Expert Comment

The dollar and the world-economy: *Longue durée* thinking

Randall Germain (2018)
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Abstract

This paper considers the role played by money in the construction of global hegemony. It utilises a theoretical framework grounded in a stylised reading of Fernand Braudel’s classic analysis of capitalism between the 15th and 18th centuries. This analysis draws our attention to the particular ways in which the world-economy is organised around and through overlapping social arenas and subject to different temporal rhythms. The principal argument of the paper is that many analyses pay inadequate attention to the peculiar fusion of economic, political, social and ideational forces that have powered the US dollar to its current role. A Braudelian framework, focused on what he terms the *longue durée*, allows us to assess the robustness of these sources of support for the continued role of the dollar as the world’s ‘global’ currency, and the kinds of long-term shifts that are required in order to dislodge the dollar from this position. I advance the counter-intuitive argument that the US dollar will continue as the world’s premiere currency for some time yet, because its *longue durée* foundations remain remarkably intact.

1 Preliminary draft; please do not cite without permission
Introduction: The puzzle of global currencies

In order to function effectively, any economy requires a means of exchange. When economic exchange progresses beyond barter, the settlement of transactions usually occurs through the exchange of money, both in note form and as credit. The nature, organisation and provision of such money – its value or price, its form and function, and how it is sanctioned (via public or private authority) – is therefore a puzzle to be investigated. In the modern period, no economy has operated effectively without some kind of stable, well-grounded currency.

The international economy – or what I shall call the world-economy – is not much different. It has tended to produce over time a dominant international or global currency that has acted as an anchor for key types of international transactions. Of course, it is the case that there are many currencies active internationally, while it is normal for only one currency to be used within national economies. This makes the puzzle posed by a global currency slightly different from that of national money: the relationship between money and authority is refracted between multiple and competing sovereign jurisdictions. This is most clearly visible when considering how global currencies are provided and sanctioned.

The US dollar has been the world’s premiere global currency since the end of World War Two. There are many reasons offered for this role: the size of the US economy relative to other major economies; the centrality of US financial and stock markets in the global financial system; the role of US multinational firms in international transactions; the global reach of the US alliance system; the paramount political position of the US in international relations; and the central role of the dollar in foreign exchange markets. Yet, over the past

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2 I am using the term ‘global currency’ here in a way that encompasses but also goes beyond the more common term ‘international reserve currency’. It is akin to what Susan Strange (1971) and Benjamin Cohen (1998) identify as a Top Currency. A top currency (a global currency in my terminology) is more than a reserve currency (used by governments for their foreign reserves); it is the dominant currency used for international economic transactions and credit flows around the world. Recent assessments which demonstrate the continued dominance of the US dollar include Thimann (2009) and Cohen and Benney (2014).
decade many have questioned the viability of the US dollar to continue acting as the world’s principal international reserve currency. Is it a reliable store of value? Do persistent and large American budgetary and current account deficits spell out a future in which the supply of dollars will outstrip demand? With the rise of emerging market economies and especially China’s determined effort to internationalise the renminbi (RMB), not to mention the establishment of the euro as a fully-fledged reserve currency, many feel justified in questioning how much longer the dollar will maintain its historic role.

In this paper I consider both how the US dollar serves as the premiere global currency, and how much longer we can expect it to continue in this role. But rather than re-examining the above reasons to determine if the balance of the global economy has finally swung away from using the US dollar as an anchor or reserve currency, I propose to outline and advance a conceptual framework for considering this question based upon the work of the French historian Fernand Braudel. The hallmark of Braudel’s work is what might be termed his *world-economy* framework, in which he assesses the structural characteristics of a world-economy in terms of its coherence as a singular totality, albeit one that can be divided in several different ways. I shall divide the world-economy in two ways: between overlapping social spaces and inter-related social times. By outlining the world-economy in this way, I advance a conceptual framework that suggests a somewhat different way to apprehend the production and sanctioning of global currencies. It is a framework organised around a set of dialectical relationships that anticipates how the US dollar will continue to act as the world’s principal currency into the immediate and medium-term future, due to the particular way in which American-style capitalism has become organically fused with the key structural features of the world-economy.

The paper is organised in two sections. The first section outlines Braudel’s conceptual framework, drawing special attention to the way in which he conceives a world-economy as organised through overlapping social spaces and inter-related social times, which are in turn
refracted through the juxtaposition of competing *ensembles* of politics, economics, culture and social hierarchies. The second section asks how such a framework might consider the puzzle of a global currency. Two historical cases are used to schematically illustrate the operation of a global currency within a world-economy: sterling during the era of the pre-1914 international gold standard; and the dollar during the contemporary period. Considering these two cases as *historical* illustrations allows us to reflect on the present and future possibilities for the dollar. As Braudel maintains, history provides a window that is able to gaze into the present as well as the future; thus it is a suitable avenue of knowledge for the social sciences (Braudel, 1977, p. 117).

