

The background of the slide is a golden-yellow color with a dense, repeating pattern of various international currency symbols. These symbols, including the dollar sign (\$), Euro symbol (€), Pound sterling symbol (£), and Yen symbol (¥), are rendered in a three-dimensional, embossed style, creating a textured effect. The symbols are scattered across the entire background, with some appearing larger and more prominent than others.

# The Creation of the Euro and the Role of the Dollar in International Markets

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**A Brief Overview & Critique**

**By Ferris Eanfar**

# Introduction

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**Purpose:** This presentation provides a brief overview and critique of the article, “The Creation of the Euro and the Role of the Dollar in International Markets,” by Patricia S. Pollard.

**About the Author:** Ms. Pollard is an economist who is currently a Senior Advisor to the Executive Director of the IMF. Ms. Pollard’s previous work experience includes several senior positions at the U.S. Treasury and she was a Research Officer and Economist at the Federal Reserve Bank of St. Louis. She has a PhD in Economics from Michigan State University and a BA in Economics and Political Science from Maryland University.

# Functions of an International Currency

A national currency serves three primary purposes:

**Unit of Account:** Transactions within an economy must be priced in a countable unit, i.e., U.S. Dollars, Japanese Yen, Euros, etc. for bookkeeping and accounting purposes.

**Store of Value:** A currency represents stored value (i.e., “purchasing power”), which must remain relatively constant over time so that economic actors can maintain confidence in the currency.

**Medium of Exchange:** The currency must be convertible between one or more other currencies, which enables economic actors to exchange value and engage in transactions across countries and their corresponding national currencies.

# Determinants of an International Currency

The following factors determine how likely a currency will be used in international transactions.

**Size & Importance of Economy:** Size correlates with the relative importance of an economy; more importance generally results in more demand for its currency.

**Size, Depth, Liquidity, & Openness of Domestic Financial Markets:** Determines overall availability, cost, flexibility, and attractiveness of a nation's currency.

**Convertibility of a Currency:** Determines how easily and costly a currency can be converted into another currency.

**Macroeconomic Policies:** A government's fiscal and monetary policies impact its debt management practices, currency reserve requirements, capital markets stability, banking regulations, inflation rate, unemployment rate, sovereign debt rating, private and public credit availability, currency exchange rate behavior, tax policies, and many other socioeconomic and geopolitical factors, all of which impact the transaction costs, availability, and attractiveness of a given currency.



# Private Uses of an International Currency

**Invoice Currency:** A currency becomes an “invoice currency” when it is used as a unit of account for a transaction. An example would be an invoice or purchase order that lists the price of a product or service in U.S. Dollars. The total volume of trade denominated in a given currency is a strong predictor of a currency’s likely use as a reserve currency.

**Vehicle Currency:** When a market between two currencies is too shallow or nonexistent, a vehicle currency serves a bridge between two currencies that would otherwise be too costly to exchange directly.

**Substitute Currency:** Domestic currencies in developing economies are often too volatile (and thus, too risky) to use for large transactions. Additionally, undisciplined central banks often implement ill-conceived monetary policies, which result in high inflation, thereby eroding the value of the domestic currency. In these cases, a relatively more stable and less risky currency can be used instead of the riskier currency.

# Official Uses of an International Currency

**Exchange Rate Peg:** The primary reasons countries choose to peg their currency to another currency is to reduce exchange rate risk and/or to control inflation. This is typically done by smaller, developing countries.

**Reserve Currency:** Governments and central banks hold reserve currencies for three main purposes: (i) to finance imports; (ii) to finance foreign debt; and (iii) to intervene in currency markets to manage the exchange rate.

**Intervention Currency:** Countries may intervene in a currency market by buying or selling large amounts of a currency to preserve the stability of their own currency. Most intervention in global currency markets today is executed with U.S. Dollars (USD) because every major sector and economy on Earth is substantially dependent upon the USD.

# Critique of Article

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**Insufficient Context:** The author presents a lot of data to substantiate her main points, but there is virtually no contextual information about the policies or events that produced the data. Coercive military power, economic devastation of wars, and ideologically-driven geopolitics have all had at least as much (if not more) impact on the composition of the underlying data as the other technical factors she cites.

**Ambiguous Data:** Several of the data tables present statistics that are not sufficiently explained. For example, Table 7 presents a series of statistics and the author states: “In 1998 the dollar was involved in 87% of all currency exchanges. The euro legacy currencies were involved in 52% of all exchanges. . . .” These combined percentages exceed 100%, which is confusing because the table includes “Percent of Total,” but mathematically, it’s impossible for the figures presented to represent a “percent of total.” This confusion prevents us from understanding the true proportionality of each currency in the global FX market.

# Conclusion

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Overall, Ms. Pollard's article provides a useful overview of the technical factors that determine whether a currency will be used in present-day international transactions and/or held in reserve as an official store of value to be used in future transactions. Although more contextual information would be ideal, I understand many economists prefer to keep their analyses focused on technical factors that are easier to quantify and model. Indeed, the relatively chaotic factors associated with geopolitics, economically motivated wars, sociological and cultural trends, ideologically-driven state propaganda, special interest group influences on micro- and macro-economic policies, etc. are necessarily beyond the scope of her article.

Nevertheless, the author should have provided a disclaimer indicating that technical factors alone are rarely sufficient to explain real-world socioeconomic outcomes. This is true for all forms of economic activity, including international currency exchange markets.



# About Ferris Eanfar

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You can visit [Ferris' LinkedIn page](#) for the most up-to-date summary, but in brief: Ferris Eanfar has over 20 years of experience in technical, financial, media, and government intelligence environments. He is a Senior Partner at Vision Bankcard and the CEO and co-founder of [The AngelPay Foundation](#), the first and only nonprofit financial services company dedicated to returning wealth and power to the creators of value. Ferris' professional background includes payment and credit card processing, asset management, commodities trading, artificial intelligence software engineering, military and government affairs. He is a U.S. Air Force veteran and he worked in the U.S. Intelligence Community as a Cryptological Linguist with a Top Secret (TS/SCI) security clearance. He has written dozens of articles and several books in the field of International Political Economy, including [Broken Capitalism: This Is How We Fix It](#), which provides unique insight into what is wrong with the global economy and how to fix it. To read more articles and books by Ferris, visit [Eanfar.org](#).