Th€ Next Great Globa£ ¢urr€nc¥

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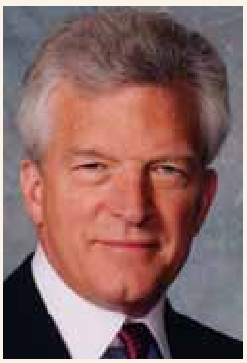
TIE asked some of the world's key experts:

"Ten years from now, what will be the next great global currency?"

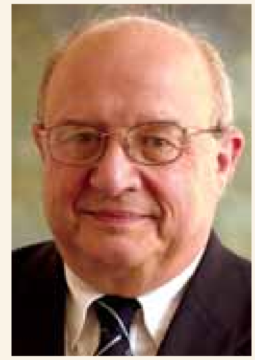
The Dollar



The dollar will reemerge.

DAVID C. MULFORD
U.S. Ambassador to India and former Undersecretary for International Affairs, U.S. Treasury

What goes around comes around. We have been around this loop before. The dollar will reemerge as the U.S. economy restores its position in the world.



The U.S. dollar will continue to be the dominant international currency.

EDWIN M. TRUMAN
Senior Fellow, Peterson Institute for International Economics

The U.S. dollar will continue to be the dominant international currency in ten years. It is still the only true international currency; that is one that is used by parties that do not include U.S. residents. Do you see euro-denominated bonds issued in New York as dollar-denominated bonds are issued in London? Looking just at reserve holdings and considering only developing countries as the most relevant group, it is true that since the first quarter of 1999, the dollar's share has declined 10.6 percentage points in value terms, but in quantity terms the decline has been only 6.8 percentage points and the dollar's decline was at a faster pace before the dollar's peak in the first quarter of 2002 than since then. The dollar's quantity share in the reserves of developing countries is currently 38.5 percentage points ahead of the euro. At the recent pace of adjustment which has slowed since early 2002 during a period of substantial dollar depreciation, it would take the euro twenty-four years to catch the dollar and in ten years it would still be more than 15 percentage points behind.

The dollar now, in fifty years the yuan.

DINO KOS
Managing Director and Head of Central Banks and Sovereign Wealth Funds, Morgan Stanley Asia Limited, and former Executive Vice President, Markets Group, Federal Reserve Bank of New York

The U.S. dollar will remain the primary reserve currency ten years from now. Over a longer time horizon, say thirty or forty years, the next great currency—barring calamitous policy missteps—will be the Chinese yuan. The longer period will be required to liberalize the Chinese economy, build up efficient money and capital markets, and foster the deep and liquid markets consistent with reserve currency status.

The United States will come roaring back.

JEFFREY E. GARTEN
Juan Trippe Professor of International Trade and Finance, Yale School of Management

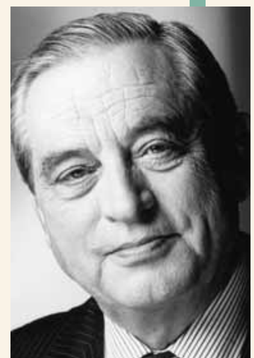
I expect that after some setbacks the United States will come roaring back. All the talk about the growing economic power of the European Union and China has some merit, but it is vastly overblown. The American economy will remain dominant, the U.S. capital markets the widest, deepest, and most innovative.

The dollar is currently weak because of major blunders by the Fed.

STEVE FORBES
President and CEO, Forbes Inc.

The dollar will be the great global currency ten years from now. It is currently weak because of major blunders by the Federal Reserve, which has been printing too many greenbacks since 2004. That excessive money-making is why all commodities have surged. In mid-2003 oil was selling at around $25 a barrel. Even with India, China, and central and eastern Europe booming and even with political turmoil in the Middle East, Venezuela, and Nigeria, there is no way the real price of oil and most other commodities should have almost quadrupled. The political fallout from rising inflation will force the Fed and the next president to restabilize the beleaguered buck.

Then the dollar will again be king and all the talk of the need to diversify reserves into other currencies will fade away. In the meantime, though, the world will experience the unpleasant consequences, politically and economically, of the Fed's mistakes.



The dollar and the euro and the yuan.

KARL OTTO PÖHL
Partner, Sal. Oppenheim Jr. & Cie., and former President, German Bundesbank

Both the dollar and the euro.

BARRY EICHENGREEN
Professor of Economics and Political Science, University of California, Berkeley

International currency status is not a winner-take-all game. Only in exceptional periods like the era of U.S. economic hegemony after World War II, when only the United States had deep and liquid financial markets open to the rest of the world, has a single currency dominated international transactions. To be sure, incumbency is an advantage—in politics and in the competition for global currency status alike. But ten years from now is not too soon to imagine a situation where the dollar and the euro play roughly comparable global roles. My choice, therefore, is both the dollar and the euro, which are likely to cohabit through the first half of the twenty-first century, after which they may be challenged by the yuan.

The dollar and the euro.

PAUL DEROSA
Principal, Mt. Lucas Management Corp.

The dollar will still be the preeminent global currency.

RICHARD N. COOPER
Maurits C. Boas Professor of International Economics, Harvard University

While the euro will grow in relative importance, especially in new members of the European Union and nearby trading partners, the dollar will still be the preeminent global currency in both official and private hands a decade from now, reflecting not only institutional inertia but also the strength of U.S. capital markets and the relative decline of Europe in the world economy.

The greenback.

