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A short history of the USD and a Reflection on the Current World Order

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Abstract: Economic integration has emerged as a significant concern due to its potential threats to local culture, social stability, and economic growth. Led by the United States, Western countries have adopted economic integration as a means to further their global political and economic interests. The dominance of the US dollar in the global economy empowers the US to manipulate world markets and exert control over other nations' economies. This paper delves into the evolution and historical significance of the US dollar, with a specific focus on its influence on the Chinese economy. It investigates the economic, political, and other implications of US dollar exchange rate fluctuations on China, particularly in relation to Chinese-US trade and import-export activities. This study introduces a novel perspective on the potential impacts of the US dollar exchange rate on China's economic relations with the United States. The paper concludes by proposing measures and countermeasures from China's standpoint to identify viable solutions.The literature review section provides a comprehensive overview of the historical evolution of the US dollar, drawing from the works of Ferguson, Marthur, Duncan, and other researchers. It traces the journey of the US dollar from its origins in colonial America, through the establishment of the gold standard, the impact of wars and crises, to the transition to the Bretton Woods system. The review also highlights the US dollar's central role as a dominant currency in international trade and the leverage it grants the United States in imposing trade sanctions and influencing other countries. In conclusion, the abstract underscores the urgency for reform in the international monetary system to mitigate the adverse effects of the US dollar on the global economy. It advocates for a more independent and equitable system that fosters fair economic relations among nations. Addressing the challenges posed by economic integration and the dominance of the US dollar is essential for safeguarding local cultures, social stability, and sustainable economic growth worldwide. By exploring the impacts on China's economy, this study contributes valuable insights to develop effective strategies for fostering a balanced and mutually beneficial global economic landscape.

Keywords: Dollar, Monetar, Global economy

Introduction

Local culture, social stability and economic growth are threatened by economic integration. Our century has brought many changes to our lives, which has not left the field of finance untouched (Csiszárik-Kocsir et al., 2013; Csiszárik-Kocsir et al., 2016a, 2016b; 2021; Csiszárik-Kocsir & Varga, 2017; Garai-Fodor et al., 2016; Garai-Fodor & Csiszárik-Kocsir, 2018a, 2018b).

Western countries are more inclined to use economic integration as the tool of achieving global political and economic interests (Pervez et al., 2022). The United States, the leading country in the global economic integration, uses the power of the petrodollar to occupy a more dominant position in global markets. Simultaneously, the fluctuation of US dollar exchange rate dramatically influences the other countries' economy. It gradually achieves the strategic purpose of manipulating the world economy (Molnár et al., 2023;

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Molnár & Csiszáirk-Kocsir, 2022, 2023). Due to the crucial status of US dollar in world economy, various individuals and organizations realize the existence of enormous economic benefits in the fluctuations of the US dollar exchange rate.

In this paper we first discuss the evolution and historical status of the US dollar through a literature review and statistical analysis. Then we analyze the impact of US dollar exchange rate fluctuations on the Chinese economy. At the same time, we examine and compare the economic, political and other effects of US dollar exchange rate on China. Particularly, here we provide a new perspective to study the potential influences of the US dollar exchange rate on Chinese-US trade as well as China import and export trade. Finally, from China's point of view, suggestions and countermeasures are proposed to find feasible solutions.

Based on our analysis, we determine the history of the US dollar, we review the classical literature that concerns with the currency. Furthermore, we establish what the new world order is, how it is defined and what are the prospects of a US dollar dominated global economy in the future. We find that there is a correlation between cycles of an empire and the strength of the currency and if the currency is pegged to gold or not. We further draw parallels between how the US became an undiputable superpower and net creditor with the Marshall plan in World War II and how it is still a net creditor today.

