to fear a long-term depreciation of the exchange rate*. As its currency is always needed in the course of settling international accounts and accumulating reserves, the key currency's country will tend to *finance the increasing deficit of its own current account by issuing new money*. Logically, this deficit on the other side needs to be financed by 'N' countries. As the global economy expands, the demand for the key currency also rises. To ensure the constant expansion of the global economy, country 'K' floods the global economy with additional currency at the expense of indebtedness and for its own benefit via imports, international investments and the new issue of debt instruments. As a result of such an asymmetrical capital flow, developing and emerging 'N' countries are *under pressure to follow an export-driven economic growth model*, designed to fund the trade deficit of country 'K', i.e. the USA. In my opinion, this paradoxical phenomenon is one source of today's global disequilibrium. The most illustrative example of this system of relationships is the trade and financial disequilibrium between the USA and China, which is also the most burning problem of global economic tensions.[7] By contrast, in the monetary system envisaged by Keynes, no country would enjoy such a high degree of freedom in terms of monetary policy. Every economy could only function within monetary limits, and the supranational regulatory system would guarantee the equilibrium of the system.

Fourthly, the export-driven economic model described in the previous point causes further asymmetries. On the one hand, while *export-driven growth* might result in lower unemployment rates and growing real incomes in 'N' countries, it leads to the *drying up of domestic expenditure* and the *decline in* (or low level of) *domestic consumption* by *meeting foreign demands* instead of satisfying domestic demands. This substitution could go hand in hand with the *limiting* (or freezing) *of wages*, *shrinking household consumption, decreasing welfare expenditure and strict fiscal policy*. Opposing impacts can be observed in country 'K', which needs a loose fiscal policy to alleviate the pressure on domestic production which is due to the high rate of imports (Costabile, 2009). These effects can easily be observed in the context of the USA and China. Economic policymakers in the USA have initiated the introduction of punitive tariffs vis-à-vis China several times (so far in vain) due to the pressure on US manufacturers stemming from cheap Chinese imports, the increasing number of those made redundant in light industry sectors before the crisis, and the stagnation in real incomes. Woo (2009) proposes a 27.5% duty on Chinese products – like a special tax – in spite of the crisis, if China does not continue appreciating its currency against the dollar. The drawback of the export-driven growth in China is the *insufficient domestic market demand*, which can partly be blamed on the *virtually total lack of a social safety net and*

the underdeveloped system of financial intermediaries.
It goes without saying that in the Keynesian clearing union such an asymmetrical system could not have evolved. Each member country would only be able to have a deficit or a surplus up to a certain degree and for a certain period of time, therefore, in the case of a surplus no fiscal austerity would be needed, and similarly, in the case of a deficit, there would be no need for an expansionary budget.

Fifthly, the absence of a monetary equilibrium can also be caused by *capital flows and changes in currency reserves*. Owing to the special international status mentioned above, country 'K' floods the global financial system with its own currency. As a result, the global money is absorbed in 'N' countries' central bank reserves. Thus purely on a theoretical level, the *external net debt of country 'K' will be equal to the value of the other countries' reserves*! The essence of the USA's prime role is that the *dollar*, which finances the deficit of the current account, will sooner or later return to the *US financial markets*. This is understandable too as foreign central banks would be forced to chalk up negative real yields on the thousands of billions of dollar reserves if the dollars were not invested. I think Rueff and Hirsch (1965) gave an excellent interpretation of the essence of the dollar system: '*The debtor (*he refers to the USA*) country will never let go what the creditor country acquired. Thus, the country of the key currency will not in fact perceive the real impact of the current account deficit. The primary consequence of this is that there is no reason for this deficit to be eliminated as in reality it never materialised'.* As a result, instead of broadening and developing their own domestic markets and stimulating domestic investments to boost their economic growth, developing countries surrender to the comfortable situation provided for them by the export-oriented strategy and transfer and invest their dollar reserves in developed economies, especially in the USA. Lucas (1990) drew attention to this fact as early as the beginning of the 1990s: according to him, this is a peculiar and controversial situation in which developing countries with low average income per capita finance high income, developed Western countries. This phenomenon later was referred to in literature as the *Lucas paradox*. Based on this paradox, the *'perverted' capital flow that evolved in the 1990s contradicts traditional neoclassical models* in which capital is supposed to flow from wealthier countries to poorer regions. In the super currency union of Keynes, such paradoxical phenomena would stand no chance of evolving as there would be no country whose national currency would function as global key currency.

