

THE DOLLAR AS A TOOL OF US FOREIGN POLICY

ДОЛАР ЯК ІНСТРУМЕНТ ЗОВНІШНЬОЇ ПОЛІТИКИ США

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Abstract. *The article examines the role of the American dollar in the system of international relations and its impact on the foreign policy of the US. The author analyzes the historical and contemporary aspects of the use of the dollar as an instrument of economic pressure and diplomatic influence. The work discusses the mechanisms by which the United States uses its currency to advance national interests in the global arena, including sanctions policy, control over financial institutions and the dollar dependence of world markets. Particular attention is paid to the analysis of the effectiveness of these strategies and their consequences for the global economy and international relations. The author comes to the conclusion that the dollar remains a powerful instrument of US foreign policy influence, but its influence is associated with growing demands from other economic powers and the trend towards dedollarization of the world economy.*

Key words. *Money, dollar, institutional structures, creditors, level of public debt, chip, USA - China relationship.*

Анотація. *У статті розглядається роль американського долара у системі міжнародних відносин та його вплив на зовнішню політику Сполучених Штатів. Автор аналізує історичні сучасні аспекти використання долара як інструменту економічного тиску та дипломатичного впливу. У роботі обговорюються механізми, за допомогою яких США використовують свою валюту для просування національних інтересів на глобальній арені, включаючи політику санкцій, контроль над фінансовими інститутами та доларову залежність світових ринків. Особлива увага приділяється аналізу ефективності даних стратегій та їх наслідкам для глобальної економіки та міжнародних відносин. Автор приходять до висновку, що долар залишається потужним інструментом зовнішньополітичного впливу США, проте його вплив стикається зі зростаючими викликами з боку інших економічних держав та тенденцією до дедоларизації світової економіки.*

Ключові слова. *Гроші, доллар, інституційні структури, кредитори, рівень державного боргу, чип, відносини США – Китай.*

Introduction. The category «money» in modern political thought has the character of a surprisingly slippery concept due to the lack of a simple way to define and measure this phenomenon. For different scientists, this term means the most diverse and often not summarized things. Political economists empirically classify money into different categories depending on who issues it (government or private banks), how easy it is to use (checking account or certificate of deposit), or how it functions as a means of saving (risky or not). At the same time, in modern conditions, a consensus has been established regarding the existence of two different but closely related dimensions: real and monetary economy. In this article, we will focus our attention on the political aspects of the latter.

The purpose of research. To systematize knowledge about the advantages and disadvantages of the dollar as a tool of US foreign policy, because in the current political science literature there is a need to revise the view of the dollar's place in US foreign policy.

Literature review. Note that this topic attracts the attention of researchers in waves. The first wave was at the beginning of the 20th century, when scientists studied V. Taft's «Dollar Diplomacy». Since the economy has changed radically since then, now the whole block of knowledge on this topic is of no political value and we single it out simply as a reference point for other works (Hannigan, 1978).

The next big wave of interest may be recorded in connection with the collapse of the Bretton Woods system. Among the works that understood the place of the dollar in foreign policy at this stage of the development of the system of international relations, we can single out A. Friedberg (Friedberg, 1989) and D. Calleo (Calleo, 1989), who emphasized that while the whole world lives in Pax Americana, American foreign policy is forced to somehow adapt to its own success in an ever-changing political climate. According to D. Calleo, the United States «was forced to manipulate its finances in such a way that it causes more and more damage to the American economy and threatens the liberal world economy» (Calleo, 1989).