**A Braudelian framework: Overlapping social spaces and inter-related social times**

*Carving up social space: Capitalism, market economy, material life*

Why should we identify a Braudelian framework as a *world-economy* approach to economic history? Braudel’s method of understanding the movement of history continually juxtaposes opposing imperative forces in order to arrive at their inner dialectic of development. In this he follows a broadly historical materialist methodology, wherein history is considered as movement along a specified direction which can be ascertained in its totality. History in other words is always linked, and its parts are comprehensible in terms of the whole. All history in this sense is world history. Yet, for Braudel the world has not always been synonymous with a global whole. Historical totalities have been identified as such on the basis of their structural comprehensiveness, which reflects cohesion across a broad range of features. Thus he makes a critical distinction between a *world economy*, or ‘market of the universe’, and a *world-economy*, an “economically autonomous section of the planet able to provide for most of its own needs, a section to which its internal links and exchanges give a certain organic unity” (Braudel, 1984, p. 22). The first dialectical relationship for Braudel is therefore that of part to whole, of particular history to global history. It demands that we analyse and
understand all particular histories – and events – within their global context. Those who study international political economy (IPE) will recognise in this call to arms the starting point of their academic pursuit.

Yet, does this distinction between the ‘market of the universe’ and a world-economy serve any purpose for the analysis of contemporary history, defined as it has been for at least two decades now by ‘globalisation’? I maintain that this theoretical starting point provides us with a signal advantage: it allows us to divide up the world into concrete social spaces, the borders or hierarchies of which are not defined solely by territorial divisions. Braudel’s starting point takes its cue not from political divisions – although as we shall see these are not unimportant – but from social structures, which are themselves amalgams of political, economic and cultural characteristics. This is extremely valuable, for it allows us to place problems such as the provision of global currencies into a world context. It tells us that the nature, organisation and provision of something like a global currency cannot be understood as a singularly ‘political’ or an ‘economic’ phenomenon.

Once established, the coherence of a world-economy may be mapped in several ways: through the boundaries that mark it off from other world-economies; through its central axis of power, which for Braudel runs through cities; and through its hierarchical zones, extending from core to periphery (Braudel, 1984, pp. 25-44). Within the context of a historical materialist method, this coherence is in part a function of the application of political power and the ongoing effects of a fusion between state prerogatives and market activities. But Braudel also directs our attention to the linkages between what he describes as a world-economy’s ‘core’ building blocks, which he identifies as the social arenas of capitalism, market economy and material life. These are the separate yet inter-related terrains of social space that provide the ‘envelope’ within which we can situate the history of discrete parts. The ‘whole’ of the world-economy is constituted by these terrains, the parts of which are in
turn moved by quite different rhythms, dynamics, agents and forms of contestation. It is their intricate inter-relations that mark out the second dialectical feature of Braudel’s approach.

Here, we enter into one of the most controversial aspects of Fernand Braudel’s framework, due to his insistence i) that capitalism does not (indeed cannot) subsume every aspect of social life under its purview; ii) that capitalism is as old as the hills; and iii) that social space is not homogenous in its organisation and experience. These claims allow him to consider not only that the historicity of capitalism extends as far back as recorded time, but also that capitalism needs to be distinguished from markets and the market economy. Contrary to common usage, Braudel asks us to accept that capitalists and their preferred arena of activity – capitalism – differ substantially from all other producers, traders and consumers in their many and overlapping interactions. Most importantly, for him capitalism is the terrain in which competition is minimal, monopoly and oligopoly are the norm, transparency is rare, information is necessarily asymmetric in its generation and availability, and power is explicitly recognised and exercised in economic and commercial activities. It is as far from the transparent, competitive market economy as one can imagine; indeed, on occasion he refers to capitalism as the ‘counter-market’.

If the world-economy is a kind of ‘envelope’ within which social action takes place, Braudel asks us to think of it as a pyramid, with the smallest, top-most section reserved for the terrain of capitalists. Even if we agreed with Braudel that the world-economy could be portrayed as a pyramid, this is a counter-intuitive inversion of the standard depiction. For most of us, the economic imagination we deploy sees the terrain of capitalism as the largest section of the pyramid – its biggest, most powerful portion – precisely because this captures the enormous sway that capitalism exerts over the economy. In fact, for most of us capitalism and the economy are inseparable; capitalism is the economy. Contemporary arguments about global capitalism tell us that today it is busy drawing more and more extensive lands
and peoples into its maw. To argue that capitalism is not this super-dominant system is to go against the grain of nearly all modern political economy analyses.

Yet, this is exactly what Braudel asks us to do. For him, if the idea of capital is to be treated in a historically accurate manner (and what historian refuses to be historically accurate?), it should be most centrally connected to money, to the form of wealth which is directed to reproducing itself through accumulation and for the purposes of accumulation (Braudel, 1982, pp. 232-243). Capital is moneyed wealth, built up over time rather than consumed. This is why until very recently capital has almost always been a property of families: the connection between family and capital has enabled capitalism to become an organised terrain of activity (Braudel, 1977, pp. 66-75). Most importantly, of course, it has been merchant families above all who engaged in accumulation; hence their association with capitalism as he defines it.