Literature Review

Since the monetary history of the US has been heavily researched by generations of historians, it didn't prove to be too complicated to find relevant sources of information regarding the historical evolution of the US dollar.(Garai-Fodor, 2022) In the modern era, Ferguson's (1953) work reflects on former researchers' experience and shows how the US monetary base was manipulated to finance the war for independence, the war of 1812 and the civil war. (Ferguson,1953) The history of seigniorage was researched by Marthur, (2009).(Garai-Fodor et al., 2022) Current works include Duncan's (2011) the Dollar crisis, where a detailed assessment is given to the interdependence of China and the US economic machines.(Loblin et al., 2017; Duncan, 2011)

A Brief History of the US Dollar

The history of paper currency of the United States can be dated to 1690, when the land still belonged to British and French colonies. Originally, the Province of Massachusetts Bay Colony created paper notes to pay for military activities. (Bozsik et al.,2022) After the circulation of paper notes, other places in America quickly followed the Massachusetts practice. (Foldi, 2015a)

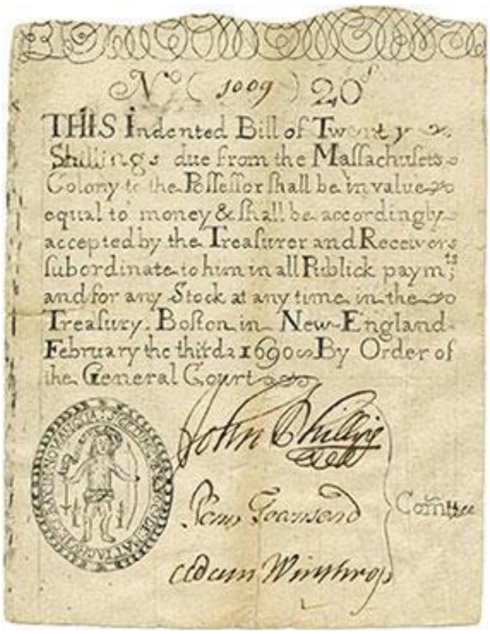

Figure 1. General court promissory note in Massachusetts bay colony, Feb 3, 1690 issue, 20s. (altered) (Courtesy of the Stack Family). Source: Archives

There were many kinds of the paper currencies in colonies that were circulated until British government carried out regulations and restrictions on them.(Pervez et al., 2022; Csapó et al.,2018) The Continental Congress introduced the Continental currency in 1775. However, this did not persist for a long time due to the lack of funds and these kinds of paper notes were easy to forget

Figure 2 Revolutionary war: Continental congress. Continental currency promissory notes. Source: (Szramiak, 2016)

Congress attempted to find ways to reconstruct the currency system by abolishing the previous circulated notes and releasing brand-new ones, however this measure affected the value of the currency to a very limited degree. The Continentals gradually became ineffectual and useless so that they were terminated to distribute as currency by the middle of 1781. This is where the saying “not worth a continental” comes from (Thies, 2021).

With the failure of Continental currency Robert Morris became the Superintendent of Finance of the United States in 1781. He started a series of reforms and rectifications to improve the financial system at that time. He was the first to use the nomination of US dollar sign with official documents. (Goboly& Foldi,2022) Several years later in 1785, the Continental Congress of the States formally approved the authorization of the issuance of new currency. That was the prototype of the US dollar. (Garai et al.,2022; Foldi,2015b)

With the introduction of the US dollar, in 1790s, leading by the Secretary of the Treasury, Alexander Hamilton, the American government shifted and focused its attention to monetary affairs again to enhance to implied powers of the current currency. Hamilton claimed that the Constitution should have the authority to fund and distribute national debts and establish the legal government funded bank – a central bank. Of course Hamilton was known to be influenced by the British experience in central banking (Sylla et al, 2009). According to Hamilton's suggestions, the Coinage Act of 1792 was approved and initiated by the Congress. With this bill, the US dollar was officially identified as the unit of currency and the US currency decimal system was created. (Garai et al.,2023)

The implementation of the Coinage Act formulated the US coin circulation system and established the United States Mint as a responsible institution to create coins for public distribution (Marthur, 2009). Although some of the provisions of the Coinage Act of 1792 have been amended over time, the main content of the Act's provisions remains valid for a long time. (Fodor,2022) It provides the basic framework for all subsequent bills. The first draft of the bill provided that all coins could use the portrait of the president as the front design, and the final version was determined to be a symbol of freedom. The bill also provides for the construction of a mint building in Philadelphia. This is the first federal building built under the US Constitution. (Garai-Fodor,2016; Garai et al.,2023)

