



Paul R. Viotti. The Dollar and National Security: The Monetary Component of Hard Power. Stanford, CA: Stanford University Press, 2014.

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Professor Viotti's The Dollar and National Security: The Monetary Component of Hard Power introduces the reader to the relationship, in the name of cooperative security, between states and monetary elites in international financial politics. The mythically sovereign power of the nation state to determine its currency's exchange rate

is shown to be the result of close and constant international collaboration by “treasury officials and central bankers... performing quasi-governmental roles that still reflect their private sector origins” (6). The generic title given to this group is the “owners and managers of capital (OMC)” as they are the “experts” who form the relevant “epistemic community” for policy making on these issues (12).

The book discusses governments’ and banks’ prioritization of international financial market arrangements to benefit those interests in significant ways and how exchange rate stabilization plays into potential security arrangements for the nation states. Viotti focuses on the cooperation of the OMC in securing the exchange rates at key junctions, as well as the reserve status of the currencies of empires. Exchange rate stabilization allows for trade and credit to be established and credit finances military machines. The perspective is that the OMC must be let alone to cooperate to create the norms for international lending and secure the acceptance of certain international reserves. The book is structured more or less chronologically over seven chapters in two parts: the British-dominated system until WWII and the US-dominated system from WWII until today. The chapters roughly delineate time periods between the major turning points of the last few centuries, excluding the United States Civil War.

Viotti begins by referring to the ability of banks to create money from nothing in the form of debt-backed credit as a “social construction” (2). Security is also considered a “social construction” due to the lack of constraints on American security policies faced by all other nations of the world. The focus of the book is how and why this is the case and what it implies for national security (5).

Wartime finance—maintaining the exchange value and thus the purchasing power of the national currency—is often overlooked or merely taken for granted. Procurement of war materiel, fuel, and other war-related purposes requires a national currency that will be accepted as payment for these purchases. It is the work of central bankers and treasury officials in wartime—customarily out of sight and behind the scenes—that makes it possible to sustain combat operations abroad (45).

There is not really a theoretical approach in the book other than the “social construction” of money and security, so the book reads more like a history. The meaningful conflict in financial cooperation Viotti identifies is between the ideology of

the practitioners and the academic opinions mediated by the technical requirements of the process and potential knowledge of the institutions involved. Viotti shows that the academics, primarily John Maynard Keynes, were ignored early on but eventually swayed those in the epistemic community (traditionally geared towards a fixed exchange rate regime) into a flexible exchange rate regime through a series of negotiations preceding WWII. A fixed exchange rate regime (international gold exchange standard) prevented governments from issuing credit as they wished (creating inflation/devaluing currency) and a floating exchange rate system was thought to be the key to prosperity for everyone. However, Viotti does not stray from the traditional criticism that the pre-Keynesian fixed exchange standard had been regarded as “automatic” (and thus a “market” mediated process) when it was, in reality, the result of constant international policy coordination between central bank authorities (65-70).

One state’s willingness to accept and trade the currency of another state as a source of credit amplifies the borrowing state’s financial power in the form of increased spending in the short term. When importing goods during war, inevitably, states need exporters to accept credit as the savings of belligerents dwindle quickly. The power of banks to lend money into existence is attractive and every major power strives for what benefit they can obtain from this process, usually borrowing. Predictably, central bank cooperation to that end is frequent. There has been a constant stream of meetings, plans and negotiations to renew, establish or modify some existing international monetary arrangement either bilaterally or multilaterally all throughout the last few centuries, the detailing of which constitutes the bulk of the book’s content and the meaning of “cooperative security.” The details are important because they almost all aim at institutionalizing an agreement where credit or liquidity is created and controlled by certain parties. When these agreements do occasionally institutionalize, and at what level, *significant norms can be developed* (emphasis added).

There are instances where one may glean aspects of imperial financial strategy for the interests at play. For instance, French and Russian international finances were used strategically to block German attempts at institutional financial hegemony; the Allies organized a currency bloc which created the peculiar problem of stabilizing exchange rates in order to facilitate trade with Central and, later, Axis powers through

neutral countries and the Bank for International Settlements (82-83). When countries are recalcitrant to one another for security purposes, then monetary collaboration proves difficult to establish or, at best, short lived. Viotti also touches on the decision of the Bank of England to attempt to maintain sterling prewar gold parity policies, despite significant new British war debts, during the interwar years by ‘convincing’ the New York Federal Reserve to purchase British bonds, lowering the rate of interest in the US below that of England, *because doing so benefitted the British in the short term* (36-37, emphasis added). That is one example of a part of the British interwar strategy of creating international demand for her currency by opposing the establishment of an “independent (Franco-Belgian backed) central bank in the Rhineland,” convincing Germany to hold sterling in reserve instead (64-65).