For Braudel, the chief hallmark of capitalists, or their defining characteristic, has always been their capacity to choose where to deploy their capital, and thus to shift the means of accumulation according to the profitability of particular activities. Capitalists have rarely if ever specialised in only one line of work; they have continuously shifted from one enterprise to another according to the level of profit (which they prize) and the degree of competition (which they avoid). Long distance trade and money-lending, for example, have long been chosen preserves of capitalists. It was only in the 17th and 18th centuries that production became profitable enough to warrant their attention. Today it is speculative activities along many fronts – finance, property, technology – that mostly capture their attention. Venture capitalists might be said today to occupy the terrain of capitalism in its purest form. The point Braudel brings home is that capitalists neither can nor desire to control the entire economy; rather they insert themselves into the commanding heights of economic and commercial activity where the easiest and juiciest profit margins lie. As for the rest of the economy, the market economy, capitalists are happy to leave that to others.
This market economy encompasses the middle section of our economic pyramid, changing in size as one moves through history. Its defining feature is its fundamental transparency. That is to say, the economic and commercial activities which mark out the market economy are well-understood, easily calculable because of the wide availability of information, open to competition and capable of sustaining many participants. Over the years and centuries, the market economy has organised and entertained the kinds of routine exchange that have in turn sustained villages, cities and even nations. These range from the provision of basic necessities to local services to the stable economies associated with trade in non-luxury items produced through comparative specialisation: olives for wine; cloth for wood; and in our time, metals and commodities for manufactured products.

For Braudel, the crucial point about the market economy is that it is entirely about the production, exchange and consumption of everyday items, in which the possibility of realising super-profits does not exist outside of rare and unusual circumstances. The economic and commercial activities that constitute the market economy are obviously profit-oriented, but these profits are not themselves directed for the most part towards accumulation. Of course, some people will begin in the market economy and move into the arena of capitalism – that is to say, they will become capitalists – but this is not a widespread occurrence and most importantly it is not one which upsets the essential stability of the market economy. At the same time, the market economy is vulnerable to incursions from capitalism and its capitalists, such as when new technologies provide new economies of scale that recalibrate profit margins in established sectors, or when special circumstances transform stable commodities into profit opportunities (as for example during a famine). But this is not a common development historically, as Braudel reminds us: there are simply too few profitable opportunities (in an accumulation sense) for capitalists to bother with the market economy on a grand scale.
Distinguishing between capitalism and the market economy allows Braudel to negotiate two problems that plague much contemporary analysis in IPE. The first is the tendency to assume the homogeneity of social space, wherein we are compelled to designate an entire social space such as an economy in only one manner (i.e., capitalist, socialist, feudal, etc.). While this may offer a tempting form of analytical parsimony, Braudel is convinced that this is factually inaccurate, especially if one examines the kinds of dynamics and imperatives which move actual historical agents. In other words, agents experience history as moving to different rhythms and cycles, which means that our conceptual understanding of such history must accommodate these differences. Distinguishing between the structural characteristics of capitalism and the market economy is one way to do this. As we will see, Braudel’s conception of social time also strongly supports this claim.

The second problem is the tendency to assume a monochromatic reading of causal factors involved in moving history forward. Here Braudel’s framework allows us to introduce multiple and competing causal factors that push and pull historical agents in different directions depending upon which terrain of activity they are principally involved with. The causal factors at work in the terrain of capitalism differ markedly from those at work in the market economy, and we need to be aware of these distinctions if we are to accurately evaluate future trends and possibilities. Furthermore, we will need to establish the broad relationship between the different social terrains if we are to link the totality of a world-economy together in a cohesive manner. But crucially, this totality cannot be completely dominated by only one causal factor or relationship; it is far broader and more varied than this conceptualisation allows.

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3 J.K. Gibson-Graham (1996) offers a further reason to join Braudel in resisting a homogenous conception of social space: it restricts imagination for considering alternatives, in this case to capitalist social relations.
Here, Braudel’s insistence that capitalism is a specialised terrain of activity that has been with us since ancient times, while controversial, is also useful, precisely because it alerts us to the push and pull factors associated with arenas of activity that move to different (and sometimes competing) rhythms. It helps us to understand the barriers to capitalism (equated today most often with the pressures of globalisation), and to begin to reflect on where and how capitalism is challenged by extra-economic forces. Above all it allows us to conceive of a world-economy that is structured and organised around a multiplicity of historical imperatives, rather like the unfolding of social life itself.

The last part of the world-economy pyramid Braudel identifies as the terrain of *material life*, that vast pool of activities dominated by routine, repetition and unreflective behaviour. It is the domain of what is often portrayed as the ‘natural order of things’, what some have called ‘the political economy of the everyday’, and which Antonio Gramsci famously called ‘common sense’. For the eras which most occupy Braudel – the Mediterranean world during the reign of Philip II of Spain, and the European world-economy from the 15th to 18th centuries – the domain of material life constituted the single largest block of social activities, simply because most people were involved in webs of exchange that extended no further than a few miles, and which were directed primarily towards reproducing family and village life on a subsistence level. The money economy – the hallmark of the market economy and vitally necessary for capitalism – was not widely entrenched, and many forms of economic exchange were wrapped up in non-economic or un-economic demands. The parallel here with Karl Polanyi’s (1944/1957) understanding of an ‘embedded economy’ is clear.

It is difficult today to conceive of such a large chunk of social life as being insulated from economic behaviour. But Braudel’s point here is not that each terrain is insulated entirely from economic impulses; rather it is that people have lived throughout history in ways that have been dominated by many different impulses, and indeed we can still find
either pockets of populations that are relatively insulated from modern life, or think about parts of our lives that respond to or are directed by non-economic factors. Even though his first interest was economic history, Braudel was always careful not to over-determine history with economic motivations, and especially with ‘capitalist’ motivations.