The 1792 Coinage Act authorized the minting of a variety of coins. The Eagle Coin is the largest denomination among them (Mathur et al.,2009) The mint first minted copper and silver coins, and it was not until 1795 that gold coins were produced. During that time, both silver and gold were casted as coins and circulated, known as the bimetallism. And the exchange rate between them was established through legislation. (Foldi & Medveczky, 2015)

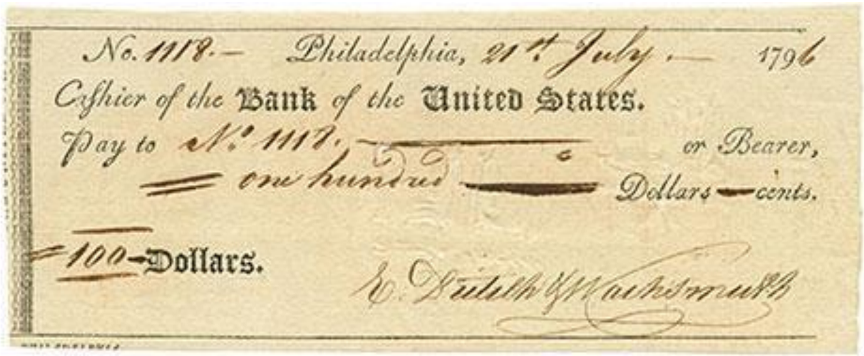

Figure 3. United States. Bank of the United States, Philadelphia, July 21, 1796, cashier's check for $100.
Source: (Szramiak, 2016)

In the nineteenth century, there was a political dispute over significant deposits of silver minerals that had been found in the Midwest. Owing to the increase deposit of silver, the price of the silver decreased significantly. At the same time, this caused the dramatical depreciation of the intrinsic value of silver coins. From 1873 to 1900, to solve the situation, United States enacted a series of legislations and regulations. In 1873, the United States abolished the circulation of silver coin officially and introduced the gold standard system with the passing of the coinage reform law. The "gold standard law" legislated in 1900 formally terminated the Double Standard System. Ever since then, gold was the only value standard of the US dollar, allowing US dollar to exchange for gold until 1971 (Calomiris, 1992).

Figure 4. United States. Gold-backed currency. Late 1800's-early 1900's - $5 note. Source: (Szramiak, 2016)

At the beginning, the United States was once outside World War I. (Natelson,2008) Many US organizations and companies had enormous amount debts to pay for European governments for their military supplies. During World War I, gold from European countries flowed into the United States to buy war products. The Federal Reserve's use of this gold as legal tender has led to inflation. During World War I, there were two periods that the gold standard was suspended. Congress carried out the Aldrich-Vreeland Act of 1908 to intervene and control the exchange rate of the dollar with stable fluctuation.(Bozsik, 2022) The bill provided a mechanism for urgent currency issuance during a crisis and established the National Monetary Commission to seek long-term solutions to national banking and financial problems. With the direct of Senator Aldridge, the commission developed a central bank plan controlled by bankers. William Jennings Bryan and other progressives lashed out at the plan, hoping to create a central bank controlled by the people, not bankers. In 1912, Democrat Woodrow Wilson elected the president, which also strangled Republican Aldrich's plans.

At that time, most Americans believed that the country needed a central bank as a mean of stabilizing the currency and financial system, but there were two distinct views on the establishment of a similar central bank. Bankers from New York and some politicians in Washington supported the establishment of a strong central bank that would be able to issue currency and supported the efficient operation of payment systems. They claimed that the central banking institution should be managed by the bankers themselves and that the institution should be based in New York. However, many Americans did not trust such a powerful central entity. People didn't want to give New York special interests and Washington politicians so much power. In addition, the United States had a vast territory, and the economic needs of different regions were different (Meltzer, 2010).

In the middle of The Great Depression in 1929, the US stock market collapsed, the US crisis prompted capital to flee to the UK, and the dollar depreciated. The international panic was transmitted from the United States to Europe, the collapse of the largest bank in Austria-the collapse of the German bank-the failure of the British bank, a gold exchange wave occurred, and the pound depreciated. Money flowed back to the United States (Rothbard, 1972). The UK broke away from the gold standard, while the United States attempted to implement active monetary and fiscal policies encountered constraints inherent in the gold standard. In April 1933, the United States announced its departure from the gold standard and implemented a thorough easing monetary policy. As a result, the US dollar depreciated sharply, and the US stock market rose by 100% from April 1933 to the end of the year.

