

## **EconoFact Chats: The Rise and Fall of Global Currencies**

**Barry Eichengreen, UC Berkeley**

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### **Michael Klein**

I'm Michael Klein, Executive Editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us, and see our work at [www.econofact.org](http://www.econofact.org).

### **Michael Klein**

In 1971, after President Richard Nixon sent shockwaves through the international monetary system by delinking the value of the dollar from gold, John Connally, his Secretary of the Treasury, told the finance ministers from the G10 countries “the dollar is our currency, but it’s your problem.” The dollar had been the dominant international currency since the end of World War II under agreements made at the 1944 Bretton Woods conference. While there were predictions that this so-called “Nixon shock” would undermine the international role of the dollar, the greenback retains its dominance more than a half century later. But for how long? In his new book, *Money Beyond Borders*, Barry Eichengreen chronicles the rise and fall of global currencies over millennia. The book’s subtitle is “from Croesus to Crypto.” I’m very pleased to welcome Barry back to EconoFact Chats. He is Distinguished Professor of Economics and Professor of Political Science at the University of California, Berkeley, and is one of the country’s pre-eminent economic historians. One of his previous books, *Exorbitant Privilege: The Rise and Fall of the Dollar* was shortlisted by the Financial Times for its book of the year award. Barry served as Senior Policy Advisor at the International Monetary Fund from 1997 to 1998. Barry, great to have you on EconoFact Chats once again.

### **Barry Eichengreen**

Good to see you Michael.

### **Michael Klein**

Barry, as in some of your other books, such as *In Defense of Public Debt*, which I spoke to you about on an earlier EconoFact Chats episode, you take a very long view with this book. You start off with the beginning of coinage around 650 BCE, and go to the challenges of the present day. What did your research over these thousands of years tell you about the impermanence of dominant currencies?

### **Barry Eichengreen**

Looking over such a long period is a reminder that international currency status is not forever, that it has important preconditions, that it has to be actively preserved or maintained. And just

like empires, kingdoms, states rise and fall, so do currencies that are at least for a period, used widely across borders.

**Michael Klein**

I thought your perspective offered a useful counterpoint to the idea that the dollar's dominance would continue unabated, because it's had this central role for more than eight decades. But of course, you look well, more than eight centuries. There are some themes that run through the book, and one of them is how a currency becomes global. What are the common antecedents to this dominance?

**Barry Eichengreen**

There is a familiar set of economic antecedents or preconditions – economic prowess, commercial prowess that issuing kingdom, empire, state is a trading power, and eventually becomes an international, financial power. But there are political preconditions as well. Rule of law, separation of powers, etc, and international political conditions – that the state in question has alliance partners who regard it as a reliable steward of their reserves. Regard its currency as a unit that is likely to hold its value over time. So one of the things I try to do in the book is broaden that discussion out from the familiar economic and financial preconditions to the political preconditions.

**Michael Klein**

And as you write in the book, there's often been a role for private, non-government actors to help bring about a global currency. And you use the examples of Florence and the Netherlands, and even the United States. Could you speak about each of those, please?

**Barry Eichengreen**

Well, in the case of the Florentines, it's quite remarkable the extent to which the Florentine Florin was used for transactions, both trade and purely financial transactions, across much of Europe for the better part of two centuries. That evolved out of the great merchant houses of Florence that were importing unfinished wool from Northern Europe, finishing it, dyeing it, exporting it. They evolved into, really, the first international banks. So, you know, we recall the Medici and a variety of other Italian banking houses that ended up being widely branched across Europe, and their presence allowed Florentine coin and Florentine bookkeeping credits to be used, not only by the Florentines themselves, but much more widely for commercial transactions. Skipping ahead six centuries or so, the US case is an interesting one, because of the deep and abiding opposition to concentrated financial power in the United States, which meant that we didn't have a central bank in this country from the mid 1830s until the Fed was created in 1914. The creation of the Fed was partly a response to the fact that the dollar, in the absence of a central bank, played absolutely no international role, and there were important financiers, private financiers in the US...the German American Banker Paul Warburg was prominent in campaigning for the

creation of a US central bank, precisely in order to...so it could backstop a market in liquid trade credits denominated in dollars that could be used by US importers and exporters. There was that famous secret meeting of financiers and politicians on Jekyll Island off the coast of Georgia in 1910, Warburg was prominent among the attendees.

**Michael Klein**

And then many of our listeners will know that before the dollar became dominant, the pound sterling was the dominant currency in the world. What arose to allow London to become the world's financial center and the pound sterling to become the central currency of the world?