Thus the terrain of material life is comprised of those activities which most often correspond to everyday lived experience: “… those aspects of life that control us without our even being aware of them; habit or, better yet, routine – those thousands of acts that flower and reach fruition without anyone’s having made a decision…” (Braudel, 1977, pp. 6-7). He offers the historical choice of grain for foodstuff as a prime example: wheat in Europe; maize in the Americas; and rice throughout Asia. Each crop demanded different techniques and imposed particular consequences upon the social organisation of the economy (Braudel, 1977, pp. 11-12). At the same time, even though each foodstuff was initially confined to the domain of material life, over time it became subject to routine long-distance trade – a sign of inclusion in the market economy – and even, in unusual circumstances, capitalism itself, as when it became a plaything of capitalists during famines or unusual trading circumstances (Braudel, 1982, p. 457). Historically, human organisation has been mostly imprisoned, as Braudel would have it, within the lived experience of material life; it is one of the hallmarks of modernity that increasing swaths of social life have become part of the market economy, which is more open to new ideas, inclusive participation and the fluidity and mobility which we so often associate with the modern era.

Braudel’s world-economy framework is thus pitched as a triptych, as a three-dimensional model that sets the basic structural parameters within which human agency takes form. Yet, this structural framework also works over or through another set of macro-constraints, which he identifies as a ‘set of sets’, or as the ensemble of polity, economy, society, and culture (Braudel, 1984, pp. 45-70). On this front the dialectical nature of Braudel’s framework becomes explicit, for if the economy is capable of invading other
terrains, so too is it open to incursions from other forms of activity. He presents this as a possible set of equations:

1. politics + economics + culture = society
2. economics + culture + society = politics
3. culture + society + politics = economics
4. society + politics + economics = culture

In fact, we may identify this as the third dialectical feature of Braudel’s framework, namely the holistic and inter-active web of his history, which demands that we employ not only a global historical perspective, but also a holistic one that sets different forms of activity into conflict and contestation with one another.

The particular conflict Braudel picks up on is the way in which the terrain of capitalism sets upon and utilises for its own purposes the various social hierarchies it comes upon. This idea is crucial, because for Braudel capitalists are able seize control of, or insert themselves into, the commanding heights of the economy precisely by taking advantage of pre-existing social hierarchies. This is how capitalism grows and expands; not by devouring its own (although this does occur periodically), but by searching out and exploiting the differences which social hierarchies present to those with capital, information, power and resources. Once the hierarchy yields its treasure, however, the capitalist moves on. This refusal to specialise is in fact the key to their historic ability to survive: capitalists simply pick up and move on when loopholes are closed to them and the hierarchies they feed on are ameliorated.

Of course, such social hierarchies are intimately related to the other elements of the equation offered above. Social hierarchies both graft themselves onto and indeed produce political institutions which can yield economic dividends. This is why, for Braudel as for many historical materialists, capitalism is everywhere and always closely associated with the state. The state feeds off of social hierarchies and reproduces them, but in layers; the hierarchy is
itself inherently hierarchical! For example, Braudel (1984, pp. 50-55) relates the Industrial Revolution to the evolution of capitalism by noting that it was at this historical juncture that the state got involved in manufacturing and industry (as opposed only to trade and commerce), and this was at exactly the same time that the state became involved in organising its colonial and imperial territories as totalities (rather than simply as suzerainties or vassal possessions). As capitalists began to insert themselves into production, they re-oriented the state and took it (along with them) into new arenas of activity.

Braudel’s framework, by conceptualising a world-economy in terms of three terrains and overlapped by the hierarchies associated with politics, economics, society and culture, enables us to consider the question of global currencies in terms of how deeply they penetrate into a world-economy, and the particular way in which they serve to extend, reinforce or undercut existing hierarchies. This suggests that we focus our attention on the wide-ranging role of such currencies, and how far they go towards sustaining a particular kind of world-economy. As we shall see, the US dollar today has a more extensive role than the British pound sterling did in the pre-1914 gold standard period; we might say that its role extends beyond the usual terrain of an internationally-used currency, which is more typically associated only with the terrain of capitalism.

To sum up this section, Braudel’s framework suggests that we draw our attention to three key dialectical features of historical developments: the constant movement between individual agency and global context, or part and whole; the conflicts and tensions between actors situated in different terrains of activity (capitalism, market economy and material life); and the conflicts inherent to different social hierarchies as they are exploited by capitalists. But these dialectical features are not simply organised spatially. Crucially for Braudel, they are also informed by the differential movement of social time.
Carving up social time: The event, the conjuncture, the longue durée

As a historian, one of Braudel’s long-term goals is to impress upon us the subtle intricacies of time, and how the prism of time affects our understanding of events. This quest arose for Braudel out of the seeming triumph of one kind of history during the late 19th century, that of diplomatic history, or the history of ‘great men’. This form of history essentially describes a sequence of discrete events or acts. It is history as chronology, which carries the historian along a tide of events that can be defined, understood and mapped individually. Such a vision of history is marked out by the short time span, or what Braudel identifies as histoire événementielle, the time of the event. It focuses upon what some see as the surface appearance of history, disconnected from deeper structures which might provide its narrative. While Braudel recognises the lure of this method of thinking about time, he is not a fan: it is history “in the raw”, focusing on the time span that is “the most capricious and the most delusive of all” (Braudel, 1980, pp. 28-29). Ultimately, such a view of social time fails to provide history with any depth.