A new surge of interest occurred in the 2000s of the 20th century, when the means of international payment was considered as an inseparable quality of the hegemon. The work of Herman Schwartz (Schwartz, 2019) demonstrates exactly how the central role of the dollar remains in the conditions of the ongoing US current account deficit and the steady deterioration of the net international investment position. First, the institutional structures resulting from late development suppress domestic demand in countries with large current account surpluses, making them dependent on external demand for economic growth. Local banks recirculate these dollars into the global economy, creating huge dollar liabilities and assets on their balance sheets. This forces them to continue to use the dollar and rely on the US Federal Reserve during crises. Second, US firms participating in the global division of production have created commodity chains in which they capture a disproportionately large share of global profits through control over intellectual property. This return supports the value and therefore the attractiveness of dollar assets. The routinization of the use of the dollar and US-controlled commodity chains create infrastructural power in the sense of Michael Mann. Such routinization maintains US geoeconomic power in the face of persistent current account deficits and rising net international debt relative to US gross domestic product.

The work of K. Norrlof (Norrlof, 2014) argues that while there is general recognition that the transfer of power from the United States to another player in the international system is a sufficient, though necessary, condition for the reversal of the dominant currency hierarchy, there is no systematic study of how power is distributed and exercised in the conversion monetary opportunities in currency influence.

At the current stage, political science examines the dollar through the prism of the collapse of the integrity of US foreign policy. Thus, the work of D. Scott and D. Carter (Scott, & Carter, 2019) examines how at the end of the 20th century the United States adapted to changes in the international arena and initiated new strategies to promote democracy by providing assistance to governments, political parties, and non-governmental organizations all over the world under the most diverse and controversial conditions.

Main research results. The starting point of our reasoning will be the statement that the money economy is part of the real economy, as it consumes and uses real resources, but at the same time, the financial sphere is also largely virtual and imaginary, because money is a «social construction» or convention that society accepts and agrees to follow.

For the purposes of our article, we will assume that every dollar in the international system originated in one of four ways: a bank created it when it issued a loan; the government created it when it spent (that is, when it had a budget deficit); the central bank created it when it bought government debt securities (or another asset); the population created it through their economic activity, having entered into the account. In the framework of our work, we exclude the last method from the analysis, because only the first three methods are clear parts of an interconnected political system and serve not only to convert current purchasing power into future, but also a way to control the services provided by assets. Thus, the currency as a medium of exchange gives the issuer political levers of power in an effective and decentralized way over any actor of international relations, even over other countries.

In this logic, money can be considered as a way to determine who has the right to the products of the economy and the economic mechanism that produces it, and therefore to political power, because finance makes it possible to solve the problem of coordination. This is why some scholars argue that the Federal Reserve System is not an independent institution, but rather an agency of the US government, because banknotes are a form of public debt (Eichengreen, Mehl, & Chițu, 2019).

The basis of the currency leverage mechanism of the White House for political and state purposes is built on the current development of the international environment. Today, in economically active countries, the owner of the infrastructure and the issuer of the corresponding financial assets is not the local state, but the private sector asset manager outside the local level. This phenomenon in the English-language literature is called asset manager capitalism (Braun, 2022), which leads to the fact that asset managers are directly and closely related to everyday social existence, although most of the time the majority of citizens do not even realize who owns and receives income from such facilities as schools and kindergartens, roads and bridges, wind power plants and coal warehouses, waterworks and sewers, data centers and distribution networks. The extent of the influence of these economic and political agents is evidenced by the fact that only one Australian company, Macquarie, in 2022 owned the infrastructure on which more than 100 million people in English-speaking countries depended every day (Christophers, 2023).

It is believed that in this type of capitalism, it is the asset manager who decides how the asset will be used for commercial purposes: to whom to sell electricity, whether tolls should be increased, how to lease agricultural land. However, asset managers (even such large ones as BlackRock, Vanguard Group, State Street Global Advisors) mainly use dollar-denominated funds to finance their real assets. I've seen different numbers in my research, but the latest statistics I have show that at least 75% of all transactions in the world involve dollars (Bertaut, Beschwitz, & Curcuru, 2021). Although this number is questionable, we can still assume that the US dollar is the most popular currency in international settlements, which increases the White House's options.