**Barry Eichengreen**

It all started with the industrial revolution. If you will, Britain was the first industrial nation. It was the largest economy, and the leading exporter in the world in the first half of the 19th century. It attracted foreign merchants. Nathan Rothschild moved from what became Germany to Manchester to deal in the cotton trade. Eventually, he moved to London and went into financial business. So London was able to attract talent from abroad, if you will. It became the leading money center in the world, as well piggybacking on Britain's industrial production. Its trade and Britain had, as well, the political conditions in place for sterling to become a leading international currency. It had had the Glorious Revolution of a century plus earlier, a separation of powers, rule of law, the ability to project military might and influence globally. So by the late 19th century, a quarter of the globe was painted red, if you will, the color used on maps to denote the British Empire. So that confluence of forces meant that the pound sterling was the dominant currency up through World War I, and then shared the international stage with the dollar still in the 1920s and, to an extent, in the 1930s.

**Michael Klein**

So there's a common theme here. I guess it's in a way, embodied by Rothschild, of starting off in industry and trade, and then moving to financialization. And you make the point in the book that that's common across these different currencies, Florentine, the Dutch, the British, as currencies move towards becoming dominant. Is that correct?

**Barry Eichengreen**

That's correct. The financialization of which you speak is a sword with two edges, as we know from US experience in the 21st Century. If too many resources are devoted to purely financial transactions, that does have a capacity to undermine the health of the economy. So people write about how the decline of the Florentine economy was associated with people devoting all their attention to purely financial transactions, as opposed to competition in European woollens and silk markets. They talk about the same set of problems in Holland in the late 18th century, in Britain in the late 19th century. So there are some who are critical of the dollar's international role today on similar grounds...that it leads to currency over valuation that undermines the

competitiveness of US exports. I have my doubts about the application of that argument today. I would put the dollar exchange rate somewhere down the list of fundamental factors that determine US international competitiveness after education and training of our workforce, investment in productive capacity, entrepreneurship, etc. Further down that list, I think there is a role for the exchange rate, but I wouldn't give it priority, and I would argue that the benefits of the dollar's international role to the United States outweigh the costs.

**Michael Klein**

Well, in fact, this is a much shorter perspective than what you take typically, but over the last year, the dollar has fallen by more than 10%, and manufacturing employment has not actually risen at all. So people were saying we needed a dollar depreciation to revive manufacturing. At least over, you know, a year or two. That doesn't seem to be the case, right?

**Barry Eichengreen**

Exactly, right.

**Michael Klein**

So let's talk about the dollar as a world's reserve currency. That term has actually multiple meanings. Under the fixed exchange rate system from the end of World War II that was agreed upon at the Bretton Woods Conference up until 1971 or so, or 1973 depending on how you want to time it, all the major currencies in the world were tied to the dollar, and from the famous policy trilemma analysis in international macroeconomics that means that the US could set its monetary policy, and other countries had to follow. But since then, with the dollar floating, there's not that same role, and yet we still talk about the dollar as a reserve currency. So Barry, what does reserve currency mean in a world with floating as opposed to fixed exchange rates?

**Barry Eichengreen**

My recipe for international and reserve currency has three ingredients – size, stability and liquidity. It should be the currency of a large country that is engaged in a lot of cross border transactions. So it has kind of a natural habitat of domestic banks and firms that want to use it cross border. Stability and liquidity – the market in US Treasury securities is arguably the single most liquid security market in the world. There have been strains in the treasury market. Recently, flash crashes and the like, people worry about it, but its liquidity remains a fact. And stability brings me to your question, Michael, under the Bretton Woods system before 1971 stability meant convertibility for official holders of dollars, US Treasury securities of their claims into gold at a fixed price. Now, stability means that the Fed is serious about following policies that preserve the value of those securities and of other dollar claims in the medium term. So that's a reminder that the independence of the Central Bank, the ability of the central bank to prioritize that stability is an important precondition for international currency status.

**Michael Klein**

And what are the advantages of being the world's dominant currency? People talk about the safe haven effect and the effect of that on interest rates. Could you explain what that is?