To gain access to historical depth, to arrive at a picture, however incomplete, of the deeper structure of history, involves conceiving of a longer time span, one able to capture developments over decades. This Braudel terms the conjuncture, a time span that is able to chart movements from ten to about fifty years (which is the timespan of the Kondratief wave, a price series named after an early 20th century Russian economist who initially formulated it). This medium-term time span is valuable precisely because it sets the time of the event into a more appropriate context, one which enables connections to be made between collective action and structural context. Or, to adopt a Braudelian metaphor, the conjuncture allows us to establish a relationship between the envelope of a totality and its particular contents. One example of the conjuncture is the business cycle, that staple of supply and demand which demonstrates the degree to which the different elements of economic activity (production, exchange and consumption) are balanced out over time.
As this example indicates, the conjuncture is a time span, the greatest utility of which can be found within the context of the market economy. Here, with supply and demand a function of competition, transparency and routine transactions, prices move in relatively regular cycles which can be plotted and mapped in order to explore their appropriate causal factors. Thus we have commodity booms and busts, trends which can be identified and linked to industrialisation, inflation, technological developments and population changes. By plotting such cycles, the market economy becomes visible and almost – within certain parameters – predictable.

In contrast, the time of the event is a timespan applicable often to the terrain of capitalism, where trends are more volatile, short-lived and capricious. Super-profits are generated by those who often take bold decisions in the face of great uncertainty and high risk. When speculation is involved, singular events are often of great significance, allowing large profits to be made on the back of surprising and unanticipated developments.

But it is not the conjuncture which is Braudel’s main concern in his writing, despite its importance. The timespan which commands his primary attention is the longue durée, a timespan that stretches over many decades and can even extend over centuries. The longue durée is as much a mentalité or mental framework as it is a timespan; that is, it is a mode of experience through which history is encountered. One expression of the longue durée is the secular price level, which moves in slow and undulating cycles over centuries, but yet which can be severed at certain crucial points. This is for Braudel the key aspect of social time, and the principal reason why we need to recognise its different ‘moments’: time, while continuous, can also be broken or ruptured, and in order to recognise these points we need to be able to contrast the fast paced time of the event to the slower-paced movement of the conjuncture, and contrast both to the ‘common sense’ glacial stream of the longue durée (Braudel, 1980, p. 26).
The *longue durée* is most commonly applicable to the terrain of material life, where the long-term span of time is composed of routine practices and hereditary actions that change only slowly. This is where our most basic habits are formed and our most durable predispositions are shaped. Although he does not make this point, we might say that it is within the terrain of material life and over the *longue durée* that our preferences are formed. Such preferences may sometimes be equated with ‘human nature’, but really these are simply the settled dispositions of our common sense. Examples drawn from the early modern period might include the power with which seasonal changes ruled agricultural communities, dictating many aspects of behaviour, or the capacity which religious belief possessed to reinforce particular status hierarchies. Contemporary examples might include in western industrialised countries the stubborn persistence of the idea of individual responsibility, which infuses values across widely disparate income groups, or the equally stubborn and paradoxical valorisation of nationalist impulses, which seem in so many ways to be counter-intuitive to the thrust of globalisation. Braudel’s point here is that even in today’s world, there are long-held ideas and material practices which remain almost impervious to the onslaught of commercial pressures.

This points to the fourth dialectical relationship that a Braudelian framework highlights: the tensions produced by different experiences of time. Just as we need to relate parts to the whole, we need also to be mindful of how the short and medium-term relate to the *longue durée*. As he put it in an important article first written 60 years ago:

“nothing is more important, nothing comes closer to the crux of social reality than this living, intimate, infinitely repeated opposition between the instant of time and that time which flows only slowly. Whether it is a question of past or of the present, a clear awareness of this plurality of social time is indispensable to the communal methodologies of the human sciences” (Braudel, 1980, p. 26, emphasis added).
These tensions should not be conceived as disembodied, abstract experiences of time, but rather as lived experiences in which the rhythms and cycles of practices organised across different terrains of social space interact and shape our very understandings of what is possible for human agents to achieve within their given circumstances. It is an awareness that time and space are historical categories which push and pull at our values and objectives, and through this exert an impact on the consequences of our actions. It is above all a call to recognise that the social sciences are a version or branch of the historical sciences, and to approach issues commonly associated with the social sciences through what might be termed a historical mode of thought.

We have now arrived at the point where we can outline schematically a Braudelian framework, and establish how this might provide insights into the question of the future of the US dollar as a global currency. Such a framework begins by establishing the global context of individual action; this is nothing more than providing a global or world-historical context for a specific issue. It then juxtaposes the social terrains through which the issue is active, to establish how deeply entrenched the practices under consideration might be. It then sets up the hierarchies that are central to the issue, in order to consider how stable they are in their multiple relations. Finally, it considers the long-term mentalité which underpins and/or undermines the particular formulation of the issue in question, juxtaposing the short and medium term to the longue durée. It is this last element that sets the entire framework in motion.

The next section will develop this framework with reference to the examples of sterling and the dollar. Although it is brief and schematic, I outline how this framework might approach a comparison of sterling during the pre-1914 era the dollar since 1945 on the question of the provision of a global currency. As the comparison will suggest, the dollar today is far more strongly entrenched than sterling was at the height of its global currency status; thus we should expect the dollar to retain its status quite far into the future. While it
may be slightly premature to speak of the dollar in terms of the *longue durée*, we are edging closer to such an evaluation.

