The Sociology of Money and its Contribution to Understanding Chronic US Trade Deficits

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Abstract: Economics has advanced robust explanations for the dollar standard, global trade imbalances, and the relation between both. However, economic analysis concludes that these conditions are results of market forces, not actors with agency. To that end, this article employs a sociological perspective using the sociology of money to explain the institutionalization and maintenance of the dollar standard. I present a synthesis of three main theoretical currents in the sociology of money – statist, Marxian, and sociocultural. I apply these perspectives to the historical evolution of the dollar standard and the US trade deficit. This advances a class-agency based account of the political drivers of both the dollar standard and trade imbalances. Internationally, the dollar standard rests on financial and political power asymmetries between the US and the rest of the world; domestically, the dollar standard depends on social and political conditions to contain inflation, notably de-unionization trends and low-wage imports from China. It follows that chronic US trade deficits are dependent upon the same political conditions.

Keywords: Trade Imbalances; Sociology of Money; Economic Sociology; Historical Sociology; International Political Economy; US Trade Policy

I. Introduction

The new Trump administration has been aggressive towards the US trade deficit and large trade partners. This is a historical break from the approach of previous administrations who were far less concerned with the trade deficit. President Trump issued an Executive Order that asserted,

“The United States annual trade deficit in goods exceeds $700 billion, and the overall trade deficit exceeded $500 billion in 2016. The United States must address the challenges to economic growth and employment that may arise from large and chronic trade deficits and the unfair and discriminatory trade practices of some of our trading partners” (Trump 2017).

However, by early 2018 the US trade deficit climbed to new heights, in goods the overall deficit was recorded at $891.3 billion with China accounting for nearly half ($419.2 billion). The dynamics of US trade deficits are well researched.

Economists broadly identify two drivers, (1) the US spending and the rest of the world saving, and (2) the dollar standard permitting and perpetuating point one. However, there is scarce literature on the social and political foundations of these processes. In fact, much of the literature has not sufficiently clarified that the dollar standard had to be politically engineered and continuously sustained.

To approach this puzzle we need sociological perspectives. In economics the primary units of analysis are stocks and flows of resources, in sociology the units of analysis are interacting groups of people. A new story emerges when we examine the same global imbalances but change our unit of analysis. Internationally, the dollar standard rests on financial and political power asymmetries between the US and the rest of the world; domestically, the dollar standard depends on social and political conditions to contain inflation, notably de-unionization trends.

From this sociological perspective, the US will run chronic trade deficits as long as these conditions are present. These political conflicts and processes cannot be sufficiently examined quantitatively and there is a need for theory and history to analyze these dynamics. This article offers the sociology of money as a theory for understanding the dollar standard, which is substantiated with a historical sociological account of the political origins of the dollar standard. These perspectives are necessary to understand the drivers of global imbalances and proposing new approaches for addressing the challenges of US trade deficits.

The remainder of the paper proceeds as follows: Part II summarizes the literature on the drivers of US trade deficits; Part III offers the sociology of money as a theoretical framework for explaining the social and political foundations of the dollar standard; Part IV presents a historical sociological account of the institutionalization of the dollar standard; Part V concludes.

II. Literature on the Dynamics of US Trade Deficits and Global Imbalances

The US runs chronic current account deficits and capital account surpluses with the rest of the world. These imbalances pose two analytical questions. The first, why are these imbalances not tending towards equilibrium? The second, why does the US (and *only* the US) have the unique ability to finance perpetual current account deficits with capital account surpluses? These questions have been debated by political economists for decades and this section summarizes those discussions with the goal of identifying the drivers of US trade deficits.

II.A. The US Spending and the Rest of the World Saving

*The US Spending*

The US runs a trade deficit with the rest of the world when the US buys goods and services from the rest of the world and then the rest of the world decides to save that income rather than spend it on US goods and services. Therefore, there are two steps - the US spending and the rest of the world saving. The economics literature generally takes three different approaches to explaining US spending – the saving imbalance hypotheses, the new geography of production, and unfair trade competition.

The savings imbalances approach begins with the concept of intertemporal trade, which is the exchange of some goods in the present for goods in the future (Krugman et. al. 2012: 111-136). Some countries chose to consume now and borrow to do so, other countries chose to consumer more later and lend to do so. In this schema the US trade deficit is caused by the US dissaving - the US is an “impatient” nation that wants to consume now and goes into debt with the rest of the world to do so (Griswold 1998). The most sophisticated version of this narrative was advanced by Federal Reserve Chairman Ben Bernanke in his 2005 talk, “The Global Saving Glut and the US Current Account Deficit.” Bernanke attributed the growing trade deficit to a global savings glut characterized by a transformation of developing countries from net borrowers to net lenders (2005).

A second approach is based on the emergence of cross-border supply chains and the new geography of production. Certainly, each bilateral trade deficit is unique, but many bilateral trade deficits are the result of vertically-integrated supply chains. The case of Mexico is illustrative. In 2000, approximately two-thirds of US manufacturing imports from Mexico were intra-firm transactions, although that figure had reduced to over one half by 2017 (Lakatos & Ohnsorge, 2017). A range of manufacturing industries, especially autos, are vertically integrated with Mexican subsidiaries and suppliers, especially along the US-Mexico border. In fact, most of the US trade deficit with Mexico is accounted for by autos (Gillespie 2017). Some bilateral US trade deficits merely reflect these production networks.

The third major explanation for the US trade deficit is shifting industrial competition from the developing world. The majority of the total US goods deficit is accounted for by merchandise imports from China. Two prominent examples are information technology and telecommunications equipment, in less than two decades China became a global leader in these industries as US market shares shrank, including in domestic markets (Roach 2015: 114). Some US policymakers and analysts argue that China’s industrial ascent at the US’ expense is due to China’s unfair trade practices, including currency manipulation, forced technology transfers, large industrial subsidies, state-sponsored finance and risk management, and weak labor and environmental standards (Ross & Navarro 2016).