When investing with the use of credit leverage in infrastructure or housing, the investment fund itself does not borrow money and later take on the debt, but transfers it to the balance sheet of either the company that the fund purchased or the physical asset. In addition, it is usually a so-called non-recourse debt, which means that creditors always have potential claims only on the assets that are secured. This feature of the market functioning leads to the appearance in the hands of the White House of a lever of pressure in the form of selective sanctions against private funds, which are forced to take loans for infrastructure in dollars and which, in turn, create pressure on the government plans of other countries.

There are several ways that the US government can pressure economic players for political purposes. One of them consists in the manipulation of the internal rate of return (IRR), which is strongly influenced by the terms of receiving profits: the earlier the fund receives a positive cash flow, the higher the fund's IRR. The higher the ability of government agencies to slow down profit-making, the stronger their form of influence. Funds depend on advertised returns, and if the government organizes the company in the form of inspections and investigations, there is a risk of losses. This is the reason why representatives of the State Department have such frequent meetings in Washington with companies that do business in «difficult» countries.

Other ways are that governments of many countries are forced to use the mechanisms of national and multilateral development banks to reduce risks during the creation of infrastructure projects. For the government, it's a way to delay paying for new projects by spreading the capital costs over the life of the contract, which is usually twenty-five to thirty years.

It's also a way to lower the reported level of government debt: liabilities that represent future payments to a contractor usually don't appear on the government's balance sheet. If the contractor has dollar obligations, then Washington, using the mechanism of blocking or denying access to services, can influence him regarding investment projects, which forces host countries to enter the bond market, where an additional financial burden of increased interest rates on public debt is created.

The dollar lever works in such a roundabout way, because the regulator does not have tools that would directly affect economic activity. The US can engage in cajoling, cajoling, persuading, and sometimes even threatening, but it cannot dictate or control direct economic outcomes. The dollar's

greatest strength in foreign policy - the fact that it relies as much as possible on a decentralized market economy - is also its greatest limitation.

Summarizing the above, there is reason to believe that US governments in the foreign arena use the dollar for three purposes: redistributing income, encouraging or discouraging certain activities, and regulating aggregate demand.

The key idea behind «dollar» policy is that by controlling one financial variable (interest rate, access level, or exchange rate), the White House can, for political purposes, indirectly influence the entire array of financial indicators of assets - that is, financial economy-wide conditions of greatest importance to both economic and political activity, such as consumer and mortgage loans, or corporate loans for investment (Nair, & Sturzenegger, 2023).

This makes it possible to distort the natural result of the markets in political rivals. Small, at first glance, random differences in «initial conditions» can determine which of many potentially successful firms will eventually win in international markets. For complete clarity, this aspect is best demonstrated on the example of the political struggle surrounding the protection of the USA's position in the chip production market.

From the beginning, Washington's foreign policy strategists used complex semiconductor supply chains as a tool to link Asia to the American-led world (Miller, 2022). At the beginning of the 21st century, a typical chip might be designed from blueprints in Great Britain by a team of engineers in California and Israel, using software from the United States, and then sent to a factory in Taiwan, where ultrapure silicon wafers and special gases are delivered from Japan. The structure is carved out of silicon using equipment that is produced by only five companies in the world: one Dutch, one Japanese and three American. The chip is then packaged and tested in Southeast Asia, and then shipped to China in a phone or computer.

In this way, international capital not only created products in an innovative way, but also united countries in a network, at the center of which was the United States, which regulates access to high-tech productions of modern electronics (Norloff, 2010; Mallaby, 2022). South Korea and Japan got their electronics industries only because the White House promoted deep integration of local industries with businesses in California (Miller, 2022).

Until the mid-2020s, the United States still holds the lead in the production of computer chips, although its position has weakened dangerously, which affects the country's foreign policy position. America's hegemony is largely related to its advantage in high-precision attack systems, which makes it possible to compensate for the numerical minority of the American military, for example, in front of China and India. Without a gap in electronics from competitors, leadership in the military sphere is impossible.