Finally, the last asymmetry is to be found in the *level of debt relative to GDP*. With the exception of country 'K', the uncontrollable growth of public debt gives rise to serious problems of instability for all economies[8]. However, in the case of country 'K', the situation is different in this respect as well because by *revaluing the currency it can influence the amount of its external debt*. By depreciating the key currency it increases its competitive advantage vis-à-vis other economies, but also, given the positive *impact on wealth*, its debt denominated in foreign currency – which will appreciate against the dollar – will decrease. It is not only that part of the payables to other countries will melt away, but the value of its assets denominated in other currencies will also increase. Needless to say, this process in the case of country 'N' will manifest itself in the form of a negative impact on wealth, undermining its competitiveness and the value of its dollar allocations[9]. The wealth impact will lead to a *welfare transfer* between the key currency's country and the other economies[10]. Nevertheless, the economy of country 'N' cannot use depreciation to induce a positive impact as is done in country 'K' because most of the debts in country 'N' are denominated in the key currency, whereas country 'K' is indebted in its own currency. The asymmetrical character of currency depreciation, i.e. country 'N' is not able to accumulate its debt in its own currency, whereas country 'K' can, was called the '*original sin'* by Eichengreen et alia (2003). This original sin is partly to blame for the economic and political tensions between the USA and China. Though the US dollar continuously weakened during the pre-crisis period – decreasing the USA's external indebtedness – China and many other emerging Asian economies withstood the negative wealth impact by pegging their currencies either directly to the dollar or to a currency basket dominated by the dollar. This is why international debates focus on questions

relating to the appreciation of the yuan (or permitting the appreciation of the yuan), the Chinese currency. Though the vast majority of US literature calls for a one-off appreciation of 30-50%,[11] an increasing number of analysts are of the opinion that the main problem of global financial imbalances is not caused by the under-evaluation of the yuan.[12]

This final asymmetry would not be possible in the Keynesian system because all of the countries in the currency union are on an equal footing. Receivables and liabilities are exclusively vis-à-vis the international bank of the clearing union, not to one another. Therefore, exchange rate fluctuations would not have any impact on wealth.

Having described the asymmetries and shortcomings of today's dollar-based system, we will now examine the super-currency system envisaged by Keynes.

INTERNATIONAL EQUILIBRIUM IN THE KEYNESIAN SYSTEM

In the decades after the Great Depression of 1929-33 and the Second World War characterised by fears of deflation, the reconstruction and international conflicts, John Maynard Keynes planned and wished to create an international monetary system which could have responded to the burning problems of the economy at that time. He envisaged a system in which *countries would not have been able to accumulate systematic current account surpluses and deficits vis-à-vis one another, neither could they have been able to transfer wealth amongst each other by manipulating exchange rates*. The polarisation, which exists today in the dollar-based system, could have been eliminated by the establishment of the Clearing Union. The focal point of his plan was a supranational monetary institution set up jointly by the member states of this union. This institution was to be responsible for the single currency, which he called *bancor*, for its issuance, for the international accounts, the enforcement of the rules, regulations and global supervision. Keynes aimed to remedy the conflicting international interests of his time, which were predominantly rooted in the economy. The monetary regime he designed would have led to a global economic equilibrium and the elimination of conflicts. The *global financial imbalance we witness today could not have evolved had the symmetrical monetary system of Keynes come into existence.*

In spite of the temporal and systemic differences which make this era different from that of Keynes the essence of his plan still offers useful guidelines for today's economic and political decision-makers and could be taken into account in the course of a future reform of the global monetary financial system. In the Keynesian international equilibrium, every economy can only function within the confines of resources. Consequently, the *tendency to pursue an aggressive mercantilist commercial policy* (accumulating large systematic surpluses) *ceases to exist.* Therefore, an opportunity opens to meet domestic demands. Here I wish to note that in China there is a crying need for the broadening of the domestic market by the state, and the establishment of a full-scale social net. In addition, Keynes also designed an *aid mechanism* which would enhance the classical capital flow between developed and developing countries, i.e. rich countries would help the poor.

The supranational monetary institution mentioned on several occasions, which Keynes called the International Clearing Union, would create a key actor in the system, the *International Clearing Bank*, responsible for ensuring liquidity and issuing the global money. This would *abolish the global economic constraint to use the national currency of a preferred country in the course of settling accounts and accumulating reserves.* The international money, the bancor, would come into being through a credit transaction, which member states would be entitled to in proportion to their *quotas*. Keynes would define the quota ratios based on the shares of member countries' trade in global trade over the previous five years. There would be no positive or negative discrimination between countries, thus the upper limit of international liquidity would be defined by the quota rules. As the world currency would be born quasi as a result of the current account deficits and surpluses of the members (and its withdrawal would be ensured by their accounts), *international liquidity would adjust perfectly to trade demands.* This would lead to the end of burgeoning global liquidity, which facilitated the current global economic crisis. The debtor-creditor relationship between countries would be a

thing of the past, and accounts would be settled exclusively between the International Clearing Bank and member countries.