**A ‘world-economy’ view of global currencies: Sterling versus the dollar**

*Parts and wholes*

Braudel's first dialectical relationship concerns parts and wholes, or to be more specific, the relative depth and strength of a world-economy's structural coherence. A global currency is an important part of this coherence; thus our first question must be somehow to gauge the coherence of the contemporary world-economy in comparison with its pre-1914 antecedent. The 19th century world-economy was marked out by the predominant political and economic position of Great Britain and the City of London, the spread of the values and ethos of liberal capitalism, the consolidation of the bourgeoisie as a class across many nations, the rise and then decline of free trade in relation to the renaissance of what some termed the ‘new imperialism’, and the incorporation of new geographic areas into the orbit of capitalist development together with the rapid industrialisation of many non-European countries (e.g., Japan, Canada, Australia, Germany, and the US).

Within this context, sterling played a very important role. It was first and foremost the currency used by the London markets, together with all of Great Britain's colonies and dependencies when they raised funds in the City. The use of sterling when international credit was being raised in the City and channelled abroad meant that the international financial system in effect functioned on a sterling standard rather than the nominal gold standard that is often used to describe it. In Braudel's terms, we may argue that sterling received a good part of its capacity to act as a global currency from the strength and breadth of the terrain of capitalism.

Beyond the domain of capitalism, however, throughout the market economy and material life, sterling was much less prominent, even in Britain's main colonial appendages.
For a variety of reasons, few British colonies used sterling for everyday transactions, although of course sterling did function throughout these economies as in effect high-powered money, backing up colonial currencies as foreign reserves. And there were some countries, such as Argentina, Russia and the US, which maintained large sterling balances in London, thus further supporting the reserve role of sterling. Nevertheless, the reach of sterling into other social arenas was not striking, which indicates that while the domain of capitalism certainly supported the use of sterling as a global currency, its reach did not travel too deeply into the remaining fabric of the extant world-economy.

This position can be contrasted to the contemporary period, when the use of the dollar both in the terrain of capitalism and beyond is much more widespread. With the growth in the number of countries drawn into the web of the world-economy – especially since 1989 – the potential reach of the dollar as a global currency has expanded. In particular, the use by China and many other countries of the US dollar as their key foreign currency reserve dwarfs any similar use made of sterling during the pre-1914 era by any country. At the same time, due to the growing dollarisation of many economies, the dollar has extended its role into the market economy. Examples can be found throughout Central and Latin America of de facto and de jure dollarisation, but similar developments can also be found in other parts of the world. Here what is important to note is that the dollar is playing a larger role throughout the world-economy than sterling did in the 19th century. This may be one indication that, despite many recent challenges to American economic leadership, the coherence of the contemporary world-economy remains robust.

Indeed, if we consider the extent of American power in today’s world-economy against Britain’s in the pre-1914 era, we cannot help but be impressed by the ideational and material supremacy of the current American position. Ideationally, despite the spread of dissatisfaction with and opposition to American government policies, the resilience, or better, the reservoir of belief in a version of America’s founding ideals continues to run deep. To
the extent that these ideals remain in character a pragmatic (rather than fundamentalist) version of liberalism, they will continue to resonate with the hopes and aspirations of many across the industrialised and even the developing world as witnessed by the continued numbers of people who are intent on fleeing or moving to America, or who simply desire to trade with American companies.

All of which is to say that the coherence of the contemporary world-economy – that is, the fit between its different social arenas – is at least as robust as during the sterling era, and most probably more so. This suggests that the enabling conditions for the continuation of the global role of the dollar are strong. The world-economy today is more thoroughly Americanised, as it were, than the 19th century version was Anglicised.

**Social arenas**

Another way in which we might think of this coherence or fit is by asking how deeply the terrain of capitalism extends into and is able to direct the terrains of the market economy and material life for its own purposes. For Braudel, the 19th century represented a new structural turn in the evolution of capitalism, as capitalists discovered and entered the field of production and in the process cemented a new relationship to the market economy. He thus roughly divides the 19th century from the previous four centuries to indicate that a new set of structural arrangements have emerged. But, even as capitalism (through its capitalists) extended itself into new fields, it left alone large sections of existing economies, which continued to operate outside of market relations. In India and China, for example, large parts of their economies and societies remained firmly tethered to the arena of material life, which in this case was organised around village life and subsistence economic exchange. Even as the coastal fringes of Africa were being exploited and drawn into the terrain of capitalism, much of its social organisation – especially inland – followed older norms and customs (Wolf, 1982). It was not until the vast expansion of capitalism and – in
its wake – the market economy after 1945 that the hinterlands of Asia, Africa and much of Latin America left behind many of their age-old traditions and practices.

Here again we find that sterling and the dollar faced quite different enabling conditions facilitating their respective roles as global currencies. Whereas the pre-1914 era was remarkable for the geographic extension of the world-economy in terms of the domain of capitalism, the terrains of market economy and material life generally held fast. That is to say, what marked out the expansion of the world-economy during this period was the extension of capitalism to new parts of the world through investment into infrastructure and state-building, all of which required massive capital sums. Capitalism was so pre-occupied with this expansion that outside of the field of production its encroachment on the market economy and material life was not structurally transformative. Large domains of social activity remained subject to their own rhythms and dynamics.

In the post-1945 era, in contrast, the geographic range of capitalism actually shrank with the consolidation of the Cold War into an American trading area and a relatively autarchic Soviet zone, the withdrawal of China from the world-economy and the self-sustaining focus of post-independence India. Denied its previous geographic range, capitalism turned inward and began to encroach upon both the market economy and material life. In other words, it penetrated the social arenas of the market economy and material life on a greater scale than during the 19th century, wherever it found opportunities to engage in the process of accumulation.