However, leadership requires a lot of resources. Already in the 80s of the 20th century, the construction of advanced production facilities was extremely expensive, so the cost of credit was extremely important. The chip of each subsequent generation appeared about once every two years, which required new capacities and new equipment. These are costs that have had to be maintained even during industry downturns. Despite the fact that maintaining costs is devastatingly expensive, stopping investment even for one year threatened to lose market share to competitors. It was the help of the state through the printing of dollars and the provision of defense orders for them that helped the American electronic industry to survive competition with Japan in the 1980s.

Because the dollar acts as the world's currency, the US, using its ability to print dollars, can influence other countries through economic sanctions, aid to its companies, or pressure on global financial institutions. Printing dollars for programs to support their companies is not only a financial operation, but also a powerful tool that contributes to increasing the competitiveness of high-tech companies in Washington on the world stage.

By increasing the dollar supply, the White House can provide its tech giants with access to more profitable financial resources. Cheap financial flow allows you to invest in research and development, expand production and scale your innovative products without high risks of losses. Moreover, the position of the dollar as a world reserve currency ensures stability in international financial relations, which contributes to the attraction of foreign investments in the technological sector of America (Schwartz, 2019). This creates favorable conditions for the growth and development of high-tech companies, making them more attractive to investors and partners, which creates an advantage in

maintaining leadership in those areas that are important for maintaining hegemony, since all modern military power is based on economic innovation and technology.

Such mechanisms allow the US not only to protect its national interests and maintain its alliances, shaping the global political landscape in accordance with its strategic goals, but also to guarantee itself a comfortable place in the international division of labor.

At the same time, the problem of maintaining technological leadership as a basis for political leadership has not gone away: each generation of improvement makes factories more expensive, forcing advanced manufacturers to spend increasingly large sums to implement a new, more advanced production process about once every two years.

More and more expensive equipment is required to produce each transition. Already in the 2010s, the construction of one factory cost more than 20 billion dollars (Miller, 2022), which leads to a situation where no single country can single-handedly create an entire chip production line, and this, in turn, leads to the fact that all countries of the world are incredibly dependent on foreign products designed and manufactured in the USA or one of the his allies

Even countries like China are forced to rely on foreign chips made in direct rivals. Any attempt by Beijing to review its position and find a way to develop and produce its own high-tech products faces resistance from other countries, primarily the United States (Ernst, 2020).

For example, the administration of D. Trump first fabricated accusations of industrial espionage, later blocked all American supplies, and then put pressure on Tokyo, which led to the blocking of the necessary supplies to the most advanced Chinese firm at that time, Fujian Jinhua. Despite the fact that a court in the USA in 2024 proved the innocence of the technological giant, it was ruined in just 6 months after the introduction of sanctions.

When Washington began to fear that the prices of Huawei's products were so attractive, thanks to Chinese government subsidies, that they would soon form the basis of next-generation telecommunications networks and that America's dominance of the world's technology infrastructure would be undermined, an entire company was organized in the form of a series of sanctions against the company (Bu, 2024). President Donald Trump has signed an executive order declaring a national emergency in connection with threats to information and communication technologies and services. The order effectively banned US companies from using telecommunications equipment made by manufacturers that pose a threat to national security, which was widely interpreted as targeting Huawei. Now, any American company had to first get permission to receive money on account from the US Department of Commerce before fulfilling its obligations. These measures have seriously affected the business of the Chinese giant, limiting access to key technologies and creating obstacles to global growth and competitiveness. Moreover, when such companies lose market share or need financing, they cannot afford the luxury of focusing on the long term and fall out of the race for global leadership.

In political science, it is often believed that the US only benefits from its status as the dominant reserve currency in the world, and the example of Fujian Jinhua shows how effective the dollar can be in US foreign policy, but the goals of our article also involve describing what burdens the dollar creates for Washington as means of global payments.