By the end of World War II, the United States was the only one that made money in the war and the economy developed unprecedentedly. Gold continued to move into the United States, and in 1945, the US GNP accounted for 60% of the gross domestic product of all capitalist countries. The United States' gold reserves increased from 14.51 billion US dollars in 1938 to 20.08 billion US dollars in 1945, equivalent to 3/4 of the entire capitalist gold reserve, which puts it in the capitalist world's dominant position (Szemere et al., 2022)

Figure 5. United States. Federal reserve notes, Atlanta F6, Series 1977: $1 note. Source: Archives

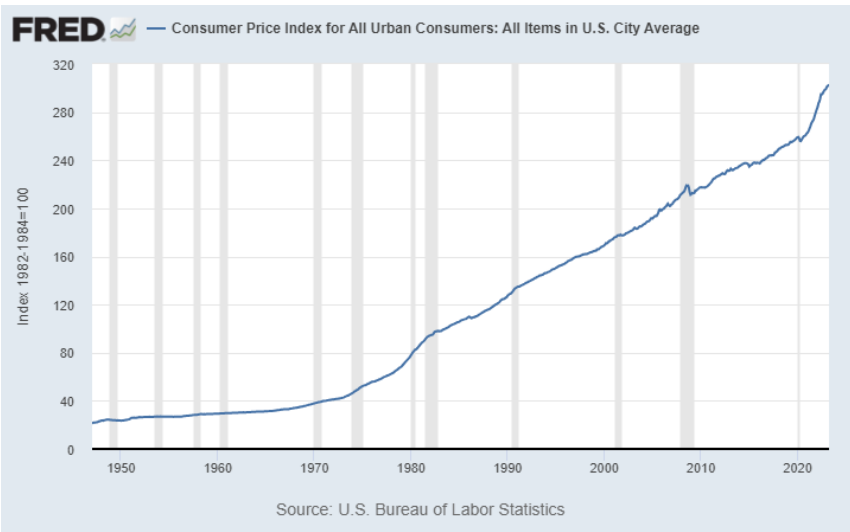

Figure 6. U.S. Bureau of labor statistics, Consumer price index for all urban consumers: All items in U.S. city average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, June 9, 2023.

In July 1944, on the eve of World War II's impending victory, 44 allies in World War II organized and held the "International Conference on International Monetary and Finance of Union and Alliance Countries" with 730 participants in a hotel in Bretton Woods. This was the commencement of the Bretton Woods system.

However, due to inflation during World War II, inflation after World War II, inflation during the Korean War and Vietnam War, and another round of inflation between the two inflations, the price level in US doubled between 1934 and 1971. Meanwhile, the United States kept the exchange rate between dollar and gold unchanged according to its strong economic strength and gold reserves. This resulted the overestimate of the dollar and underestimate of the gold. Meanwhile, central banks of various countries began to reserve gold and exchanged the dollar in their hands for gold to increase their reserves. In 1948, the United States had 70% of the world's monetary gold reserves, equivalent to 700 million ounces.

Japan and Western Europe experienced fast recovery and development with the help and US. And the global position of the United States has continued to drop. Correspondingly, the US dollar has exacerbated the negative situation of the supply and demand of gold. The deficit and the continuous increase in currency issuance have made the US dollar far lower than the parity of gold. Anti-American sentiment was generated in Europe due to the Vietnam War, and France took the lead to reserve all surpluses in the form of gold. As a result, the United States' gold reserves fell from 700 million ounces in 1948 to 250 million ounces in 1970. More than half of the gold reserves were lost. The US dollar was used to place bets on gold, leading to the complete crash of the fixed exchange rate system. The "US dollar crisis" occurred in 1971. From the 1960s to the 1970s, such US dollar crises broke out 11 times. Despite the many emergency measures the US government has taken to save the dollar, it has not worked successfully. The US economy is in recession, capital is being lost, and the US dollar is flooding the world. In the end, the US gold reserves were facing a great crisis so that to abandon the US dollar gold standard.

