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Macro Roundup Artcile

Headline: A (Very Short) History of Global Reserve Currencies

Article Link: https://www.ft.com/content/c967ba48-f21b-4222-9f11-beb61ce710ae

Author(s)	Michael Pettis
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Tweet: .@michaelxpettis argues that the end of dollar dominance would mean an end of the entire global trading system and mercantilist policies that allow surplus countries to become competitive at the expense of foreign manufacturers and domestic demand.

Summary: Absorbing foreign demand means exporting domestic savings, and because of its huge domestic consumer markets and safe, profitable, and liquid asset markets, the obvious choice was the US. Probably because of the exigencies of the cold war, Washington encouraged them to do so. Only later did this choice congeal into an economic ideology that saw unfettered capital flows as a way to strengthen the power of American finance. This is why the end of dollar dominance doesn't mean a global trading system that simply and non-disruptively shifts from denominating trade in dollars to denominating it in some other currency. It means instead the end of the current global trading system — I.e., the end of the willingness and ability of the anglophone economies to absorb up to 70-80% of global trade surpluses, the end of large, persistent trade and capital flow imbalances, and, above all, the end of mercantilist policies that allow surplus countries to become competitive at the expense of foreign manufacturers and domestic demand.

Primary Topic: Savings Glut/Trade Deficit

Topics: GDP, Op-Ed/Blog Post, Savings Glut/Trade Deficit

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