PETER B. KENEN
Walker Professor of Economics and International Finance Emeritus, Princeton University

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The dollar.

TADAO CHINO
Senior Advisor, Nomura Research Institute, Ltd., and former President, Asian Development Bank

The dollar will remain first among equals.

HENRY J. AARON
Program Director, Economic Studies Program, Brookings Institution

Although other currencies will gain in importance, the dollar will remain first among equals because the U.S. economy will remain the most flexible and most secure in the world.

The dollar's dominance will gradually diminish.

MICHAEL J. BOSKIN
Professor of Economics and Hoover Institution Senior Fellow, Stanford University

Ten years from now, the U.S. dollar will still be the major global currency, although its dominance will continue to be gradually diminished. The problems currently besetting the United States financial system will have abated, although similar problems affecting other financial systems are not yet fully transparent either. I expect U.S. growth to again outpace Europe and Japan over the next decade, as the more difficult demographic conditions in Western European countries will combine with their high-tax welfare states to slow growth. Demography and minimal immigration will continue to slow Japan.

However, the fraction of global commerce invoiced in other major currencies, especially the euro, will grow. Witness the Areva nuclear deal with the Chinese payable in euros. It is more likely than not that real oil prices and the U.S. current account deficit as a share of GDP will decline. Nonetheless, the dollar will still be the most important international medium of exchange, and dollar-denominated assets will still be a relatively safe store of value, especially given political risk in much of the developing world and high taxes in Europe. But if the United States embarks down the path to a high-tax, bloated welfare state, the outlook for U.S. growth and the dollar will worsen.

The dollar now, the yuan in thirty.

MARC LELAND

President, Marc E. Leland and Associates, and former Assistant Secretary for International Affairs, U.S. Treasury

The dollar will have problems. The euro will play a more important role but the dollar will still be the major world currency—not the "great global currency" but greater than any other. If you asked me to predict for thirty years from now, I might lean toward the yuan.

The U.S. dollar.

ANNE O. KRUEGER

Professor of International Economics, School of Advanced International Studies, Johns Hopkins University, and former First Deputy Managing Director, International Monetary Fund

The U.S. dollar is very likely to be the major currency ten years from now. While reserve holdings will probably be less concentrated in dollars than currently, the convenience of using the dollar as the common denominator for transactions is important, and likely to mean that international transactions will still be denominated predominantly in U.S. dollars. That, in turn, means that the attractiveness of holding U.S. dollars as a medium of exchange, along with the importance of the United States in the world economy, will continue to make the dollar the preeminent currency.

All the options are possibilities!

JIM O'NEILL

Head of Global Economic Research, Goldman Sachs International

All the options are possibilities! As someone who has been quite negative on the dollar for the past decade, it is obviously tempting to conclude that the dollar will be "down and out" and it will lose its predominant reserve currency status. However, many of the factors that have plagued the United States and the challenges facing the dollar are starting to improve, so I think it is dangerous to write off the buck, especially when we read about rapper Jay-Z and model Giselle Bündchen both wanting the euro.

If the desire for the euro has spread that far, then perhaps there is no one else left to buy it! Amongst other currencies, clearly the euro has already grown in importance, and it seems pretty inevitable that Chinese yuan usage is on the rise. So I suspect the future will bring something between "some formal or informal currency bloc" and "foreign exchange chaos." As a friend of the active investor, I sincerely hope the latter, or something close to it.

We are in an era of significant relative change. As I have written for years, there is dramatic need for major reform of the International Monetary Fund, the World Bank, the G7 and the G8. If we get dramatic reform in the next ten years, then perhaps a more stable foreign exchange environment might emerge, but without that relatively simple observable need to be fulfilled, why would anyone expect stability?

I expect the U.S. dollar to remain the dominant international currency.

JOHN WILLIAMSON

Senior Fellow, Peterson Institute for International Economics

I expect the U.S. dollar to remain the dominant international currency for a good bit longer than the next ten years. There is a great deal of inertia built into a currency's international role. This is primarily because the very nature of money means that one wants to hold the same monetary unit as the people with whom one will do most business, so an international money is only replaced when the need to do so becomes overwhelming. Unless the United States were to generate a new inflation, which is a low-probability event, there would seem little motivation to prompt a flight from the dollar by official holders. If the dollar depreciates some more in real terms against the euro, the chances are that it will recover that ground in the future. The probability is much greater of a real long-run depreciation against several of the Asian currencies, but the chances of central banks profiting from that will have vanished long before most central banks think of trying to profit from it.

The dollar. I don't see any other contenders on the horizon.

SUSAN M. PHILLIPS

Dean and Professor of Finance, George Washington University School of Business, and former member, Board of Governors, Federal Reserve

I choose the U.S. dollar as the next great global currency ten years from now, not for patriotic reasons, but rather because I don't see any other contenders on the horizon. In fact, I think it would be good to have multiple currencies which could be characterized as great global reserve currencies besides the U.S. dollar.

In recent years, the dollar has become particularly sensitive to oil prices, and as the worldwide demand for oil has surged pushing the price of oil up, the dollar has plummeted. But U.S. authorities have not intervened to prop up the dollar artificially. Many other countries do conduct their monetary policies in a way to directly manage the value of their currency and I would not want to rely on those policies to influence U.S. exchange rates. A currency which floats is more reflective of the give-and-take of all world economies.