*The Rest of the World Saving*

As the literature identifies three main ways the US spends, the second step in the US trade deficit is that the rest of the world must take that income and chose to buy US assets rather than US goods and services (Blanchard et. al. 2005). The expansion of the US trade deficit has been mostly with East Asia, notably China. Figure One (Appendix One) demonstrates that developing countries current account surplus mirrors the US deficit, especially China. Figure Two (Appendix Two) shows a concurrent rise in developing country’s foreign exchange reserves, of which approximately 60 percent have been in US dollar assets. Figure Three (Appendix Three) contrast the US Treasury holdings with trade balances of the US’s top six developing country trade partners (China, India, Taiwan, Brazil, Mexico, and South Korea). There is clear correlation between trade surpluses in developing countries and their holdings of US Treasuries (although there appears to be no correlation for Brazil and to a lesser extent Taiwan). Figure Two suggests that the relationship appears to be driven by central bank official holdings rather than private sector holdings.

The literature identifies three main reasons that developing country central banks accumulate Treasury securities - to maintain exchange rate parity, protect against volatile and destabilizing capital flows, and for lack of alternative safe assets. A primary reason central banks of large developing countries accumulate dollar reserves is to maintain competitive exchange rates to support their export-led growth models (Dooley et. al. 2004; Austin 2014; Gagnon 2012; Pettis 2014). As developing countries accumulated dollar reserves, this appreciated the dollar against other currencies, further pushing the US trade deficit (Blanchard et. al. 2005).

In addition, developing countries acquired reserves at record clips to safeguard against massive and destabilizing capital flows (Feldstien 1999; 2005; IMF 2013; Bundesbank 2017). Figure Three shows that developing countries dramatically increased their dollar asset holdings after the 2007/8 global financial crisis, while China, South Korea, and Taiwan hastily accumulated Treasury holdings after the Asian financial crisis in the late 1990s.

Lastly, developing countries turn to US Treasury bills and dollar assets due the lack of alternative safe assets. Paradoxically, although the 2008 global financial crisis originated in the US, international public and private money managers fled to US assets as a safe haven, particularly US Treasuries (Prasad 2014). No other currency provides the same size, sophistication, and protection as US financial markets. As there no viable competitors to the US dollar, the world’s central banks depend on US Treasuries as the ultimate safe asset.

II.B. The Dollar Standard

The US spending and the rest of the world saving drives the US trade deficit. However, why is the US the only country in the world that can sustain perpetual imbalances? The literature emphasizes two mechanisms - “Bretton Woods II” and the “exorbitant privilege” of the dollar.

The original Bretton Woods was a post-WWII agreement to place the dollar at the center of the international monetary system, with the dollar exchangeable for a fixed price in gold and all currencies pegged to the dollar. Bretton Woods officially broke down in 1973. Dooley et al. (2004) argued the willingness of Asian central banks to hold dollar reserves at fixed pegs to the dollar constituted a Bretton Woods II. In effect these processes reestablished the US and the dollar at the center of the international monetary system. Dooley et al. (2004) argued that this was a relatively stable arrangement due to Asia’s need to sustain depreciation against the dollar to support their export-led growth strategies.

Closely related to the observations of Bretton Woods II is the claim that the role of the dollar as world reserve currency confers the US with an “exorbitant privilege.” This approach focuses on the distributional impacts of the dollar standard. Specifically, the US has greater return on global assets than its external debt obligations, despite the fact that liabilities far surpass assets (Gourinchas & Rey 2005). Moreover, this is unique to the US due to the fact that the US issues the world reserve currency. Economists Kindleberger (1965) and Despres et. al. (1966), described the flows as the US acting as the “banker of the world” in which the US would lend long and borrow short. Economists Gourinchas and Rey (2005), Habib (2010), Curcuru et. al. (2013) empirically demonstrated these dynamics by comparing return differentials on US assets and liabilities.

II.C. The Need for a Sociological Perspective

The above approaches focus on stocks and flows of commodities and capital. From these perspectives, the dollar standard and trade imbalances are primarily the result of market forces. There is no discussion of the actors involved and their agency. This creates the need for sociological accounts of the actors involved in instituting and sustaining the dollar standard, in addition to global imbalances.

**III. The Sociology of Money and the US Dollar Standard**

The above literature demonstrates that economic approaches to trade imbalances and the dollar standard are devoid of actors with agency. To that end, this section outlines three theoretical schools of the sociology of money – statist, Marxian, and sociocultural. These are distinctively sociological approaches because the units of analyses are groups of people, whereas in economics the units of analyses are transactions of commodities and capital. For each theoretical school I introduce their definition of money and an application to the dollar standard.

*Statist*

The original formulation of the state theory of money is attributed to German political economist Knapp, who argued that “money is a creature of law” (1924: 101). Knapp asserted that the state could declare paper as money by fiat, or recognizing it as legal tender. Keynes followed suit in his definition of money – the state declares money as the unit of account, or measure of value (1936).

Building on Keynes’ statist approach, sociologist Ingham argued that money “…is always an abstract claim or credit whose ‘moneyness’ is conferred by a money of account” (2004: 198). Ingham presented a dual definition of money, first, money is a “claim or credit,” and “moneyness” arises from its ability to discharge debt. Second, only those promises to pay that are denominated in the official money-of-account are money. In so doing, Ingham established a hierarchy of money, “Private debt in its various forms (cheques, credit cards, promissory notes and so on) are converted into the most sought-after ‘promise to pay’ at the top of the hierarchy of promises” (2004: 134). Therefore, money can be conceptualized as a pyramid of credits with state money as the most valuable.

From this perspective, while the state defined credit-money and it’s hierarchy, the value of money was determined by political conflicts between competing actors. Ingham’s premise was the following historical assertion –

“The most structurally fundamental struggle in capitalism is not that between productive capital and labor, but rather between debtor (producers and consumers of goods) and creditor (producers and controllers of money) classes and centers on two rates of interest – the long and the short” (2004: 158).

