


BOOK REVIEWS

Book Review: "Paper Soldiers: How the Weaponization of the Dollar Changed the World Order"

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Paper Soldiers: How the Weaponization of the Dollar Changed the World Order

Saleha Mohsin

Penguin/Portfolio, 2024; xx + 282 pp.

Recognizing pivotal moments in history as they unfold is a challenging task, yet certain events unmistakably signal shifts in established orders. Before February 2022, the United States Treasury had seized foreign nations' exchange reserves and restricted access to the dollar-based Society for Worldwide Interbank Financial Telecommunications (SWIFT) system, but this generally involved small, recalcitrant rogue states. With the levying of these measures against Russia—a G7 nation, global commodity producer, and nuclear power—it was clear even to casual observers that a significant threshold had been crossed. The weaponization of the US dollar—which, despite years of systematic debasement, has remained the global reserve currency and fundamental unit of account in international commerce—marked the start of a new era.

In *Paper Soldiers: How the Weaponization of the Dollar Changed the World Order*, by Bloomberg reporter Saleha Mohsin, the path of dollar policy up to that point is traced with a particular emphasis on the fiscal side. Following a very brief primer that runs from the Legal Tender Act of 1862 through the collapse of the Bretton Woods agreement in 1971, Mohsin takes readers from milestone to milestone in the last four decades of the greenback, starting with the Plaza Accord in 1985. From the well-known to the scarcely recalled, US Treasury secretaries from Robert Rubin and Steven Mnuchin to John Snow and Lloyd Bentsen are viewed through the prism of their commitments to strong or weak dollar policies and the consequent impacts on constituencies

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ranging from US labor to foreign investors. Debt ceiling fights, the September 11 attacks, and the ascendance of Trump are some points of interest along the way.

Among the highlights of the book are fascinating glimpses into some of the most secretive subdepartments of the US Treasury. One such, located in a dusty, unremarkable building only accessible to individuals with a top secret security clearance, is the Office of Foreign Assets Control and its staff of lawyers, intelligence officers, and sleuths who manage the "game-over blacklist" of the Specially Designated Nationals and Blocked Persons List (SDN). Readers are introduced to the unelected officials who give an ever-growing raft of US sanctions and other dollar-based penalties its teeth.

The book is not intended as an academic publication, and much of its discussion on complex topics is adequately tailored for an educated lay audience. But one might have expected some recognition, however tacit, that a money whose relative value is driven by verbal interventions is an absurdity in both practical terms and historical context. The fundamental strength of commodity-backed money lies in its precise definition of monetary units based on specific weights and purity standards, which in turn lead to stable prices, the ability to calculate economically, and so forth. Thus, when we read of the tremendous gravitas arising from Trump treasury secretary Steven Mnuchin's comment that US dollar policy would see no change "as of now," with trillions of dollars potentially pinwheeling on the choice of three words, it becomes immediately apparent how far America has strayed from its foundational principle of hard money.

If there is a flaw in *Paper Soldiers*, it is that at junctures it takes a turn toward the unduly romantic. While political statements such as "A strong currency needs a strong democracy" (242) and "Faith in democracy and faith in markets go hand-in-hand" (225) evoke sentimentality, they are vastly at odds with economic history and lived experience. Democracy, markets, and the relative strength of currencies are nowhere nearly as linked as the ornate, reductive, and fundamentally inaccurate picture painted by Clinton administration treasury secretary Robert Rubin.

Indeed, Lipsky (2018, 938) finds that whatever advantages democratic governance may have over the alternatives, financial crises are more common in democracies: "[It] is a striking regularity that can be traced back to the early nineteenth century, and perhaps even earlier. The finding is robust to a variety of controls and model specifications. The association is also robust across time periods: the relationship exists in the nineteenth and twentieth century, before and after World War II, and before and after the collapse of the Bretton Woods System."

More recently, Hansen (2023, 356) reports that “in a sample of up to 96 developing countries . . . democracies have worse credit ratings and [credit default swap] spreads and are more likely to default than their autocratic counterparts when foreign reserves are low relative to external debt. . . . I also show that large debt burdens increase credit risk mainly in more democratic countries.” Why? Hasanov and Bhattacharya (2023, 286) believe that features of democratic governance render them susceptible to economic fragility: “For example, political constraints and prevailing political conditions may usher in unsustainable macroeconomic policies. Concerned about being punished by the electorate, democratic governments could implement unnecessary but popular economic policies to sustain popularity.” On the specific relationship between currencies and governance, less than a decade ago Steinberg, Koesel, and Thompson (2015, 357) noted that

somewhat surprisingly . . . currencies crises are no more or less likely in democracies than in civilian or military dictatorships. However, one political regime stands alone for its superior ability to prevent currency crises: monarchies. Our data analyses uncovered a monarchic advantage—that is, a robust negative correlation between monarchic regimes and the likelihood of currency crises. The results also demonstrated that a major reason why currency crises are exceedingly rare in monarchies is that this regime type adopts unusually prudent monetary and foreign reserve policies.

Professor Hans-Hermann Hoppe identifies the vastly disparate incentive structures of democracies and monarchies of key importance in explaining trends which have persisted for centuries. First, on the character of the government apparatus in operation,

the defining characteristic of private government ownership is that the expropriated resources and the monopoly privilege of future expropriation are individually owned. . . . In contrast with a publicly-owned government the control over the government apparatus lies in the hands of a trustee, or caretaker. The caretaker may use the apparatus to his personal advantage, but he does not own it. . . . A private government owner will tend to have a systematically longer planning horizon, i.e., his degree of time preference will be lower, and accordingly his degree of economic exploitation will tend to be less than a government caretaker. . . . Hereditary monarchies represent the historical example of privately-owned governments, and democratic republics of publicly-owned governments. (Hoppe 1995, 95–100)

Nowhere is the dichotomy between democracies and monarchies clearer than in the monetary realm. As Hoppe elucidates in *Democracy: The God That Failed*,

it was only under conditions of democratic republicanism—of anonymous and impersonal rule—that [monopolies of irredeemable government paper money] was accomplished. During World War I, as during earlier wars, the belligerent governments had gone off the gold standard. Everywhere in Europe, the result was a dramatic increase in the supply of paper money. In defeated Germany, Austria, and Soviet Russia in particular, hyperinflation conditions ensued in the immediate aftermath of the war. Unlike earlier wars, however, World War I did not conclude with a return to the gold standard. Instead, from the mid-1920s until 1971, and interrupted by a series of international monetary crises, a pseudo gold standard—the gold exchange standard—was implemented. . . . As a result . . . a seemingly permanent secular tendency toward inflation and currency depreciation has existed. (Hoppe 2001, 57–58)

Democracies, like all forms of government, operate on the principle of a monopoly on coercion; markets operate on the basis of money prices responding to supply and demand, which is in turn driven by entrepreneurship, competition, voluntary exchange, and cooperation. Both serve different objectives; neither implies, much less requires, the other.

Paper Soldiers is a worthwhile read. General readers with an interest in economic policy are likely to find the vignettes depicting the inner machinations of dollar management at the US Treasury interesting, although academic readers may find portions of the book oversimplistic. Sound money proponents will find not a confidence-inspiring narrative of deft currency choices in an increasingly volatile and unpredictable world (whether or not that was the author's intention) but rather a brief history of the increasingly manipulated, ungrounded scrip of a beleaguered, and perhaps declining, empire. Yet that account is not without value.

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