Although the U.S. economy is challenged in the short run, I believe its resilience will be evident in the long run and the dollar will ultimately reflect that strength. Finally, there are a lot of dollars in circulation around the world, backed by the good faith and credit of the U.S. government and its economy—maybe not a good short-term bet, but definitely a good long-term bet.

In ten years, we may see only 70 percent for the dollar and 45 percent for the euro.

HORST SIEBERT

President-Emeritus, Kiel Institute for the World Economy, and Heinz Nixdorf Professor in European Integration and Economic Policy, Johns Hopkins University, SAIS Bologna Center

The U.S. dollar will continue to be the major global currency, but it will lose relative weight. In 2007, 86 percent of the total transactions in the international currency markets had the U.S. dollar on one side of the transaction and 37 percent the euro (yen and sterling 17 percent and 15 percent, respectively). Note that the sum of the percentage shares totals 200 since two currencies are involved in each transaction. In ten years, we may see only 70 percent for the dollar and 45 percent for the euro. Total reserve holdings of all central banks, 65 percent in U.S. dollars in 2007, are likely to be reduced relatively more, maybe down to 45–50 percent. This development will reflect the reduction of the U.S. share in global GDP from 27 percent today; it will mirror the geopolitical shift in favor of Asia. Together with the share of trade and capital flows, a high share of world output is one factor determining whether a currency plays the role of the leading currency. Another important condition is that the currency is stable. If the U.S. Federal Reserve follows an expansionist and inflationary line, if the stability of the U.S. banking industry is not a given, and if the long run is neglected by American consumers and American politics, the role of the U.S. dollar will decline more.

Definitely the dollar.

IL SAKONG

Chairman and CEO, Institute for Global Economics, and former Minister of Finance, South Korea

The American dollar.

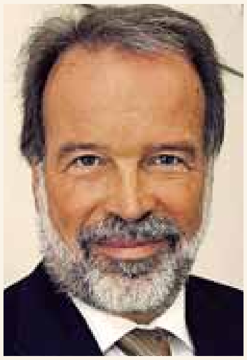
BORIS FEDOROV

General Partner, UFG Asset Management, and former Finance Minister, Russia

The U.S. dollar.

PEDRO-PABLO KUCZYNSKI

Former Prime Minister, Peru



The fathers of the euro evidently did a good job.

NORBERT WALTER
Chief Economist, Deutsche Bank Group

Not even ten years old and he's already allowed to play with the big boys! The fathers of the euro evidently did a good job. One particularly important factor was the political backing for the euro. Fathering is important, but the hard part is giving birth. Excellent choices have been made in appointing the presidents and executive board members of the European Central Bank. There was no honeymoon period for the new currency. Its international standing was threatened at the turn of the millennium.

As it approaches its tenth birthday, this European experiment still does not enjoy unbridled confidence of the citizens across the euro area, not least because inflation is much higher than the target level. However, the euro's appreciation goes on and on. This is one reason why international investors are increasingly asking whether the time has come for a changing of the guard. The euro is on par with respect to denomination of international bonds and is the world's number-one cash currency. And its share in foreign exchange reserves and its status as an anchor for exchange rates is rising. Doesn't this represent an historic turning point in global currency relations—just like the situation between the world wars when the British pound was dethroned by the U.S. dollar?

My verdict is that developments during the next two or three years will continue to feed such suppositions. The U.S. dollar will be weak, and portfolio rebalancing will continue. Looking ahead to 2020, there is no doubt that the military and political might of the United States, its demographic vitality, and its ability to implement swift, effective structural change will reinvigorate the dollar. The dollar will rise again, and its role as the world's leading currency will undoubtedly be underscored.

The dollar by default.

HUGH PATRICK
Robert D. Calkins Professor Emeritus of International Business, Columbia Business School

By default, the dollar will remain the dominant major currency ten years from now. The euro will probably play a somewhat greater role, but much depends on how and how well EU integration deepens. It will be premature for the Chinese yuan to play a major role; China may loosen its capital flow, foreign exchange, and other regulatory restraints but will do so only gradually. London will continue to be, along with New York, a global financial market. And since Tokyo will not challenge it, sterling may become more significant than the yen. To some extent this is based on my expectation that the next U.S. president and administration will pursue better economic and foreign policies than those of the past seven years.

My money would be on the U.S. dollar.

DESMOND LACHMAN
Resident Fellow, American Enterprise Institute

My money would be on the U.S. dollar remaining the world's great currency ten years from now. It is not that I particularly like the dollar's long-run external fundamentals. Rather, it is that I dislike even more the world's other major currencies' fundamentals.

The euro is presently the main contender for displacing the U.S. dollar as the world's principal reserve currency. However, one has to entertain serious doubts as to whether the euro will survive in anything like its present form ten years from now. Can one really expect either Italy or Spain to endure the rigors of euro membership in the event of a major slump in their economies?

Some observers dream that the Chinese renminbi might emerge as a major global currency along with a resurgent Chinese economy. However, they overlook the great fragility of the Chinese banking system. They also turn a blind eye to the collision course on which China faces the United States and Europe on trade issues.

As for sterling and the Japanese yen, it would seem that the sun has long since set on these currencies and that there are no glimmers of any dawn on their horizons.

The U.S. dollar is the only true global currency.

STEVE H. HANKE
***Professor of Applied Economics, Johns Hopkins University; Senior Fellow, Cato Institute; and Contributing Editor,* TIE**

The U.S. dollar is the only true global currency and will probably remain atop that perch for the foreseeable future. Some years ago, economist Bob Mundell produced an impressive table which spans twenty-six centuries: "Great Currencies and Great Powers." The average life of the great currencies is over three centuries. On that criterion, the dollar has another century or two to go.