Ingham applied this frame to 1970s stagflation in the US and Europe, and he identified three primary political actors – big business, big labor, rentiers. Prior to the 1980s, big business marked up prices and big labor made wage demands, leading to cost-push crisis inflation in the 1970s (Ingham 2004: 150). In turn, the rentier class undermined big business and big labor by leading globalization projects to intensify global competition, implement deregulated and flexible labor markets, and weaken trade unions.

This “revenge of the rentier” broke the inflationary conditions to the dollar. Ingham asserted that monetary policy serves to reinforce this social and political balance of power (2004: 150 ). These were necessary *a priori* conditions for the globalization of finance and financialization, which was hastened by the disintegration of Bretton Woods. From this perspective, globalization is dependent upon low-inflationary conditions, which must be actively sustained by political power of creditors over debtors.

*Marxian*

A second approach builds on Karl Marx’s insight that money has a monopoly on the ability to buy. For Marx, the primary function of money is to make universal quantitative measures of qualitatively different commodities. This is the basis for money’s ability to buy. Building on the work of Uno (1980) and Japanese political economy, political economist Lapavitsas mapped the logical emergence of money (2003).

Lapavitsas inductively reasoned that when commodity owners meet in a marketplace, they express both exchange value and the ability to buy. As multiple commodity owners trade with frequency, exchange values become normalized while the ability to buy is concentrated in a single commodity (2003: 66). Lapavitsas argues that “moneyness” becomes concentrated in one commodity “…because commodity owners regularly and frequently meet each other as ‘foreigners’, thus requiring a monopolist of the ability to buy” (2003: 66). However, in these buyer/seller relations, there is a fundamental power asymmetry. All commodity owners seek sale for one single commodity – money – because money is the only commodity that can buy. Therefore, money embodies economic and social power, because it is the only commodity that can buy others.

Lapavitsas (2006; 2016) and political economist Vasudevan (2008; 2009) applied this understanding of money to the dollar standard by using Marx’s concept of world money as a point of departure. From Marx’s understanding of the social relations of the money-commodity, he began to advance a theory of “world money” – “…the means of payment in settling international balances” (cited in Lapavitsas 2016: 297). Lapavitsas infused Marx’s definition of world money with mercantilist functions, “World money has become even more clearly as instrument of state power, particularly of hierarchical, imperial power in the world market” (Lapavitsas 2016: 300). The dollar standard rests on economic and non-economic power asymmetries vis-à-vis the rest of the world. Economically – the market share and power of US multinational corporations and financial markets; non-economically –the political and military hegemony of the US (Lapavitsas 2006: 137).

Vasudevan proposed that this monetary mercantilism resembles a new imperialism (2008). She argued that world money as the state liabilities of a global hegemon – the US – eases trade deficit and debt constraints on the US but exports debt-deflation and financial fragility to developing countries (2008; 2009). From this perspective, both processes “…have been pivotal to preserving and extending the dollar standard” (Vasudevan 2008: 487).

*Sociocultural*

A group of sociologists have demonstrated the multiplicities of money and their essential significance. Sociologist Dodd considered the pluralities of money and arrived at a general definition - “Money is a process, not a thing, whose value derives from the dynamic, ever-changing, and often contested social relations that sustain its circulation” (2014: IX). Dodd builds on classical sociologist Georg Simmel would elaborated money as a “claim upon society” in which money is debt between an individual and wider “society.” Dodd draws on anthropologist Hart (2000) for an expansive definition of “society.” Hart insisted that money is intangible, it is a “collective memory” of the myriad potential ways that communities, nations, and states appropriate money (2000).

Sociologist Zeilzer is the most notable sociocultural theorist, and she made extensive efforts to defend cultural approaches as a distinct framework from neoclassical and Marxian approaches. Zeilzer defined money,

“Money is an abstraction that observers make from social interactions. It is a matter of degree; to the extent that interactions transfer rights to goods and services by means of tokens that could also serve transfers of other such rights, we can call those tokens money.” (2000: 384).

Zeilzer proposed a continuum of acceptability of money from the most widely accepted (international currencies) to micro-level circuits. Zeilzer argued that “…every currency attaches to a circuit of exchange and every circuit of exchange includes a concrete set of meaningful social relations” (2000: 387). These circuits of exchange determine their own meanings of money. That is, “…in all areas of economic life, people are creating, maintaining, symbolizing, and transforming meaningful social relations” (Zeilzer 2000: 388).

Zeilzer described these processes as “earmarking” money flows, which refers to the infinite, context-specific ways that people save, consume, and borrow (1997: 19). At the micro-level, this approach is necessary to understand why certain people “earmark” certain income flows for certain purposes and not other purposes, and the social context of these decisions.

In this sense, money is not fungible. Money and its use is context-specific and it reflects broader social and political relations of its particular circuit. “Earmarking” describes dynamics in circuits of exchange at every level – from the household up to policymakers in central banks. While this perspective has not been developed to apply to the dollar standard, it can be argued that central bank decisions to accumulate dollar reserves also reflects an “earmarking” processes, in which the social meaning of dollar reserves are both negotiated and context-specific.

*Synthesizing The Sociology of Money and Applying it to the US Dollar Standard*

In the 1990s and 2000s, scholars from the above three schools engaged in heated debate over the definitions of money, which is well analyzed and beyond the scope of this article. My purpose is to employ each perspective to explain the sociological relationship between the dollar standard and US trade deficits. In this sense, monetary theory is underdeveloped for approaching the dollar standard from the perspective of market and political actors. Table One summarizes the above three approaches and this section synthesizes these theories to the end of developing sociological monetary theory of global imbalances, including the US trade deficit.