The Position of the US Dollar in the World Economy

The US dollar is a dominant currency of US trade. This gives the US a big leverage over exporting countries. America’s rivals are vulnerable on US trade sanctions.

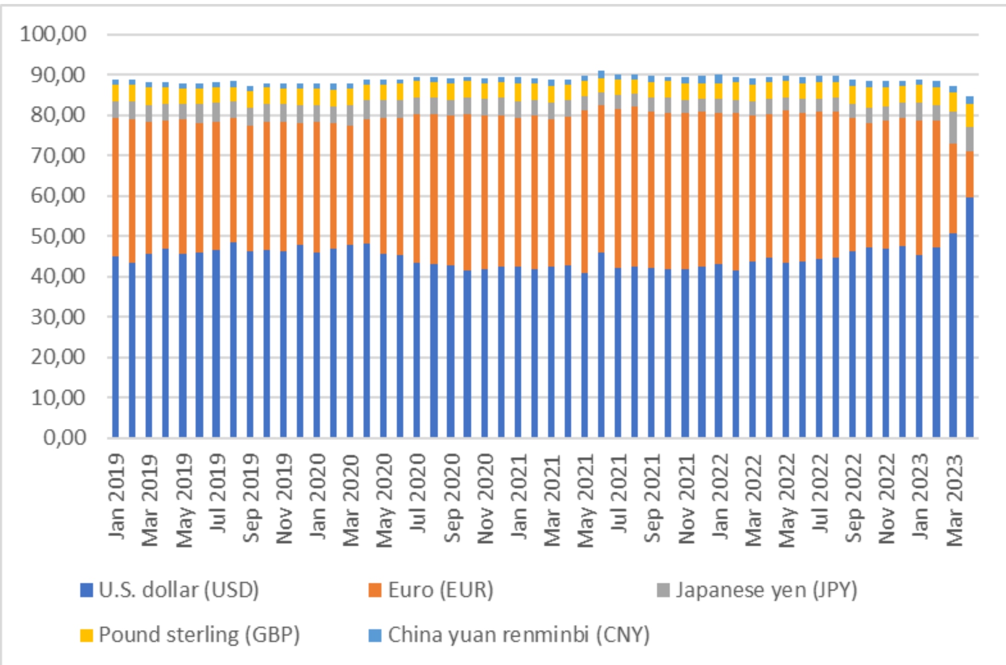

Figure 7. Most used currency in the world for international payments in SWIFT from January 2019 to April 2023, based on share in total transaction value. Source: statista.com

A Saudi Arabian oil company sells Oil to China. The buyers bank in China and the Sellers bank in Saudi Arabia settle the transaction in US dollars via correspondent banks in the United states. These correspondent banks have accounts at the federal reserve. Their status as correspondent banks means that they are safe counterparties. The interpretation is that since the settlement of the trade goes through a US -based correspondent bank, the money touches US soil giving it legal jurisdiction and compelling other countries to abide by US and international law to fight money laundering and corruption. The US used the power of the dollar to:

- cut out the sources of terrorist organizations
- increase surveillance of global money flows
- curb financing toward that actors
- invoked sanctions against rivals
- The US has the power to limit access to its currency.

Conclusion

As one vital driving momentums of global economic improvement, the benefits brought to the United States by the regular small fluctuation of the exchange rate are undoubtedly advantageous to the global economic mushrooming. However, if the exchange rates of the US dollar and other major currencies fluctuate sharply, the world economy would be serious impacted accordingly. Owing to the dollar plays two important roles: international reserve currency and international trade settlement currency, its appreciation and depreciation affects the nerves of most countries. In order to avoid the disadvantageous effects of the US dollar on the world economy, while actively seeking the short-term policy of decoupling the US dollar, countries have been calling for the reform of the US dollar as an independent international monetary system in the long term.

Scientific Ethics Declaration

The authors declare that the scientific ethical and legal responsibility of this article published in EPESS journal belongs to the authors.

Acknowledgments or Notes

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