Great currencies are difficult to challenge. Their hallmarks are stability and confidence. These are generated by large transaction domains (network externalities), monetary policy stability, the absence of exchange controls, and the strength and continuity of the state issuing the currency.

The dollar outshines its challengers on all counts, particularly liquidity. It isn't surprising, therefore, that since the credit crunch unfolded last year, there has been a surge in the issuance of Yankee bonds. That said, the dollar's supremacy might be challenged if the United States continues down the road of capital market sanctions—a subject dealt with by Benn Steil and Robert E. Litan in their book, *Financial Statecraft.*

Just consider the fate of the British pound. When the pound reigned supreme, even George Washington was allowed to maintain an account at the Bank of England during the Revolutionary War. By the early 1900s, all that changed as the pound became entangled in a plethora of exchange controls.

Absent a further increase in capital market sanctions, challengers will remain challengers and the dollar will remain king.

We are at the dawn of the age of the bipolar currencies.

MAKOTO UTSUMI
President and CEO, Japan Credit Rating Agency, Ltd., and former Vice Minister of Finance for International Affairs, Japan

While the euro has been establishing itself already a key currency rivaling the U.S. dollar, it is still lagging behind the U.S. dollar as a reserve currency, a settlement currency, and an invoicing currency. It might not take a decade for the euro to rank with the U.S. dollar. We are at the dawn of the age of the bipolar currencies.

The alternatives will be limited.

WILLIAM H. OVERHOLT
Director, RAND Center for Asia Pacific Policy

The dollar will remain the most important global currency. It may well be considerably less attractive and less unique as a reserve and trade-denomination currency than today, but the alternatives will be limited. The European Central Bank may acquire a crisis-management capability that is currently unique to the Fed, but the euro will just be finishing its transition from today's collection of limited puddles of liquidity to becoming a deep sea of liquidity like the dollar.

The Japanese economy will be a far smaller proportion of the global economy than today, since everyone else is growing faster, and it would take major changes in Japanese currency management style for other countries to want the yen as a predominant reserve.

The Chinese yuan will probably be fully convertible by then, but its banking system and regulators won't be ready for the reserve role. The other major players are unlikely to trust Bank of Japan or People's Bank for crisis management as much as they trust the Fed and, prospectively, the European Central Bank.

So reserves and trade will be more diversified but the dollar will be most important. A unified Asian currency remains a fantasy. Finally, future U.S. administrations may have sounder policies than the current one.

The European economies will deteriorate much more than the U.S. economy.

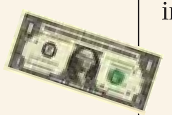
TADASHI NAKAMAE
President, Nakamae International Economic Research

I believe that a developing nation's currency—or even a basket of currencies from an emerging bloc—has no chance of rising to global status in the coming decade. The global economy is in for a turbulent ten years, given the troubles caused by the current credit crunch in America. The length of this economic mayhem will severely weaken emerging economies, making their currencies unlikely candidates for a leading global currency.

The U.S. dollar may weaken, but retain its prominence in ten years' time. The euro is unlikely to replace the U.S. dollar as the leading global currency because European economies will deteriorate much more than that of the United States in a few years' time. Indeed, discrepancies in economic growth and strength within the diverse euro bloc may even lead to the euro's break-up.

The yen will not usurp the U.S. dollar either. Still, the yen may take on a bigger role in the global economy, partly because the Japanese economy has been the least affected by the latest round of speculative credit expansion. What's more, Japan is likely to remain the one genuine economy with net savings, which should boost Japan's relative position in the world and in turn lift its currency, though not enough to supplant the U.S. dollar.

The United States is bound to remain the most complete power.



SIMON SERFATY
Zbigniew Brzezinski Chair in Global Security and Geopolitics, Center for Strategic and International Studies, and Senior Professor of U.S. Foreign Policy, Old Dominion University

Although the unipolar movement is now over, the United States is bound to remain the most complete power in the world during the coming decade. In the context of an emerging monetary multipolarity, this means that the U.S. dollar will remain the preponderant global currency, notwithstanding the gradual rise of both the euro and the Chinese yuan that may compete with, but not substitute for, the dollar in and beyond their respective areas of primary influence.

With regard to the euro, some informal Euro-Atlantic currency bloc may well emerge late into that timeframe, including more transparent rules of engagement between the Fed and the European Central Bank—at the expense of the sterling which, like the yen, will not have the will to abandon ties with the dollar as the global currency of choice, but will also lack national capacities needed to withstand the compelling monetary pull exerted by neighbors.

The dollar is still the best bet.

DANIEL GRISWOLD
Director, Center for Trade Policy Studies, Cato Institute

Anybody who tells you where the value of the dollar will be a week or a year or a decade from now doesn't know what they're talking about. The dollar's future value and global status will be determined by hyper-efficient markets responding to underlying economic fundamentals.

Of all the major global currencies, the dollar is still the best bet to remain the leading currency a decade from now. Even after its recent slide, the dollar remains by far the most popular currency for international transactions. Nearly two-thirds of global central bank reserves are held in dollars, and 86 percent of daily currency transactions involve the dollars.

While the U.S. economy has struggled of late, Japan, China, Britain, and the European Union all have their own economic baggage that will continue to hinder the rise of their currencies to global greatness.