The discussion in chapter five of the French and American disagreements during the 1960s sheds light on why currency regimes are so important to national security. This fundamental challenge is the only potential alternative policy explored. De Gaulle’s hostility to the US-dominated international monetary system is well known. For a significant period of time, the French government maintained an “uncompromising” belief that a renewed gold standard would weaken US economic positions and level the playing field by making all states balance their payments, thus diminishing the ability of the US to conduct military operations abroad (110). This is accurate and why the US opposed, and continues to oppose, any such reform (15). France appreciated the Franc and then converted to dollars then converted to gold, circumventing the whole hegemonic intention of the Bretton Woods system. But they did, ultimately, compromise when the US became willing to cut the French into the newly created Special Drawing Right (the IMF note/bill/currency) capital pool. Viotti does service in pointing out the disputes the French had and continue to have with the Americans on this subject.

Delving deeper into the politics operating inside these institutions is where the book is least informative. What is specified in great detail is the short-term economic realities faced by the institutions in the form of the frequent official agreements and negotiation platforms. The long-term motivations and goals of the OMC are omitted in the book. The histories of these institutions and how successful institutions have arisen from corporate consolidation as well as the competition of many parties to create stable

norms is not often examined. Baster's descriptions of the fervor for limited liability Charters gives a window into the mindset of these people; banks are created to create money, but shareholders do not want responsibility if it all goes wrong. They want the power to create liabilities, but not the power to be liable for them. The tendency to extend credit beyond reserves is roughly equal to ease and lending money to governments is the best business. In the successful international institutions, the structure of the bureaucracies exist as they do because of compromises between the interests (Federal Reserve, IMF & BIS). These bureaucratic dynamics become the focal point for collaboration between private banking interests and states. These institutions have carried significant weight over time. Successful monetary institutions might influence long-term power trends in foreign states even if the state's policies change from time to time.

The value of Viotti's book is to help draw attention to this little known area of policy formation, illuminating how central banks are sovereign institutions partnered with various states. Nation-states rely on the cooperation of the central banks in order to maintain a functioning international credit system and, in turn, finance exchange and militaries. Viotti shows that militaries depend on this relationship and are thus detached from a capability to produce funding for themselves during war. It has always been known, but not effectively acknowledged, that wars are financed by borrowing money from private interests. Viotti avoids going into too much detail here; the history of the US in this regard has been to follow in the footsteps of the City of London's financial strategy during the British Empire's "transformation" into the Commonwealth. The history of Anglo-Saxon imperial competition in the United States in the first half of the twentieth century shows how US interests have been more inclined to production-based growth, industrial manufacturing, and thus to German capital interests while the international financial policy community has been historically in favor of lending long and borrowing short, thus closely tied to British interests (36). This competition culminates in the Anglo-American lend-lease negotiations and the Bretton Woods negotiations where the US drew out the lend lease negotiations to acquire the role of international financial hegemon from the increasingly desperate British. However, the incentives for excessive credit creation were never stymied. The deterioration of Bretton Woods over a 25-year period of time created an American

environment where “Increased government expenditure abroad, particularly for wars and lesser contingencies, now could be financed more readily simply by allowing the value of the currency to move downward a notch or two” (131).