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| Table One: The Sociology of Money and its Application to the Dollar Standard |
| Theory | Definition of Money | Application to Dollar Standard |
| Statist | Money is debt, there is a hierarchy of debt with state credit-money on top; the value of money is determined by the balance of political power between debtors and creditors | The dollar standard is dependent upon low-inflation conditions because it enables globalization, which is actively sustained by the political power of creditors over debtors |
| Marxian | Money is the commodity that has monopoly on the ability to buy, and it therefore embodies economic and social power because only money has the ability to buy | The dollar standard is mercantilist and it rests on economic and non-economic power asymmetries between the US and the rest of the world |
| Sociocultural | Money is context-specific and embedded in social relations, as market actors “earmark” money for context-specific purposes | The dollar standard is sustained by developing countries “earmarking” dollar reserves |

The dollar standard depends upon power relations and political arrangements at the domestic and international levels in both the US and developing countries. Therefore, there are three spaces that must be accounted for sociologically – (1) the US domestic implementation of the dollar standard, (2) multilateral adoption of the dollar standard, and (3) reinforcement of the dollar standard in developing countries. The three sociology of money theories address the social relations within each of these spaces.

The theoretical account that emerges is that at the domestic level in the US, the dollar standard must be actively sustained with a low-inflation environment which is dependent upon creditors having political power over debtors. At the international level, the US dollar standard enriches the US at the expense of other countries and it depends on power asymmetries between the US and the rest of the world. Within developing countries, the dollar standard is maintained by official and private dollar reserve accumulation “earmarking” processes. This synthesis explains the social and political drivers of the US trade deficit inasmuch as the dollar standard enables the trade deficit. The following section tests this approach using a historical sociological account of the emergence of the dollar standard and concomitant US trade deficits.

**IV. The Historical Emergence of the US Trade Deficit**

*The Bretton Woods System Produced Tiny Trade Imbalances*

Following WWII, US and European world leaders met at Bretton Woods to construct multilateral organizations to address international political economy as a root cause of war. They established the International Monetary Fund, the International Bank for Reconstruction and Development (precursor to the World Bank), and the General Agreement on Tariffs and Trade (precursor to the World Trade Organization), to coordinate an international monetary and financial system, finance reconstruction and development, and promote trade and investment. At the insistence of the US, the Bretton Woods Accord established an international monetary system that placed the US dollar at the center of a fixed exchange rate system, in which all major countries pegged their currencies to the dollar and the dollar was convertible to gold at $35 an ounce. This established the dollar as world reserve currency as all countries stated and defended their fixed exchange rates in dollars. The dollar standard was sustained by a common recognition that the US had the deepest and most liquid financial markets. In addition, all major commodities and international debts would be denominated in dollars, establishing an international settlements system based on the dollar.

Fixed exchange rates and the dollar’s tie to gold imposed a restraint on inflation and the US balance of payments because any instabilities or imbalances would lead to depletion of the US gold stock. Under the Dollar-Gold fixed exchange rates, persistent trade imbalances would have led to gold outflows and depletion of national wealth. Figure Four shows that trade imbalances were minuscule and throughout the 1960 the US ran small trade surpluses. The US maintained these surpluses until 1971, which was the end of the US dollar-gold fixed exchange rate.

Figure Four: US Trade Balance

*The Internationalization of US Dollar-Denominated Financial Markets*

Until the 1960s, the US dollar standard and the Bretton Woods institutions facilitated strong economic growth in the US and the development of US financial markets, the reconstruction of Europe and Japan, and increasing financial integration between the global north and the global south. Domestically, the financial bull market through the 1950s led the growth and evolution of US financial markets, even while still operating within the framework of the New Deal regulations; internationally, US political and military expenditures in the Marshall Plan and Korean War supplied dollars for development in Western Europe and Japan (Gindin & Panitch 2012). These post-war economic booms in the US and Europe led the development and internationalization of US financial markets.

US financial institutions provided loans for rapidly expanding industry throughout the country while integrating working classes into the financial system through state-backed mortgage securities, consumer loans, and tens of thousands of union-negotiated health insurance and pension plans. Although interest rates were low during this period, the rising volume of loans made banking highly profitable. US domestic financial markets continued to grow throughout the 1960s amid a wave of takeovers and mergers in addition to growing financial innovation, such as the certificate of deposit which was then the foundation for the securitization of commercial banking. The number of local branches of large national banks grew from 5,296 in 1960 to 12,366 in 1970 (Gindin & Panitch 2012: 121). This growth and sophistication of US financial markets supported the internationalization of US finance.

Throughout the 1950s and 60s, US financial markets internationalized with the growth of US public and private capital in Europe. The Marshall Plan consisted of significant funding aid to Europe, particular West Germany, to the ends of rebuilding Europe and containing communism. From 1948-50, the Marshall Plan accounted for approximately 15 percent of total gross domestic capital formation in the UK, Italy, and France, and for Germany it was over 25 percent (Gindin & Panitch 2012: 96). As growth proceeded in Europe, US foreign direct investment (FDI) in Europe took off. Between 1955 and 1965, US manufacturing FDI in Europe had tripled, which was two-and-half times greater than US manufacturing FDI to the rest of the world (Gindin & Panitch 2012: 114). As trade follows investment, by 1970 nearly three-fourths of US exports and over half of imports were intra-firm transactions of US multinational corporations (MNCs) (Bluestone & Bennett 1982: 117). As US manufacturing internationalized so did US financial services.

By 1960 there were 131 US bank branches in Europe whose offshore services were not subject to New Deal regulations (Gindin & Panitch 2012: 118). US banks in London exploited an accounting loophole in the exchange control regulations of Bretton Woods to create an unregulated international market for US dollars (Ingham 2004: 155-6). London’s “Eurodollar” market held $3 billion in deposits by the early 1960s, and US banks were the nine most active in these markets (Gindin & Panitch 2012: 118). In 1963 the Eurobond market was established, and Eurodollar bond issues rapidly rose from $148 million in 1963 to $2.7 billion in 1970 (Gindin & Panitch 2012: 118). The growth and centrality of Eurodollar and Eurobond markets made US dollar-denominated financial markets far and away the most liquid and deep of all global markets.