If the U.S. economy retains its underlying strengths—an open and dynamic economy, relatively low taxes, deep and liquid capital markets, flexible labor and product markets, and a skilled workforce—the dollar will remain a great global currency. But if U.S. policymakers embrace punitive taxes on investment, unbridled spending, protectionist populism, new barriers to foreign investment, inflationary monetary policy, and more Sarbanes-Oxley-style regulations, the dollar will deservedly lose its claim to greatness.

The U.S. dollar will remain the "indispensible currency."

GINA DESPRES
Senior Vice President, Capital Research & Management Co.

While the U.S. dollar is unlikely to regain the pre-eminence of its heyday, it will remain the "indispensable currency" well into this century.

It would be a mistake to underestimate the United States.

GEORGE R. HOGUET
Global Investment Strategist, State Street Global Advisors

Ten years from now the dollar will be the world's principal reserve and transaction currency, although its share of total international reserves will likely fall. The United States will still be the world's largest, most productive, innovative, flexible and—relatively speaking—transparent economy in terms of corporate governance, economic policymaking, and political processes. Given the strength of its institutions and dynamism of its culture, the United States will continue to be a very attractive place to invest, with U.S. firms being highly competitive in emerging industries of the twenty-first century: life sciences, clean energy technologies, and nanotechnology, to name a few.

The dollar will likely fall against the yen and emerging Asian currencies, but the United States will eventually restructure medicare, and continued immigration will partially solve the problems faced by Social Security. By 2018, China's economy will have easily surpassed Japan's as the world's second largest, but will remain much smaller than that of the United States. Political and financial institutions in China will not be sufficiently developed for the renminbi to replace the dollar, and the Asia/Pacific region will not meet the criteria for an optimal currency zone. And in Europe, rising political tensions, an unfavorable demographic profile, and a lower potential growth rate than in the United States will be among the factors inhibiting the euro's pre-eminence.

Nothing is foreordained, and a low probability "tail event" like a policy mistake or catastrophic terrorist attack cannot be ruled out. But it would be a mistake to underestimate the United States.

What happens this year and next will be critical.

RICHARD C. KOO
Chief Economist, Nomura Research Institute

The U.S. dollar will remain the top currency, but what happens this year and next will be critical. During this period, the United States must bring the dollar down to the point where a steady shrinkage of its trade deficit can be expected. At the same time, the United States must persuade oil-producing countries to keep oil denominated in dollars. The former is needed to dispel the concern that the United States is just printing money while producing nothing. The latter is crucial because if the United States had to pay for its oil imports in euros, the dollar could literally collapse.

For the former, a Chinese announcement that the renminbi will be moved up 15 percent from where it is now, combined with a Japanese announcement that it will not intervene in the foreign exchange market as long as the yen remains within 15 percent of where it is now, would be very helpful.

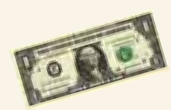
For the latter, the inflation-wary Saudis must be persuaded to keep their dollar peg even after a possible revaluation of the riyal. This is because if the riyal-dollar peg is ended, the market will start thinking about the imminent end of oil pricing in dollars, which could have devastating consequences for the world.

Ten years are too short for the euro to replace the dollar.

CHI LO
Investment Research Director, Ping An of China Asset Management (Hong Kong) Co. Ltd.

The euro is vying with the U.S. dollar for the status of leading global currency. It is being increasingly used in international trade, and as the reserve currency and currency peg for many countries' exchange rate regimes. But when it comes to a change of guard, ten years are too short for it to replace the dollar. The current international transactions, in both current and capital accounts, are predominately denominated in U.S. dollars, an arrangement that cannot be changed easily. Even looking longer than ten years into the future, U.S. military and political might, demographic vitality, and economic flexibility to effect structural changes will remain. The dollar's world-leading currency status will remain for the years to come.

I do not see the dollar shrinking in absolute size.



ROBERT HELLER
Former Governor, Federal Reserve System

The U.S. dollar will continue to be the dominant currency in the global economy ten years from now—whether measured by transaction volume, global assets denominated in that currency, or reserve asset holdings. I do not see the dollar shrinking in absolute size in any of these categories.

But given the current weakness of the dollar, there will be powerful incentives to diversify into other currencies. The incentive to diversify will be strongest for asset holdings, but much less so for the execution of international transactions. As far as transactions are concerned, habit and convenience have a much stronger influence than portfolio diversification motives.

Consequently, the euro will see much higher growth rates than the dollar in the various asset categories and also become a strong second global reserve currency. That is, much of the incremental asset growth will be denominated in euros. But the euro will see only modest growth as a transaction currency.

Other currencies such as the yen and yuan will play some roles at the periphery, but not become currencies in which third-party transactions will be denominated.

The Euro

The next great global currency is already the euro.

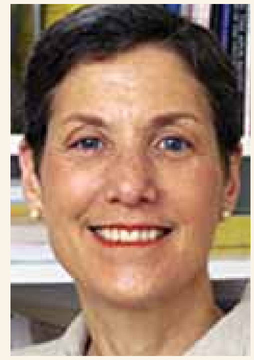
C. FRED BERGSTEN
Director, Peterson Institute for International Economics

The "next great global currency" is already the euro. Global holdings of euro currency already exceed global holdings of dollars. The euro has already passed the dollar as the currency of denomination for international private bond flotations.