That said, there are serious criticisms that can be made of Viotti’s book. The Dollar and National Security appears to be one of the only scholarly writings examining this topic from a security perspective. More specific authors on the economics and critics are cited, but not explored. Viotti never questions the behavior and goals of the central banks and bankers beyond their relationship to states. Instead, they are given categorical titles as “the OMC” and the “epistemic community” and, while the actions of the institutions are presented only vaguely (“buying and selling currencies”), the main negotiating positions are well documented and represented throughout. Detail about the OMC and the politics of the imperial European financial powers would help readers appreciate the reasons for the *prima facie* fickle nature of international monetary cooperation in the past. It was not exactly friendly competition or cooperation and it is not all state-state negotiations. Viotti’s observation that “Economic doctrine” for the British monetary elite was “consistent as it seemed to be with national and imperial concerns, thus effectively reduced the perception of alternatives to one (69),” is true because the imperial concerns were usually managed through the banking concerns. Today, the same thing is true; generally accepted economic doctrine seems consistent with national concerns. Just as British currency policy sometimes came at the expense of the domestic British economy, this could very well be the case in the United States today. The book only briefly mentions major non-Western states and it does not examine the similarities to the end of the British-led system and to the current American-led system. Viotti makes no effort to address these concerns, but bemoans the typical ignorance of partisan politicians when discussing a US default, a concern as well as a tactic of American political negotiations in the last few years. Viotti’s perspective is that elite opinion matters more because they are experts and they legitimate the national interest effectively, accepting this as an issue the public has no justified input into (154-155). The legitimization of the national interest, as well as what that is, seems a topic worthy of inquiry.

Viotti claims near the end that the real value of the dollar is “its acceptance as a medium of exchange, store of value, and unit of account” (161) and this constitutes its

relevance for national security (131). The definition of money is “a medium of exchange, store of value, and unit of account.” So, for Viotti, the real value of the dollar derives from the dollar being defined as money and this is a national security prerogative, a dangerous perspective. If other countries someday decided not to use the dollar then, to them, the dollar would once again be defined as a claim to a US good or service and thus a potential US Treasury liability. The “social construction” of money as a “component of national security” which requires foreign governments and central banks to continue to accept dollars “often substantially *in excess of their need* for dollars as currency reserves” (160-161, emphasis added) has many negative consequences. This series of incentives has resulted in huge foreign exchange surpluses in Asia, record debt levels in the United States, general lack of savings, persistent abnormal global banking conditions, the perpetual short-term informal contemporary balance of payments system, and numerous other potential hazards that are not mentioned at all in the book. No attention is paid to the long term. Instead, in the introduction, there is a Hollywood type stock-market-terror-attack scenario presented which, ironically, stresses the short-term problems and highlights the precariousness nature of the system in general.

The reliance on foreign exchange reserves to provide for national security is unwise and can readily be seen to be unwise if one includes more of the picture and more of the process than the exchange rate agreements central bankers make. For instance, despite the concern for national security, Viotti omits all of the relevant related aspects of the US based international foreign exchange reserve system; the incentives other countries have to define the dollar as money by holding and trading dollars. Significant things that contribute to or detract from the demand for US dollars include: IMF and World Bank repayment programs, oil consumption and the petrodollar recycling system (mentioned once on page 127), the black market and counterfeit markets, gold, US production and exports, the growing dissatisfaction the Global South/East has with the institutions that manage these exchange rate agreements, and the similar tones between France in the 1960s and Russia and China today.

Exchange rates are important. They have sometimes been used in the private sector by larger firms to attack the currencies of weaker areas, including states. A large firm can gradually purchase a substantial amount of bank notes, sit on them for a while, and dump them on the market all at once; a large bank can extend loans in every sector

of an economy and then call the loans in unexpectedly, shrinking the 'money' supply and pushing people to sell property to settle obligations. The effects sometimes destroy the credit of, or bankrupt, states and push the prices of resources and land down anywhere that uses that currency. This process is very similar to the IMF's structural adjustment programs used to encourage foreign investment as a loan restructuring. Though the purview of the book is international, a look at Lincoln's financing of the Civil War would be seen as a short-term defensive alternative to the international cooperation perspective.

Viotti's book makes clear the US can spend money as a result of this process, but the actual process of credit creation is only referred to coyly as a "social construction." This "social construction" of money is a process where the Federal Reserve creates Federal Reserve Notes (credit) from nothing to purchase securities, usually government bonds (debt), representing assumed future taxes revenues, from private banks through the Federal Open Market Committee (Open Market Operations) before the new dollars can be spent on US military projects. Put simply, dollars are created and backed by the dollars that already exist. It does not need to be obfuscated. The fact is that the unlimited power of the US government and Federal Reserve to manufacture credit from debt and call it money should today warrant more than just a lamentation that "this is for experts only." The unstated and ill-investigated motive behind Federal Reserve and US Treasury policy, and how they subsequently impact State and Defense, is simple and virtually identical to all note issuing banks of the past: find ways to maintain or increase demand for notes in international markets.

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