The US Treasury securities market was central to the operations of global finance. A 1951 Accord between the Federal Reserve and the US Treasury institutionalized US banks as the primary dealers of US treasury bills. In turn, US banks increasingly placed US Treasury bills with foreign investors. Between 1955 and 1962, US Treasury bonds held in Europe were 1.5 times the value of all Europe’s sovereign bonds combined (Gindin & Panitch 2012: 119).

This reflected two developments, (1) that countries used the dollar as reserve currency to defend fixed exchange rates, and (2) the role of US Treasury bills as the most quality debt in international money markets. However, as US capital markets internationalized, it put pressure on the US official gold supply and the architecture of Bretton Woods.

*Crisis of Bretton Woods*

Economist Robert Triffin first formalized the structural instability of the Bretton Woods international monetary system in 1959. Triffin testified to Congress that the growth of world trade and capital were outstripping the growth of the world’s gold supply, which would inevitably lead to a crisis of confidence in the dollar and in turn the Bretton Woods monetary system (Triffin 1978). Throughout the 1950s, the US was running relatively small balance of payments deficits, meaning more capital was leaving the US than entering. Triffin cogently argued that this condition was unsustainable for Bretton Woods fixed exchange rates,

“…if the US corrected its persistent balance of payments deficits, the growth of world reserves could not be fed adequately by gold production at $35 an ounce, but that if the US continued to run deficits, its foreign liabilities would inevitably come to exceed by far its ability to convert dollars into gold upon demand and would bring about a ‘gold and dollar crisis’” (Triffin 1978: 3).

The persistent US balance of payments deficits resulted in the buildup of dollar reserves in Europe and Japan’s central banks, and some European countries were gradually redeeming dollars for US gold (IMF 2016). The Kennedy administration made the initial attempts to offset capital outflows with a mix of policies, including, increasing the US trade surplus, capital controls, and import taxes (Hudson 2003: 30). However, none of the efforts addressed the underlying dynamics driving the US balance of payments deficits and by the mid-1960s Triffin’s prophesy was materializing.

Paul Volcker, Undersecretary of the Treasury, led a research and policy group on the crisis of the international monetary system. On June 23, 1969, the Volcker Groups issued a confidential memo to President Nixon presenting the situation and a range of policy options. While the balance of payments deficit had multiple determinations, the Volcker Group identified trends towards budget and trade deficits as two fundamental drivers. The US budget deficit was growing to cover not only domestic policy but also Cold War military and political operations abroad, notably the war in Vietnam. The US was moving from trade surpluses to deficits due to domestic inflation and growing industrial competition (Volcker Group 1969: 18). In addition, US outward FDI was greater than inward FDI, further straining the US balance of payments (Volcker Group 1969: 17).

US balance of payments deficits threatened the US’s ability to maintain gold convertibility, leading to loss of confidence in the dollar. By 1966, foreign official dollar reserves were over $14 billion, but the US only had $13.2 billion in gold reserves, and only $3.2 billion of that was available to cover foreign dollar holdings, as the rest was needed to cover domestic holdings (IMF 2016).

World leaders and the international financial community feared that the US would either devalue the dollar, which would cause worldwide deflation and social and political instability, or stop redeeming gold for dollars, which would permit inflationary pressures to undermine confidence in the dollar and lead to social and political instability. The Volcker Group mulled three alternatives:

“…(a) a series of multilateral negotiations pointing toward a fundamental, but ‘evolutionary’ change in the existing system; (b) suspension of the present United States policy of providing for the conversion of dollars held by foreign monetary authorities at their discretion; and (c) a change, large or small, in the official price of gold” (Volcker Group 1969: 22).

The Volcker Group established that the US had to attract capital inflows to achieve an equal balance of payments, and without an equal balance of payments the US would face severe consequences in its ability to borrow in the future and it would undermine US negotiating strength. In addition to achieving an equal balance of payments, the US had to contain domestic inflation to preserve the international role of the dollar. The Volcker Group stipulated, “For both the period immediately ahead and the medium-term future, the dominant factor affecting the evolution of the international monetary system (and our success in guiding that evolution) will be our ability to contain domestic inflationary forces” (1969: 19).

Two years later, an internal memo among the Nixon administration’s high-level staff revealed that their objective was to “reassert [US] leadership of international economic and trade policy” (McCracken 1971:7). The memo outlined that “great market strength” for the dollar and globally competitive industries were “indispensable” conditions for international political leadership (McCracken 1971:7). To achieve both of these objectives the Nixon administration first negotiated the international financing of US deficits, and then negotiated a revaluation of the currencies of surplus countries.

*The US “Power Play”*

While the US maintained the formal posture of dollar-gold convertibility, conversions in the late 1960s were relatively small. The Treasury had made various political agreements with Canada, Western European countries, and Japan such that they would invest their surpluses in Treasury bills instead of gold (Hudson 2003: 264-5). German authorities wrote the US Treasury that they would not present dollars for gold, but the US Treasury feared their intentions could be fickle (Volcker Group 1969: 29). According to the president of Germany’s central bank, in 1971, the US Treasury “implicitly” threatened to withdraw US troops from West Germany if the German central bank did not renounce the rights to convert dollars into US gold (cited in Hudson 2003: 288). The US Treasury had also informally discouraged Japan, the United Kingdom and others from acquiring gold.

Gold was already a declining share of world monetary reserves by the late 1960s. Gold made up about 51 percent ($38.9 billion) of total global reserves in 1968, compared to 63 percent in 1960 (Volcker Group 1969: 5). Without a multilateral agreement to increase the price of gold, world reserve growth was dependent upon dollar expansion (thus financing US deficits) or the creation of “reserve credits” through crisis financing by the IMF, which was highly limited. In this context, dollars had been increasing replacing gold as means of payment, the Volcker Group noted, “During 1960-68, the rise in liquid and non-liquid official dollar holdings was $8.0 billion, and financed 58 percent of the cumulative official settlements deficits” (1969: 5). From a US perspective, an international settlements system based on the dollar would finance US balance of payments deficits.