The dollar will remain a great global currency indefinitely and it is immaterial whether the euro passes it or simply moves up into the same range of global market share. But history shows that the global roles of national currencies reflect the magnitude of their underlying economics. The dollar thus dominated for the past century because it had no serious competition.

All this changes with the creation and maturation of the euro. Euroland's output and financial markets are about as large as those of the United States. Its external trade and monetary resources are considerably larger. We can thus expect the euro to move up alongside the dollar over the coming years. The result, at least until the Chinese renminbi joins the action over the next several decades, will be a bipolar international monetary system.

I expect the euro to take its place with the dollar.



JESSICA EINHORN
Dean, Nitze School of Advanced International Studies, Johns Hopkins University

Ten years is a short time for a reserve currency to come of age, so it's premature to think of Asia. The euro has been in the running since the move to a single currency, and the European Central Bank has proven its commitment to maintaining its integrity. With ECB President Jean-Claude Trichet in the lead, and the dollar retreating for a host of reasons outside the purview of the Fed, I expect the euro to take its place with the dollar as a currency of respected international value.

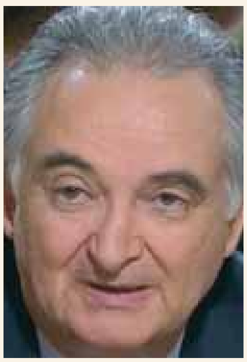
The euro is a credible challenger.

JEFFREY A. FRANKEL
James W. Harpel Professor, Kennedy School of Government, Harvard University

Contrary to fevered popular speculation in the 1990s, the yen and the mark never had the potential to challenge the dollar as premier international currency: their home economies were smaller than that of the United States and their financial markets less-well-developed and liquid than New York's.

The euro, however, is a credible challenger. Euroland is roughly as big as the United States, and the euro has shown itself a better store of value than the dollar. To be sure, rankings of international currencies change only very slowly. Although the United States surpassed the United Kingdom in economic size in 1872, in exports in 1915, and as a net creditor in 1917, the dollar did not surpass the pound as number-one international currency until 1945. In 2005, when Menzie Chinn and I used historical data on central bank holdings of foreign exchange reserves to estimate the determinants, even our pessimistic scenarios did not have the euro overtaking the dollar until 2022. Thus we could not have asserted that the dollar would be dethroned “ten years from now.”

But the dollar has continued to lose ground. We have now updated our calculations, particularly to recognize that London is usurping Frankfurt’s role as the financial capital of the euro, notwithstanding that the United Kingdom remains outside of European monetary union. Now we find that the tipping point could come within the ten-year horizon: the euro could overtake the dollar even as early as 2015.



The euro.

JACQUES ATTALI
President, PlaNet Finance, and former President, European Bank for Reconstruction and Development

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The future reserve currency won’t be the dollar.

EAMONN FINGLETON
Author of In the Jaws of the Dragon: America’s Fate in the Coming Era of Chinese Hegemony *(St. Martin’s Press, March 2008) and* In Praise of Hard Industries *(Houghton Mifflin, 1999)*

This is one of the great questions of economic history. There is no clear answer but a few things can be said:

■ The future reserve currency won’t be the dollar. As a percentage of GDP, the U.S. current account deficit is now close to the 7.7 percent peacetime Great Power record set by Italy in 1923. Yet compared to America’s trade problems today, Italy’s trade problems then were readily fixable (at least with Il Duce at the controls). America’s trade imbalances are “baked in” and will get worse before they get better.

■ With Britain’s trade deficits chasing America’s into the stratosphere, sterling is also an obvious has-been.

■ The central bankers of the big surplus nations—China and Japan—haven’t the slightest wish to fill the gap because they rightly fear losing control of economic policymaking.

■ Showboating bureaucrats in Brussels and Frankfurt may have ambitions for the euro but they will be restrained by the more export-minded Euroland member states—particularly if/when the dollar and sterling become fully right-sized.

All that said, the best guess is that the euro will increasingly take over in international contracts and commodity pricing, and in an effort to forestall total chaos, the East Asians will feel obligated to join the Europeans in a Euro-Asiatic reprise of the snake in the tunnel. Maybe it should be called the dragon in the tunnel!

There’s some chance that it’ll be the euro.

MENZIE D. CHINN
Associate Director, Robert M. La Follette School of Public Affairs, Department of Economics, University of Wisconsin

Most likely the U.S. dollar will remain the global currency, but there’s some chance that it’ll be the euro, especially if macro policy continues to be as irresponsible as it has been over the last seven years.

The euro.

CHRISTOPHER J.S. GENTLE
Director, Deloitte Research Europe

The euro, for sure.

MAYA BHANDARI
Senior Economist, Lombard Street Research

The Yuan

The Chinese yuan for sure.

GARY HUFBAUER
Reginald Jones Senior Fellow, Peterson Institute for International Economics

The next great currency? The Chinese yuan for sure. And as decoration, I expect China to sponsor an Asian Monetary Fund, to ensure that Shanghai rivals New York and London as a global financial center, and to add gold alongside dollars and euros in its foreign exchange reserves.

The next great global currency is likely to be the yuan.

MURRAY WEIDENBAUM
Mallinkrodt Distinguished University Professor, Washington University in St. Louis

Taking the question literally, the next great global currency is likely to be the yuan. That assumes that the U.S. dollar and the euro will continue to be the dominant world currencies and that sterling and the yen will also be significant players.