To sum up, in the monetary union of Keynes *all countries would be equal, there would be no wealth transfer between countries by means of seigniorage, the mercantilist motifs of currency reserves accumulated by central banks would no longer exist, the imbalances of the global balance of payments would decrease and finally, the strict quota-based credit money system would facilitate the evolution of a quasi equilibrium.*

POSSIBLE REFORM OF THE MONETARY SYSTEM

In the previous chapters we saw that the hegemony of the dollar today implies many disproportions and shortcomings. The monetary system proposed by Keynes in the spirit of reconstruction after the Second World War contains useful recommendations as regards the dollar problems of today, even if there are time-related differences. The fact that economic literature has increasingly discussed the issue of reforming the monetary system since the turn of millennium corroborates the assumption that *the system of the key currency definitely needs revising in the long run*. In an article in 2005, Robert Mundell (2005), who is often called one of the fathers of the euro, was seeking to answer the question whether or not the role of the USA as a superpower excludes the possibility of establishing a new international currency system. He argues that the crises over the past few years have highlighted the plight of today's monetary system, an assumption substantiated by the strengthening of the euro, the first real rival of the dollar. He says that the new power centres in the global economy all point in the direction of reforms.

Bergsten (2007) in the Financial Times in December 2007 talked about the *dilemma of the dollar* and *envisaged a future monetary crisis* should the status quo be sustained. He said that a '*substitute*' unit of payment which could reduce depreciation pressure on the dollar would be necessary. His basic concept was essentially the establishment of a currency basket similar to the special drawing rights (SDR) created by the IMF in 1969[13]. In this case, it was easy for economies accumulating large currency reserves to get rid of the 'unnecessary' dollar instruments without triggering a severe depreciation of the dollar by 'converting' them to the special currency basket issued by the IMF[14]. In exchange for the dollars, a unit of account similar to the SDR would be credited to the IMF accounts of the member countries participating in the system. This unit of account would be suitable for financing balance of payment deficits and settling international trade accounts. Nonetheless, Bergsten (2007) adds that this special 'substitute' currency does not solve the problems of the system, it would only prevent the problems from getting worse. I find this proposal somewhat *biased*. This is because Bergsten stated at several committee hearings in the US Senate and House of Representatives that he expects the global financial problems to be solved by Asia, west of the USA, especially by China. He does not think that the USA can be made responsible for the imbalances. Bergsten's proposal would prolong the problems because in his concept, the IMF would invest the dollars accepted for the special currency basket in the USA, which is essentially the same as the investment policy of China. This way the USA could continue the expansionary policy to boost its liquidity, which led to the outbreak of the global economic crisis today, not to mention the fact that the dollars could also be reconverted for the special currency basket.

The need to reform the global monetary system was also in the centre of the proposal made by Zhou Xiaochuan, governor of the Chinese central bank, the PBC, which attracted great international attention. According to Zhou's statement, which was timed to appear before the spring G20 summit in 2009, *the global economic crisis highlighted the weaknesses of the dollar system, necessitating the establishment of a new, 'super sovereign reserve currency'* (Zhou, 2009). He summarised the key features of the international reserve currency in three points: the stability of the currency has to be ensured by 'anchoring' it to a stable benchmark, and the currency must be issued according to a clear set of rules. Secondly, its *supply should be flexible enough* to meet fluctuations in demand,

and finally, its *supply should be completely independent from the sovereign interests of any single country.* This all shows that Zhou's monetary reform concept is in fact based on the Keynesian pillars described in the previous chapter. This new key currency would function similarly to the SDR, if the IMF lifted the issue limit. However, the frequency and gravity of crises and turmoil since the collapse of the Bretton-Woods system shows that the *'costs' of the current system exceed the benefits thereof.* Yet today's global crisis might have been the last straw. According to Zhou, although the SDR does not fully meet the requirements of the super sovereign currency he envisaged, it does serve as the '*light at the end of the tunnel*'. He thinks that the reform of the monetary system will *take a long time*, but international policymakers, especially the IMF, should be aware of the tensions and shortcomings accumulated in the current system. For the shift to take place gradually and carefully, step-by-step as preferred by the Chinese, the IMF with *international political cooperation* should extend the function of the SDRs from purely the governmental accounts to international trade and payment accounts. To this end, the *issue limits of the SDR* will have to be lifted and the *quota system of the IMF revised.*

According to Krugman (2009), this proposal from China tries to correct the errors of the investment policy that fell into the '*dollar trap*'. By contrast, Farkas and Szabó (2009) find that this evaluation by Krugman 'does not really hit the nail on the head'. They think that economic processes do not simply depend on sovereign decisions and determination. So far, China has not had any choice but to finance the over-consumption of the USA and the international balance of payments deficit by purchasing US securities, as without this move the declining exports would have caused a setback in industrial development and the ability to attract capital.