The Volcker Group predicted, “Outright suspension of the gold convertibility of the dollar for foreign monetary authorities could either be forced upon us by events or could be taken as a deliberate considered action” (1969: 29). The memo detailed that the main objective in ending dollar-gold convertibility was to strengthen the US’ negotiating position because it would present surplus countries with “essentially unpalatable alternatives.” Surplus countries would have to either **“**passively hold dollars or permit a gradual appreciation of their currencies” (1969: 38). That is, if the US closed the gold window and surplus countries chose not to hold dollar assets then they would devalue the dollar. This would provide US exporters with a competitive devaluation while reducing the value of the massive dollar assets held by surplus countries. If surplus countries did not sell their dollar assets then they would have to hold them to maintain their exchange rates. Therefore, the Volcker Group endorsed suspending dollar-gold convertibility, although they warned that the rest of the world would perceive it to be a unilateral “power play.” They surmised policy options from surplus countries in response,

“…it seems likely that a large number of our close trading partners and less developed countries would prefer [holding dollars], so long as the United States retained reasonable price stability and our basic competitive position did not deteriorate markedly. The result would be an informal ‘dollar bloc’ in which countries heavily dependent on trade and/or financial relations with the US would ‘tie’ their currencies to the dollar” (1969: 38).

Closing the gold window would solidify the dollar’s role as means of payment in international settlements, which would effectively secure the US a substantial degree of flexibility in financing future balance of payments deficits and cement US leadership in international monetary affairs. However, this was dependent upon controlling the domestic inflationary pressures on the dollar (Volcker Group 1969: 33). The inflationary domestic conditions of the 1960s and 70s undermined investor confidence in the dollar, which in turn threatened the US government’s credibility vis-à-vis surplus countries holding dollar assets, which would eventually undermine the US’ ability to finance balance of payments deficits. Therefore, the Volcker Group concluded that suspending the dollar-gold convertibility would only be sustainable if the US could contain inflation.

*The Beginning of Floating Exchange Rates*

On August 15, 1971, after a wave of unprecedented speculative dumping of the US dollar, European central banks stopped accepting dollars for their own currencies, and the US gold supply reached a critically low level, the Nixon administration decided to cancel the dollar’s convertibility to gold (Silber 2012: 79-85). The Nixon administration sought an upward revaluation of Europe and Japan’s currencies to reverse the declining US trade surplus (Silber 2012: 80; Stein 2010: 40). The Nixon administration justified their position because of the US’ overseas military expenditures were in the “common interests” of Europe and Japan (Stein 2010: 41). After meeting with finance ministers from West Europe, Canada, and Japan, Treasury Secretary Connally reported to television cameras “…We had a problem and we are sharing it with the world just like we shared our prosperity…That’s what friends are for” (cited in Hudson 2003: 290). At that meeting, the Atlantic powers renegotiated fixed exchange rates against gold.

However, in a world of increasingly mobile capital, those fixed exchange rates were politically impossible to maintain and the Atlantic powers abandoned fixed exchange rates in 1973. The multilateral abandonment of fixed exchange rates cemented the dollar’s role as the global reserve currency and the ability of the US to rely on the rest of the world to finance its budget and trade deficits. Surplus countries could not use their dollars to purchase gold, so they would turn to the next best asset - US Treasury bills. However, domestic social and political conflicts throughout the 1970s produced dollar inflation which threatened international monetary stability and the US ability to cover its balance of payments and provide international leadership.

*Breaking Domestic Inflation*

The rampant “stagflation” (a combination of high unemployment and high inflation) of the 1970s had multiple determinations, and it resulted in a crisis of profitability for US industries and a loss of confidence in the dollar as the world reserve currency. Domestically, the high inflation of the 1970s had devastating effects, including making investment and production inefficient, eroding returns on financial assets, and reducing capital investment (Bluestone & Bennett 1982). At the international level, inflation undermined the dollar as world reserve currency and the creditability of the US government. Arthur Burns, Chairman of the Federal Reserve between 1970-8, identified labor unions and welfare programs (which he viewed as a subsidy to striking workers) in the 1960s and 70s as driving a wage-price inflationary spiral (Gindin & Panitch 2012: 141). Paul Volcker succeeded Burns and had a similar diagnosis, sociologist Michael McCarthy observed,

“Above all else, the members of the FOMC and Volcker himself operated with a cost-push theory of inflation that specifically pointed to labor power as the driver. Despite their public comments to contrary, privately they understood that inflation was more about the balance of class forces than the amount of money in the economy. And this reflected in the monetary policies they pursued” (McCarthy 2016).

Paul Volcker announced The Federal Reserve’s new “monetarist” policy to break inflation in October, 1979. Consequently, at the end of Carter’s presidency the federal funds rate was at 19.1% and they remained at that level six months into the Reagan presidency, a period known as “the Volcker shock” (Gindin & Panitch 2012: 168).

The Volcker shock thrusted the US into the deepest economic downturn since the Great Depression, consequently, inflation was finally broken when unemployment rose from its 1979 level of 6% to reach above 10% in the fall of 1982. It was at this point that Volcker announced the end of monetarist restraint and shifted to monetary easing. Economic growth finally resumed in 1983, and inflation came down to just over 3% and it remained at about that level for the rest of the century.

