

Absorbing Economies: Can the Three Cores Swallow Their Peripheries?

Dollarization,

Yen-ization, Euro-ization... Is the world converging to a few currency blocs?

Not so long ago, countries guarded the independence of their currencies with the zeal generally reserved for national flags, national airlines and other symbols of sovereignty. But currency crises, starting with Mexico in 1995 and ending who-knows-where have left finance ministers running for cover. And the apparent success of the euro (well... nothing disastrous has happened yet) has put a positive spin on a policy of formally acknowledging the economic suzerainty of Washington, Brussels or Tokyo.

But getting from here to there would not necessarily be easy. One problem is that countries joining a currency bloc give up all leverage over their domestic money supplies and interest rates. Another is that Europe, the United States and Japan would inherit a not-entirely-welcome power to influence output and prices in their vassals. But the most immediate issue would be scraping together the requisite supply of dollars, yen and euros to substitute for national currencies.

How much money would be involved? Glad you asked. Here's a chart showing the relative size of national money supplies at the end of 1998.

—Tom Hall