In this sense, during the immediate post-war period the pursuit of windfall profits in the service of accumulation – the traditional raison d'être of capitalists – was no longer as easily accomplished through an expansion of activities across borders and into new areas. Instead, accumulation was pursued by deepening capitalism within national economies, by making incursions into activities formerly left to agents in the market economy. The 1950s and 1960s especially saw this incursion most vividly, as large swathes of the American
national economy were brought into the orbit of capitalist operations as Braudel would comprehend them. This incursion was associated most clearly with the rise of large corporations and the growth of conglomerates, which attempted to gain control over entire production and distribution systems. And while this process certainly dates back to the late 19th century, it reached its zenith in the decades immediately after World War Two, initially in the US and subsequently in other countries within the American post-war security perimeter.

If we fast forward then to the late 20th century, here we find that the opening up of China to trade with the West, the moderate liberalising of India and the collapse of the Soviet Empire presented a strengthened capitalism with another chance to gird the world in pursuit of accumulation opportunities. When coupled with developments associated with the resurgence of a renewed liberalism – often identified as neo-liberalism and associated with the Washington Consensus – capitalism once again recaptured its historic globality and sought windfall profits in the transition economies and newly opened ‘emerging markets’. At the same time, however, the market economy also expanded on the back of the ethos of commercialising activities which had heretofore resided outside of the cash nexus. The result is that today the world-economy has been reconstituted with an enhanced arena of capitalism, a bolstered market economy and a diminished arena of material life. Fewer of our everyday activities today stand outside of some kind of a commercial impulse. This makes today’s world-economy more dynamic and coherent than that of the 19th century, if also more volatile and unstable, due primarily to the larger role played by those active in the domain of capitalism.

However, with respect to global currencies, it should be recalled that it is in the arena of capitalism where they are most prodigiously used. If the arena of capitalism occupies a larger share of the world-economy today than previously, the role of the world’s dominant currency will be proportionately larger. Thus in terms of the coherence of a world-economy
and the role of the global currency, the enabling conditions are more robust for the contemporary period than for the era of sterling prior to World War One. And if we add to this the relatively more widespread use of the dollar within the arena of the market economy, this conclusion appears even stronger. Overall, today’s world-economy is more dynamic and coherent than that of the pre-1914 gold standard; thus the role of the dollar as the global currency is also more strongly embedded in the contemporary world-economy than the role of its historical antecedent.

Hierarchies

It will be recalled that for Braudel one of the chief strengths of capitalism is its ability to exploit social hierarchies for its own purposes and advantages. Our world, today as in the past, is organised in large part around hierarchies and inequalities. Capitalism, in Braudel’s view, did not itself create these; it has simply fastened upon them and been able to exploit them for its own uses. The main hierarchy which capitalism utilises today is the international hierarchy of political power, and here we may suggest that the role of the US dollar is stronger now than was sterling previously precisely because the ambit and reach of American power outweighs and outdistances its 19th century British counterpart. It does so in two ways, one internal to the organisation of the American state and one external to it in terms of the global balance of power.

Internally, the American state benefits from an extremely durable state-society complex, which provides it with access to resources that are more wide-ranging than its competitors and allows for its renewal on those occasions when its balance becomes skewed and threatens the capacity of the state itself to act. Here, the fundamentally democratic nature of the American polity, combined with the deep entrenchment of its constitutional principles, means that the state-society complex which lies at the core of American power has yet to become overwhelmingly tipped towards any one set of class or
lobby-group interests. This has so far prevented the US from becoming overtly authoritarian. At times, of course, this balance has come close to such a point, such as during the Red Scares after each of the World Wars of the 20th century, and possibly today also. But each time, either politically or constitutionally, a rebalancing has occurred that has kept the American state among the most open and democratic in the world. This has provided the US with enormous political capital to be used in times of crisis.

One consequence of the availability of this political capital has been the ability of the American state to gain access to unprecedented resources to be used to protect and/or extend the domain of capitalism on a global scale. The Marshall Plan and Truman Doctrine after World War Two are examples of how these resources have been used, together with the ability of the American state to fund its global military operations since 1991. Over the 20th century, many of these resources came from the American people themselves, either through taxation or self-financing (i.e., raising domestic debt). The capacity of the US state to tax its citizens and raise domestic debt on a scale that surpasses any other government is testament to its domestic legitimacy, a tremendous resource that it has exploited to the hilt over its history.

This internal ability to generate resources is complemented by an external component, which is the capacity of the US to attract funds from abroad. Since the mid-1980s, when the US became a net international debtor (first on its current account, and then subsequently on its capital account as well), it is arguably the capacity of the US to fund these activities with other people’s money that is indicative of what Susan Strange (1987) called its ‘super-exorbitant’ privilege. This is nothing else than the ability to exploit the international political hierarchy. This hierarchy is of course clearly buttressed by the international balance of military power, the apex of which the US has held since 1945. It is also reinforced by the residual effects of the international institutionalisation of American power soldered together after World War Two in the form of the network of international
political, military and economic institutions standing guard over the evolution of a multilateral world-economy. Together, the fusion of these internal and external elements constitutes a formidable structure of American power.