Domestically, “the Volcker shock” helped secure lasting anti-inflationary conditions by facilitating a shift in the balance of class forces. Volcker praised Reagan’s firing of 12,000 public sector union strikers in the airline industry as “the single most important anti-inflationary step that Reagan took” because it influenced other labor negotiations (cited in Hayward 2010: 173). Figure Five contrasts private sector union membership with the inflation rate. Union membership held above 20 percent of the private sector workforce throughout the 1970s, and after the “Volcker Shock” it declines steadily. In 1979, as US automaker Chrysler faced bankruptcy, the United Auto Workers made wage concessions and allowed for the outsourcing of production to non-union plants. These concessions became “the template” for the spread of similar concessions throughout US industry, including airlines, meatpacking, agricultural implements, trucking, grocery, rubber, among smaller steel firms, and in public employment (Gindin & Panitch 2012: 171-2). This was met with the Reagan administration’s cutbacks to welfare, food stamps, Medicare, public pensions, and unemployment insurance.

Figure Five: Dollar Inflation and Private Sector Union Membership

Therefore, there were two main determinants to the shift of class power that broke the wage-price spiral inflation: (1) the “Volcker shock”; and (2) de-unionization and cutbacks to the social wage. While inflation had multiple determinations, these were the necessary domestic social and political conditions to prevent inflation bouts. These measures effectively restored confidence in the dollar and saved it as the world’s reserve currency, thereby attracting capital back into dollar assets to restore the US balance of payments. Since then the US began unprecedented trade deficits. Figure Four shows that from 1981 to 1983 the US trade deficit climbed from approximately $16 billion to $57 billion and it has been secularly growing since then.

*Expansion of the Trade Deficit in the 1990s and 2000s*

While the international monetary system was primarily a conflict among the Atlantic powers, world trade and trade policy was further complicated by challenges to the Atlantic powers from the global south. On November 16, 1975, the heads of state of the U.S., Canada, Japan, and Western Europe converged in Rambouillet, France to discuss world monetary and trade affairs. Despite the currency conflicts, stagflation in the major economies, and growing trade and payments imbalances, each of the world leaders vowed to resist domestic calls for import restrictions and protectionism. German Chancellor Schmidt reasoned, “The countries in this room should act together not just because of a deep-rooted liberalism but because the market system benefits us” (Memorandum of Conversation 1975: 407). However, British Prime Minister Wilson responded that protectionism cannot be ruled out as a response to “…lethal attacks by other countries directed at destroying two or three sectors of our economy. These are not lame duck industries” (1975: 407). Chancellor Schmidt’s response is worth quoting at length,

“Harold, you talked of viable industries, and indicated that this excluded lame ducks. You referred to textiles as an example. I am a close friend of the chairman of the textile workers union in Germany. It is a union of a shrinking industry. I would hope that this would not be repeated outside of this room. Given the high level of wages in Europe, I cannot help but believe that in the long run textile industries here will have to vanish. We cannot ward off cheaper competition from outside…wages in East Asia are very low compared with ours…The German textile industry is viable, but will vanish in ten or twelve years” (1975: 407).

All of the Atlantic powers collectively mulled a new geography of production, in which industrial competition was not only amongst developed countries, but also from emerging low-wage and labor-intensive manufacturing in East Asia and Eastern Europe. Domestically, beginning in the early 1960s, policymakers were keenly aware that the U.S. was transitioning from an export-oriented to an import-oriented economy, and the Kennedy administration identified a fundamental solution as promoting the export competitiveness of U.S. firms and reducing barriers to trade abroad (Gindin & Panitch 2012: 125). The 1962 Trade Act expanded the trade negotiating powers of the Executive branch and established the government agency that would become the USTR in preparation for the General Agreement on Tariffs and Trade (GATT) Kennedy Round of negotiations (1963-7) (Gindin & Panitch 2012: 125).

By the early 1970s, U.S. MNCs began lobbying Congress and the President for fundamental reforms to GATT. U.S. MNCs led political initiatives to shift the institutional home for trade authority (Chorev 2007). U.S. MNCs were the principle lobbyists behind The 1974 Trade Act, which transferred authority away from Congress to the Executive, established the United States Trade Representative (USTR, the government agency that coordinates and negotiates trade policy), and official private sector advisory bodies to the USTR. Sociologists Dreiling and Darves mapped these networks, documenting a significant and recurring overlap between leaders of major corporate lobbies, official advisors, and trade policymakers (2016).

These powerful corporate lobbies, notably the Business Roundtable and Emergency Committee on American Trade, sustained cross-industry agendas and were able to advance a relatively coherent set of trade policy preferences reflecting the general interests of U.S. MNCs across sectors (Dreiling & Darves, 2016; Liss 2019). The goal of major corporate lobbies was not just to write U.S. trade policy but to leverage U.S. trade institutions to shape trade agreements and international organizations. U.S. MNCs sought to establish the World Trade Organization (WTO) dispute settlement system to constrain competing stakeholders in the Executive, as well as in other countries (Chorev, 2007). U.S. corporate lobbies formed policy networks with corporate groups in Europe and Japan, who collectively lobbied their respective governments to institutionalize intellectual property, services, and investment in the WTO (Kelsey, 2007; Sell, 2003).

The WTO and concomitant expansion of regional and bilateral trade and investment agreements led to the rapid expansion of world trade and investment in the 1990s. As the WTO was shaped by corporate interests, “about 80% of global trade (in terms of gross exports) has become linked to international production networks of [MNCs]” (UNCTAD 2013: 135). The WTO and trade agreements allow MNCs to source and outsource inputs in developing countries while retaining profits as intellectual property rents. Developing countries eagerly welcomed MNCs as partners in their export-led growth strategies. In these contexts, South to North exports flourished, notably driven by “the rise of China.” This drove the expansion of the US trade deficit, especially after China joined the WTO in 2001. Moreover, the shift of merchandise production from the US to China substituted high-wage goods for low-wage ones, further constraining inflationary pressures.

**V. Conclusion**

The literature provides robust explanations for the dynamics of the dollar standard and its role in global trade imbalances, notably the US trade deficit. However, the vast majority of this literature is economic in that analysts assume that the dollar standard and US trade deficit are results of market forces. This article substituted economic units of analysis (commodities and capital) for sociological ones (interacting groups of people). From this sociological perspective, an alternative account emerges. The dollar standard and US trade deficits were results of political, class-agency based decisions. This article highlighted this by synthesizing main theories from sociology of money and applying it to the historical emergence of the dollar standard and trade imbalances.