Because I do not expect the rapid rise in the Chinese economy over the coming decade to be matched by a comparable expansion of the Middle Kingdom's financial infrastructure, I do not foresee the yuan replacing the dollar or the euro in world currency markets.

The yuan, propelled by China's sustained prominence in international trade and investment.

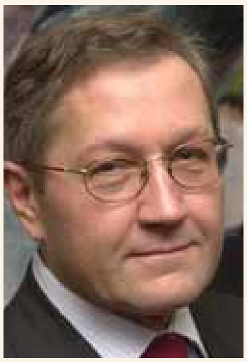
CHARLES WOLF, JR.
Senior Economic Adviser and Corporate Chair in International Economics and Professor, Rand Graduate School of Policy Studies

I take as a premise that a "great world currency" is one that, for a combination of precautionary and transactional motives, constitutes a large part of the foreign reserves by their principal holders including central banks, corporations, and others. Currencies that qualify will tend to be closely, though not perfectly, correlated, with those predominating in international trade and investment transactions.

The dollar has been and is the principal great world currency. Approximately two-thirds of foreign reserves are currently held in dollars, with the remainder consisting of euros, sterling, and yen. The dollar proportion has decreased in recent years by perhaps 10 percent, with most of the corresponding increase registered in euros. By 2018, I'd expect the dollar's share to decline perhaps a further 5 or 10 percent. The next great world currency whose holdings will rise to absorb some of the U.S. decrease is likely to be the yuan, propelled by China's sustained prominence in international trade and investment. This prognosis presumes that within this time period, the yuan will have become fully convertible on capital account, as it already is on its current account.

The additional great world currency is both a reflection of, and a contributor to, the so-called multi-polarity in international affairs.

Some defined or informal multi-currency system— Or foreign exchange chaos



A multilateral currency system with three or four major currencies.

KLAUS REGLING
Director General for Economic and Financial Affairs, European Commission

History will not repeat itself—like the move from sterling to the U.S. dollar. During the next one or two decades, we will move toward a multilateral currency system with three or four major currencies.

The U.S. dollar will probably continue to be the most important currency—with important links to NAFTA—but will not longer be dominant for the world economy.

The euro will comprise at least twenty-five economies and will represent the world's largest trading bloc and the most important financial market. The euro will also be linked one way or another with thirty to forty other currencies.

In Asia, the importance of the yuan will increase as growth in China continues to be much faster than in advanced economies, the financial market liberalizes, and the currency becomes fully convertible. The yen will continue to be important but emerging Asian economies may find it attractive to establish a formal or informal link with the yuan.

A decade during which neither individual currencies nor regional blocs will dominate.

GARY N. KLEIMAN
Senior Partner, Kleiman International Consultants

Another choice: a decade during which neither individual currencies nor regional blocs will dominate. Instead, dozens of units from emerging markets will join industrial country stalwarts as standard holdings in central bank reserves, as well as debt and equity investor portfolios.

Developing world exchange rates will continue their secular appreciation, especially against the dollar on both economic fundamental and asset allocation grounds. Already emerging bond markets are overwhelmingly local-currency plays spread geographically across Latin America and Europe, while equities are heavily weighted toward Asia.

The Gulf's sovereign wealth pools, which blur classic official/private-sector management distinctions, will increasingly target these destinations along with the broader Middle East and Africa. Emerging capital and credit markets will dramatically raise their share of the global total, with multiple currency activity reflected in turn, as evidenced in the latest series of Bank for International Settlements foreign exchange surveys.

The institutional and retail investor bases in many countries will approach and exceed the size of developed world counterparts. A cross-section of currencies may be prominent, but the vast range of accepted repositories available will invite wide diversification.

More and more countries are moving toward managing a trade-weighted currency basket.

TEH KOK PENG
President, GIC Special Investments and former Managing Director, Monetary Authority of Singapore

I see a pattern of increasing regional trade over the next ten years in Asia. With more and more countries moving toward managing a trade-weighted currency basket, you will have a de facto informal currency bloc, at least in Asia.

An informal array of alternatives has arisen.

ALLEN SINAI
Chief Global Economist and President, Decision Economics

De facto, but fairly gradually so far, the world is moving away from the dollar as the major global reserve currency.

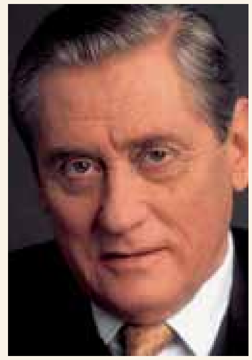
An informal array of alternatives has risen. The include the euro, the sterling, the yen, slowly the Chinese renminbi, and some other currencies such as the Australian dollar. The Federal Reserve broad dollar index against twenty-six foreign currencies is down 25.8 percent since February 2002 and recently has accelerated its decline, falling over 10.1 percent over the last twelve months. Increasingly, commodities such as gold and crude oil are being bought as a store of value and a dollar alternative as the economic, financial, and political fundamentals surrounding the United States deteriorate compared with those of many non-U.S. countries and regions.

Ten years from now? What appears to be in process is a secular trend reflecting a changing global economic and financial geography where previous "have-not" countries have become "haves." The collective energy for global economic growth from the developing world has become very significant. Seismic shifts in the wealth of numerous countries in Asia, especially China, and elsewhere, whose current account and foreign exchange surpluses loom large in the global economy, permit them to act as "bankers" through sovereign wealth funds, shifting world economic and financial power away from the United States.

As yet the forces of reversal from the U.S. side do not appear to be emerging, suggesting that the shift away from the U.S. dollar to the "next great global currency" is in train.