This international political hierarchy, however, is now in certain respects under stress. With the re-emergence of Russia and China as significant political and economic powers, the rise of India and even Brazil, it appears that the external element of American power is eroding. Direct challenges to America’s military supremacy may not yet exist; but the ability of the US to prosecute two wars at the same time has become severely stretched. At the same time, the ability of the US to benefit from the international institutional fabric of the post-1945 world order appears to have become compromised. The UN backing for its war on Iraq was not granted, and the divisions that emerged within NATO over the Afghanistan mission further indicate that the US must sometimes push harder to maintain its dominant hold over the international political hierarchy. And, over the past year, the Trump Administration itself has seemingly attacked the existing international balance of power as tilted against its own interests.

Nevertheless, this erosion is not unequivocal. Along a number of dimensions, the external power of the American state – its capacity to call on or benefit from the international institutional fabric of world order – continues to remain impressive. Until now, at least, the US has been able to finance its current account and budgetary deficits with relative ease and at low cost. Its consumer-driven economy is still a magnet for the exports of developing (and developed) economies. Its corporations remain among the biggest, best capitalised, most innovative and most profitable on the planet. And when it comes to devising the rules for the global economy, America’s interests are rarely ignored or trammelled upon, even when the US government seems to call existing rules into question. In short, the US is and will undoubtedly remain for some time the richest and most militarily powerful country in the
world, and this position will continue to provide a certain amount of largesse for it to use and exploit.

**Time**

There are two key elements involved in how Braudel’s world-economy framework considers the question of global currencies and time. The first is a common sense element: global currencies and their role change only slowly, thus providing their issuers with many opportunities to stem the tide. The second element is more complex: the use of global currencies depends crucially upon a particular *mentalité*, and there are many ideational and cultural supports that will extend the use of such currencies over time. In short, a *longue durée* view of the question of global currencies embraces a range of factors above and beyond a narrowly ‘economic’ rationale for its use. Global currencies are part of a world-economy that is itself composed of a ‘set of sets’ that extend beyond the strictly economic.

Global currencies are historical creations, and have come and gone throughout history. The Venetian ducat, the German thaler, the Spanish real, the Dutch guilder and the British pound sterling have all acted as global currencies in the past, and the transition from one to the next has always been a long and often prolonged affair, often with periods of ‘cohabitation’. Indeed, sterling still retains its position as a (minor) international reserve currency to this day, which is part of the role played by all global currencies. So the point remains, that even if the dollar is to relinquish its role it will take time for the world-economy to develop the enabling conditions for a new one to emerge. We do of course have an immediate historical precedent, as when in the 1920s and 1930s several currencies together constituted a set of international reserve currencies: sterling, the French franc, and the dollar (along with gold). In this sense the dollar will be a global currency (even if not *the* global currency) far into the future.
But more importantly, if we enquire into the ideational supports for considering whether other currencies can act as a global currency, we need to ask if other potential rivals can match the enduring global appeal of the American economy’s *mentalité*? In terms of countries or regions that can potentially exert this kind of pull – as witnessed by a desire to trade with or migrate to its shores – only one appears to offer such a *mentalité*: Europe. This is partly because it is a magnet for refugees and economic migrants (unlike China, Japan, India, Brazil and Russia, for example), and partly because it shares with the US a version of liberalism that seems to resonate beyond its borders. Although this appeal is not quite as strong or global as that of America’s, it at least resonates with a similar set of values. The lack of alternatives on this front suggests that throughout the contemporary world-economy, it is the US that will continue to hold fast to the world’s economic imagination, and thus it will continue to provide the core *mentalité* for the dollar to uphold the global currency role.

**The dollar’s longue durée**

I have advanced a conceptual framework that attempts to explore the enabling conditions required to provide and sanction a global currency. The crucial point stressed throughout is to consider the question of global currencies in light of the overall structural organisation of the world-economy. Until the basic structure of a world-economy is altered, the provision of its principal currency is unlikely to change. From this perspective, the most important question to pose is whether the world-economy itself is being transformed?

There are two main components involved in answering this question. First, are the basic structural arrangements of the world-economy – themselves established in the first decade or two after World War Two – under threat? The answer provided above is: not really. The different arenas of action (capitalism, market economy and material life) are indeed changing, as they have throughout history, but they are changing at a pace that is
not yet transformative. Indeed, an important change has already occurred, namely the squeezing of the terrain of material life by the market economy, but this has not resulted in a diminution of the role of the US dollar as the world’s single most important currency. The main reason is that in the terrain of capitalism, the need and desire of capitalists to continue using the US dollar appears sturdy. Thus the role of the US dollar seems set to continue into the immediate and medium term future on a par with the immediate past. The US dollar has legs, and they are grounded in the strong material support afforded to the dollar by the structure of the world-economy.

Reinforcing this material condition is the ideational support provided to the dollar by the prevailing mentalité that inclines commercial and other agents to consider the dollar as part of a broader political economy framework associated with liberalism, open economies and international transactions. All of these attributes are also supported by the material conditions undergirding the dollar, such as the unparalleled liquidity for its assets, and the complete openness of the US capital account. But the point remains that from a Braudelian world-economy framework perspective, this long-term mentalité also supports a strong and continuing role for the dollar as the world’s premiere global currency, which is at least as important as the material conditions that usually dominate our discussions about the US dollar. For this reason, the US dollar is solidly entrenched for the longue durée as the world’s most important – indeed indispensable – global currency.

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References