**Barry Eichengreen**

Yeah, so the advantages to my mind are, number one, that natural habitat phenomenon I spoke about before...convenience value for US banks and firms that can engage in cross border business without worrying about exchange rates, without having to hedge foreign currency exposure. Number two, the fact that there is this additional demand out there in the rest of the world for US Treasury securities as the safe asset that is kind of the foundation stone of central banks and corporate portfolios around the world. Third, that allows the US Treasury to borrow at somewhat lower interest rates than it would be able to otherwise. The fact that we kind of get automatic insurance against financial volatility is a third benefit. When there is a spike in volatility, the dollar normally strengthens. People rush into US security markets, into the US Treasury market, because it's normally the most liquid market in the world and investors value liquidity in a volatile period in a crisis. We saw, for example, the dollar strengthen when Lehman Brothers failed in 2008. We saw the dollar strengthen at the beginning of March 2025, when the war with Iran broke out. And fourth, and finally, US financial sanctions are more effective than they would be otherwise, by virtue of the fact that so many other agents out there in the rest of the world...individuals, companies, governments, rely on the dollar in the US banking system.

**Michael Klein**

So these are the privileges of being the dominant currency and your book, as I mentioned earlier, is called *Exorbitant Privilege*. Other countries might not appreciate the dominant role of a foreign currency, and this reflects the exorbitant part of that phrase, right?

**Barry Eichengreen**

Right, so why should the United States enjoy the benefits I just described, while other countries, by and large, have to use the dollar, the US correspondent banking system, the messaging system in Brussels SWIFT that works hand in glove with those banks. So there have been mixed feelings about dollar dominance, famously back to the 1960s, when Valéry Giscard d'Estaing, Charles de Gaulle's finance minister, coined the phrase. It sounds better in French than in English, but we all use it.

**Michael Klein**

Well, most things sound better in French than English, I guess, but we do what we can. So we talked about the preconditions for a country to become the dominant currency. And you spoke a little bit about how financialization could lead to the end of that, but also in the book, you have a number of examples where wars and excessive military spending can also be the death knell for a

country's dominant currency status. What are some examples of that, and what are the channels through which that hurts a country's ability to continue to be the dominant currency?

### **Barry Eichengreen**

Well, we can go all the way back to the Roman Empire, Roman solidus, used throughout the Mediterranean across Europe into the Middle East for the better part of three centuries, until Emperor Nero began to debase it. And after a period, it fell out of use, partly because of Nero's expensive wars, partly because of a great fire in Rome that forced much of the city to be rebuilt, partly because of Nero's lavish expenditure on a 300 room palace. So it's not only foreign adventures, but also reckless domestic spending that can lead to inflation, debasement, and loss of international currency status.

### **Michael Klein**

So some of this sounds relatively modern, Barry. Excessive military spending, building large self aggrandizing things and so on. And that takes us to my last point. One of the reasons your book is so timely, of course, is because there's been a lot of discussion recently about whether the US dollar can and will retain its role as the world's money. One argument for the continued role of the dollar is sometimes called 'TINA' – there is no alternative. Another argument is that there's just always a lot of inertia, and these network effects, which makes it hard to switch from one dominant currency to another. Barry, what do you see as the historical lessons that you lay out in your book as applicable to the present day and the dollar's status as the world's money?

### **Barry Eichengreen**

I think this longer term historical perspective does shed light on what is different today and what is not different today as well. So inertia and network effects, locking in international currency status, or creating persistence, I think those effects have been weakening over time because of the development of new digital technology, alternative payment rails. It's easier to trade currencies at low cost, and use alternatives, than it has been in the past. We are seeing the development of fast payment systems in Asia and elsewhere that are being linked internationally. We are seeing experiments with distributed ledger technology, Blockchain, as a new set of payment rails that can be used across borders, and we're seeing the development of central bank digital currencies – tokenized bank deposits and the like to run on those new payment rails. I don't think persistence is likely to be as strong going forward as it was historically. In terms of TINA, there can still be a crisis of confidence in the dollar. We in the United States shoot ourselves in the foot economically or financially or politically cause foreigners to run away to liquidate their dollar claims if there is no alternative, we are then in a 1930s type scenario where there is a shortage of global liquidity, and downward pressure on cross border transactions of all kinds. So the dollar and the pound sterling had been co-equal as global currencies going into the 1930s. But we, in the US, suffered three serious banking crises, and all the reserves were

liquidated by central banks around the world. That put downward pressure on prices worldwide, that put downward pressure on globalization as it then existed. I worry about that scenario again.

**Michael Klein**

So Barry, congratulations on the publication of *Money Beyond Borders*. I very much enjoyed the book, and it's very impressive, and it demonstrates an incredible range of scholarship. And Barry also, thank you very much for joining me once again on EconoFact Chats.

**Barry Eichengreen**

This was fun Michael, thank you.

**Michael Klein**

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