The best bet is that some more formal currency basket will emerge, containing currencies from those countries that have strong economies, strong domestic and international financial positions, stable politics, and surpluses on current account and foreign exchange, although perhaps with some commodity, such as gold, that might be included.

Markets will first identify those currencies and commodities most favored that will be part of the "next great global currency," not a single currency such as the dollar has been, but a basket reflecting the new and emerging realities of global economic wealth and power. A defined currency bloc would follow.



We are likely to be left with no single global currency.

HANNES ANDROSCH
Former Austrian Finance Minister and Head of Creditanstalt-Bankverein

Any global currency has two important functions to fulfill: as a means of settlement between countries experiencing external imbalance, and as a *numéraire* in financial transactions. Despite the prestige involved and any short-term seigniorage benefits, no government really wants its domestic currency to become an international reserve or global currency. The costs, responsibilities, and the associated restrictions are simply too great. Moreover, the overhang of external debt poses a constant threat to the integrity of the currency.

The need for a global currency has long been recognized. At the 1944 Bretton Woods Conference, economist John Maynard Keynes proposed the "bancor," linked to a weighted commodity basket, as an international currency. This ingenious proposal would have built an inflation hedge into the currency.

Most synthetic currencies since proposed or implemented have been linked to currency baskets. The best known are the SDR and the ECU, but their contribution to international liquidity has been marginal, at best. Some currencies such as the yen and the Swiss franc have proven popular on international capital markets, but cannot be regarded as reserve currencies. It is difficult to imagine any synthetic currency becoming a global currency, if only because administrative and coordination problems are likely to prove too much for its long-term credibility.

In modern times, we have had two reserve currencies worthy of the name, the sterling and the dollar. These were the monetary units of vibrant and global real economies. In 1945, the United States accounted for more than 50 percent of world output. That it survived the turmoil of the 1970s is largely attributable to its adoption as the currency in which oil and other primary commodities were priced.

Today, there are no obvious candidates. The U.S. share of world output is about 20 percent with the European Union enjoying a similar share. Japan accounts for about 10 percent, and China 5 percent. Should commodities be priced in currencies other than the dollar, perhaps the euro, the preeminence of the dollar could unravel very quickly indeed. We are likely to be left with a small group of leading currencies but no single global currency in the conventional sense.

I suspect questions about currency blocs or lead currencies will naturally resolve into the emergence of a world currency.

STEPHEN AXILROD
Former Staff Director for Monetary and Financial Policy, Federal Reserve Board

At the risk of being obvious, I doubt the future will see a single dominant currency, such as the dollar or the pound. The dollar should continue as frontrunner for some years, but finally, probably within ten years, it will become more like one of a lead pack, including the yuan and the euro, with the yen and the rupee not far behind. Looking even further ahead—with the tech revolution making it almost impossible for countries to avoid knowledge about how to develop themselves—there is no telling how many more will move into contention, or at least run a respectable race. Whether any combination would become cohesive enough to act as a bloc seems uncertain, and not a very fruitful area for speculation.

Looking well beyond any of our lifetimes, I suspect questions about currency blocs or lead currencies will naturally resolve into the emergence of a world currency. The International Monetary Fund will once again have something really useful to do. A council of wise men will have to be established to agree on a name and determine which countries or blocs remain sufficiently important for their own finance ministers to have the nationalistic pleasure of affixing their own signature to some of the currency, no politically simple task.

Coexistence of two or more major currencies.

GEOFFREY LITTLER
Former Second Permanent Secretary of the Treasury, United Kingdom

The concept of a single global currency reflects the long period in which first the pound sterling and then to an even greater extent the U.S. dollar found that role by dominant economic power combined with relatively large, well-developed, and internationally accessible markets. But reliance on a single global currency tends to create distortions and imbalances when the dominance of the currency provider diminishes—whether by its own weakness or, as now, by the dramatic relative increase in strength of other economies, notably those of China and India.

The twenty-first century will surely see a world of several independent economies of large size and power. It is undesirable, and in practice unlikely, that reliance should or will rest on any one great global currency. There is a particularly urgent need for China to accept the great benefits and the responsibilities of developing its own yuan markets. Co-existence of two or more major currencies of international investment, whose weight may vary from time to time, does not imply "foreign exchange chaos." I hope that within ten years we shall at least see movement in this direction.

The most probable outcome is foreign currency chaos.

SYLVIA OSTRY
Distinguished Research Fellow, Centre for International Studies, University of Toronto

The most probable outcome is foreign currency chaos. But I'm a supporter of uncertainty, not probability. According to Heisenberg, you can know where you are but not where you're going or vice versa. We know where we are (in a burgeoning financial crisis), so let's see if there's political will to use the crisis to determine where we're going—on the road to reform.

We are living through a revolution in technology that is transforming our economy and society. This transformation is an engine of integration among countries, corporations, people, and ideas. Rapid change—much of which we don't yet understand—requires some safeguard against chaos. The stability of governance is one such firewall.

So while the current crisis can provide a launchpad for reform, a more important factor is global stability. We should expect many crises, and the exchange rate is very relevant in the aim for global stability. The great powers, the United States and the European Union, could start the process by an agreement on exchange rates (to begin, floors and ceilings). The International Monetary Fund is the relevant institution, but it would be better to create a cooperative arrangement among three multilaterals. There's lots to do. But where there's a political will, there's a policy way.