At one time, Valéry Giscard d'Estaing called the dollar as a means of world payments an «excessive privilege» of America (Sheard, 2023) because the ability to trade and borrow internationally in their own currency means that US citizens who make international agreements and transactions are essentially operating in their domestic economy. They don't need to worry about converting US dollars into foreign currencies either to evaluate terms or to conduct business. It's not just convenient; this means that other parties have to bear (often substantial) transaction costs of currency conversion, while simultaneously bearing currency risks, or the costs of hedging them. And strangely enough, they are mostly imposed on those countries that are least able to bear currency risks and costs.

Above we described asset manager capitalism, but in the English-speaking sphere there is also the term stakeholder capitalism, which advocates the idea that the firm should be managed in the interests of shareholders and that the work of the CEO and top management is to maximize «shareholder value», that is, to manage the firm so that its share price increased as much as possible over time (Schwab, 2021). This requires corporations to take into account the interests of all their

stakeholders, including customers, employees, suppliers and local communities, as well as shareholders, and fulfill their wider «corporate social responsibility» rather than simply focusing on the idea of making money.

Proponents of these ideas refuse to buy stocks of arms manufacturers (which is why, in the long run, the stocks of manufacturers such as Northrop Grumman Corporation did not rise) and for the transfer of economic activity to vulnerable countries, even though it undermines the foundations of US power. The description of the activities of this social group requires a separate article, but we will agree that they create distortions of political activity (Bailey, 2020 ; Brandt, & Georgiou 2016).

Having a dominant reserve currency means that the country that holds it must supply enough dollars to the rest of the world to meet demand, which is likely to be large and constant. Since we're talking about the US and the rest of the world here, the dollars the US has to provide are net dollars, meaning after all the money flows into and out of the country have been aggregated and subtracted. The way in which a country supplies its currency to the rest of the world in net terms is by running a current account deficit, as this means that the country pays out more in its own currency than it receives.

In the 20th century, the US current account deficit averaged 2.2 percent of GDP in the 1970s-2000s, averaged 3.3 percent of GDP in 2000-2020, and 4% in the 2020s. The current account deficit is ruining all social groups that are below the middle class, and if America were a monarchy and not a republic, politicians like D. Trump would not be in such strong positions in the elections. The presence of poles from supporters of stakeholder capitalism and supporters of D. Trump leads to an escalation of the internal struggle, where on the one hand they increase the costs and risks associated with relying on the dollar as the world currency, and on the other they simply try to undermine all established patterns of behavior.

Another significant disadvantage of the US being the issuer of the world's dominant reserve currency is that it places a particular burden on the Federal Reserve System, which has to contend with the influx of foreign banks that, by buying the dollar, raise interest rates and create volatility in domestic markets of America, which limits the Fed's maneuver to control the rate of growth of the public debt and get out of control of inflation. This creates a spiral where the government, in order to avoid default, is constantly forced to borrow more, reducing the Fed's maneuverability in the fight against inflation, because this will increase the cost of servicing the debt.

Conclusions. The dollar became the main reserve currency in the twentieth century, especially after World War II, because the United States was the dominant economic and military power. It is the dominance of dollar trade and finance in the international labor system that gives Washington such influence. But this dominance and superiority is not set in stone and is not something that the elites of the former hegemon can dictate or take for granted. Rather, it is because enough countries are willing to use the dollar and do so because of the net benefits it brings them, which allows the White House to influence that activity.

Despite the strong advantages of the role of the country issuing the world currency, the actions of the United States, which increase the domestic political costs and risks associated with reliance on the dollar, if they become an established model of behavior, threaten the existence of the country itself.

The thesis that the state in the West has become the agent of private finance capital and that the latter effectively operates on the global stage as a form of national capital only works until different and competing forms of capital emerge.

As attractive as it may be for America to use its financial power to achieve geopolitical goals, such actions are short-sighted and will inevitably undermine the domestic political situation in the long run. Also, the role of the dollar as a political lever creates powerful incentives for countries that claim regional leadership to reduce their dependence on this currency in international trade, finance and banking, instead developing their own competing infrastructure and institutions.

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