The aforementioned statement conceals a serious intention of Chinese policymakers. In 2009 Beijing signed a *currency swap* agreement with the central banks of Hong Kong, South Korea, Singapore, Malaysia, Indonesia, Thailand, Argentina and Belarus to settle parts of their foreign trade accounts in yuan. This move *weakens the role of the dollar in global trade even further*, improving the security of Chinese exporters, while in the meantime China takes another step towards *liberalising its capital market* (Szabó, 2010).

The Chinese proposals regarding the reform of the monetary system are not unique. The professional committee headed up by *Joseph Stiglitz* that was convened in 2008 by the president of the UN General Assembly published its report prior to the statement made by Zhou, and reached the conclusion that the *global reserve currency system is in need of reform and the SDR should be further developed.* (As to the reception of and reactions to the Chinese proposal.[15])

INSTEAD OF A SUMMARY

In addition to the painful adjustment processes that must be followed, today's global economic crisis has increasingly drawn attention to the shortcomings and unsustainability of the current system, the hegemony of the dollar. The increasing number of statements, proposals and studies focusing on the reform of the system indicate that *change might be imminent*. Whether this happens soon or at a later date depends on the geopolitical power map in the aftermath of the crisis. What is for sure is that the world's third largest economy,[16] China, will emerge as the only winner of the crisis, which will further strengthen its role in international decision-making fora. I think it is conceivable that *China has already started to take steps in the background* and has started planning the basis of the new monetary system. This is proved by the fact that China has come to an agreement on *regional cooperation* in the context of a financial system with its main rivals, Japan and South Korea, as well as the mysterious coincidence that at the G20 summit in 2009 Russia made the same proposal concerning the reform of the financial system and the establishment of a new global reserve currency as China. Nor is it unthinkable that China may again advocate the cause of the *Asian Currency Unit* (ACU) planned in 2006 by the ASEAN 10, South Korea, Japan and the People's Republic of China, which later failed due to a clashing of political interests. The ACU would further limit the dollar's role in the global economy. What is more, Farkas (2010)

does not rule out the possibility of a *Chinese-European cooperation* in order to reform the reserve currency system. *Although tensions stemming from global financial imbalances have partly decreased over the last two years due to the global economic crisis and cyclical factors, if structural factors, i.e. the dollar system, remain unchanged, these tensions will mount again.* One thing is already evident: the reform of the monetary system can only be completed *gradually*, if we want to avoid turmoil. Otherwise, the rapid collapse of the current key currency system would lead to another global economic crisis and the strengthening of protectionism, which would benefit no one.

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NOTES

[1] GÁBOR 2009a.
[2] SETSER 2008; DOOLEY et al., 2009.
[3] DOOLEY–FOLKERTS-LANDAU–GARBER2003.
[4]According to the traditional view, an economy is immune to external shocks if its currency reserves are three or four times as high as the amount spent on imports in one month (TATOM 2008).
[5]We witnessed such a speculative attack against the currency in the first quarter of 2009 in Hungary, when the EUR/HUF exchange rate weakened to 316 forints, creating severe difficulties for the Hungarian population that was mostly indebted in foreign currency.
[6]In practice, however, weakening the dollar with new dollar issues cannot be continued indefinitely because sooner or later this will undermine the confidence in the system and lead to the collapse of the current monetary system.
[7] The workings of this special economic tie are discussed in detail in my previous papers (GÁBOR 2009b; GÁBOR 2010).
[8]According to the convergence criteria of the European Union, the gross debt of countries in the euro area cannot exceed 60% of GDP. For the USA this 60% level is also considered sustainable, but in 2009 due to the extremely expansionary fiscal policy necessitated by the crisis, it went up to 86%. According to estimates it could even reach 100% in 2010-11! (FY 2010 U.S Budget Historical Tables, Office of Management and Budget, http://www.budget.com)
[9] The nominal value of country 'N''s dollar allocations does not actually decrease, but in the accounts kept in its own currency, i.e. in real terms, it is forced to swallow losses derived from re-valuing the currency.
[10]According to GOURINCHAS–REY 2005, the USA has adjusted its external financial position by 30% through the wealth impact since the 1980s when it became a net debtor (i.e. it decreased its external net debt).

[11] BERGSTEN 2008; CABALLERO–FARHI–GOURINCHAS 2006; GAVE et al, 2005; GOLDTSTEIN 2007; XAFA 2007; WOO 2009.

[12] McKinnon et al 2008; Gábor 2009c.

[13]The objective of the International Monetary Fund was to eliminate the tensions in the key currency system by establishing a new key currency.

[14]If this was done on the currency market it would cause an immediate plummet in the dollar exchange rate. In such a case, those keeping their reserves in dollars would incur substantial losses on the USD reserves not yet sold.

[15] SZABÓ 2010.

[16] In nominal terms, China is likely to overtake Japan in 2010, which is currently in second place. On a purchasing power parity basis, China has been ranked second since 2009.