

# The euro as an international currency: a view from the US

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February 20th, 2015

# Outline

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- Euro-dollar rivalry before the GFC
- Hard lessons from the GFC
- The ideational impact of the euro
- The dollar problem

# European dreams (I)

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- The Euro as a political project
  - Its main purpose was domestic
  - But it also had an international dimension
- “Although the presence of a hegemon may be beneficial as long as it remains the anchor of the system, it is no longer so when it ceases to provide stability.” (EC, One Market, One Money, 1990)

# European dreams (II)

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- Euro optimists (Bergsten (1997), Portes and Rey (1998) Mundell (1998))
  - “Members of the EMU will get not just a currency on a par with the dollar and the right to a share in international seigniorage but will also have greater influence in running the international monetary system” (Mundell 2008)
- Monetary power (from autonomy to influence)

# US view

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- Academic skepticism from OCA theory: Feldstein (1998), Dornbusch (1997),...
- Deeper understanding of the challenges from IPE (Cohen)
- Before the GFC
  - New advantages from dollar centrality in financial globalization (Kirshner 2014)
  - Continued use of “exorbitant privilege” (rising public déficits and debts)
  - Neutral official view on the euro (while euro share of FX reserves rise from 19% to 30% during its first decade)
- Concerns of a dollar-run under BW II?

# Enter the GFC

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## ■ European optimism:

“the US will lose its status as the superpower of the world financial system. This world will become multipolar.” “when we look back 10 years from now, we will see 2008 as a fundamental rupture. I am not saying the dollar will lose its reserve currency status, but it will become relative.” (Peer Steinbrück, September 2008)

# Dollar revival

- The euro material challenge to the dollar has been non-existent

- Dollar appreciation
- Private investors
- Official dollar-holders

- Fed swaps, not G20 saved the world from financial collapse (Helleiner 2014)



# Lessons

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- Enduring US structural financial power
- Trans-national externalities of Fed policies
  - Currency Wars
  - Euro as a victim of its economic orthodoxy
- Eurozone crisis proves Euro-skeptics right
  - Euro's political weaknesses (beyond OCA theory)
- Mixed fillings from the US about the EZ crisis?



# Ideational challenge

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- The euro is seen as the first true challenge to dollar hegemony
- Shows the attractiveness of monetary autonomy
- Underpins a multi currency system

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- These elements, combined with the legitimacy damage made to anglosaxon capitalism and the dollar by the GFC (Kirshner 2014), could reinforce the euro...

Not only ideationally, but also materially

- Especially if the EZ crisis serves to solve some of the EZ's institutional weaknesses (fiscal union, banking union, common debt instrument... political union)

# Cooperation/discord with the US

- EU remains a solid partner for the EU
  - decline of the west rethoric
  - G20/IMF dynamics, BRICS bank/ single EZ voice?
- But new tensions may arise:
  - EZ as a deflationary force
  - Macroeconomic imbalances
  - Currency wars
  - Financial regulation
  - Towards more cooperation with emerging markets?

# Conclusion

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- The euro has not challenged the dollar materially
- But it has had in impact ideationally
- Current EZ transformation may trigger tensions with the US