*Towards a Unified Sociology of Money Explanation of the Dollar Standard*

Beginning with the statist approach - contemporary money involves credit monetary systems that are state managed and based on state-backed liabilities. The value of money is determined by the balance of political power between creditors and debtors, therefore, the political exigency of low-inflation is enforced by the political subordination of debtors to creditors.

Yet this does not explain the basis for credit-money’s ability to buy. The Marxian approaches provide that while the US dollar has the ultimate ability to buy, this property is the result of social and political creditor-debtor relations rather than the state. This offers an approach to understanding reasons that competitive agents desire dollars over other currencies. This uniqueness of the US dollar confers economic and political advantages to the US as much as it reinforces those advantages, including the dollar standard.

The sociocultural school holds that money is a diverse as human civilizations are diverse, and therefore meanings of money and their circuits are context-specific. This is demonstrated by individual and group decisions to “earmark” stocks and flows of money. On the surface, the decision of official and private actors to hoard dollar reserves serves to maintain the dollar standard, but the sociocultural perspective demonstrates that these decisions are context-specific to the social and political relations of these circuits US treasury securities.

*Class-Agency Drivers of the Dollar Standard and US Trade Deficit*

As the US trade balance shifted from surplus to deficit throughout the 1960s and 70s, the US Treasury never prioritized reducing the US trade deficit, they sought to finance it. They did so with unilateral and multilateral policy decisions to facilitate an international settlements system based on the US dollar. In so doing, the dollar standard finances and perpetuates US trade deficits. The Volcker Group offered the premise,

“As a starting point it must be recognized that no international monetary arrangement can permit the United States (or any country) to escape ‘external’ constraints entirely or indefinitely. A tendency to spend or invest more abroad than other countries want to invest or spend (or leave on deposit) in the US will, sooner or later, need to be corrected” (1969: 12).

As the balance of payments is the sum of the capital account and the current account, throughout the 1960s the US was tending towards negative capital and current accounts and therefore faced unsustainable balance of payments deficits. US Treasury officials sought to turn the capital account positive to equalize the negative current account.

They engineered this by inducing the rest of the world to hold dollars instead of gold as reserves and then taming domestic inflation. The Nixon administration broke the dollar-gold link, but the rest of the world had to want to hold dollars as reserves in relation to all other global assets. In the final analysis, the dollar standard is sustained by domestic and international power relations in (1) US financial markets, (2) low domestic inflation, and (3) the new geography of production.

Central banks and market actors hoard dollar reserves rather than other currencies due to the unparalleled size, breadth, and liquidity of dollar-denominated financial markets. This was recognized by the Volcker Group in 1969, “Foreign official short- and medium-term dollar holdings…and foreign private dollar holdings…are serviced by a complex and highly developed set of banking, investment, and trading facilities both in the US and Europe” (1969: 5). However, the financial power of the US is the result of power asymmetries between the US and the rest of the world. After WWII, the US unilaterally placed the dollar at the center of the international settlements system, over the objection of the allied powers. US financial markets vastly expanded within New Deal framework, while less regulated dollar-denominated markets grew in Europe. This was sustained by the role of US Treasury bill in global finance (Schinasi et al. 2001). Therefore, the Nixon administration’s elimination of dollar-gold convertibility was a unilateral “power play” in that the rest of world had no viable alternative but to hold dollar assets as reserves. In turn, the dollar standard confers a “exorbitant privilege” for the US, which is sustained by the financial, political, and military power of the US. An emerging field of study is the role of this “exorbitant privilege” in driving inter-country inequality (Vasudevan 2008; 2009).

The ability to integrate the global economy on the dollar standard was threatened by domestic turmoil in the US that was generating inflation to the dollar. By the end of the 1970s, the Federal Reserve led an interagency consensus that the main source of inflation was resistance from US labor unions and social welfare programs. De-unionization trends in the US deepened after implementing unprecedented high interest rates from 1979-81, known as the “Volcker Shock,” and the Reagan administration’s trend-setting implementation of anti-labor deregulations and austerity. This social stabilizing of inflation to the dollar was the *a priori* condition for the dollar standard and the ability of the US run seemingly endless trade deficits.

Lastly, emerging partnerships between MNCs and developing countries sustain the dollar standard and grew the US trade deficit, particularly commerce between US MNCs and China. US MNCs were the principle lobbyists responsible for the WTO and its regulatory architecture (Sell 2003; Chorev 2007; Dreiling & Darves 2016), China joined the WTO in 2001 and subsequently US MNCs shifted production from the US to China. This industrialized China while leaving sections of the US deindustrialized, further weakening labor unions and facilitating job polarization trends (Kalleberg 2011). By 2010, China accounted for nearly 55 percent of the total US trade deficit. However, similar to other surplus countries, China’s trade surplus remains as surplus because it uses that money to buy US financial assets rather than US goods and services. The result is that US trade deficits are sustained by capital inflows to US financial assets, especially official reserves.

Reserve accumulation arises from central banks “earmarking” dollar reserves. The socioculturalists have not yet studied the “earmarking” of central bankers. However, China and the rest of the world “earmark” US Treasuries and liquid dollar assets in unprecedented quantities to defend exchange rates, protect against volatile and destabilizing capital flows, ensure investor confidence, prepare for unforeseen social and political crises such as natural disasters or armed conflicts, and for lack of alternative safe assets. Each instance has unique social and political contexts depending on place and time, and each instance adds to reserve accumulation. These processes sustain the dollar standard and perpetuate the US trade deficit.

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Appendix One: Figure One Dollar Share of Currency Reserves

Appendix Two: Figure Two US Current Account Balance and Foreign Holdings of Treasury Securities

Appendix Three: Figure Three US Current Account Balance with China and China’s Holdings of Treasury Securities