I propose a concept of effective sovereignty to argue that states participate in sovereignty regimes that exhibit distinctive combinations of central state authority and political territoriality. Two basic conclusions, drawing from recent research in political geography and other fields, are that sovereignty is neither inherently territorial nor is it exclusively organized on a state-by-state basis. This matters because so much political energy has been invested in organizing politics in general and democracy in particular in relation to states. Typically, writing about sovereignty regards sovereignty as providing a norm that legitimizes central state authority. Unfortunately, little or no attention is given as to why this should always entail a territorial definition of political authority and to why states are thereby its sole proprietors. The dominant approach continues to privilege the state as the singular font of authority even when a state’s sovereignty may be decried as hypocrisy and seen as divisible or issue-specific rather than “real” or absolute. I put forward a model of sovereignty alternative to the dominant one by identifying four "sovereignty regimes" that result from distinctive combinations of central state authority (legitimate despotic power) on the one hand, and degree of political territoriality (the administration of infrastructural power) on the other. By “regime” I mean a system of rule, not merely some sort of international protocol or agreement between putatively equal states. I then examine the general trajectory of the combination of sovereignty regimes from the early nineteenth century to the present. The contemporary geography of currencies (specifically exchange-rate arrangements) serves to empirically illustrate the general argument about sovereignty regimes. Finally, a brief conclusion suggests that the dominant Westphalian model of state sovereignty in political geography and international relations theory, deficient as it has long been for understanding the realities of world politics, is even more inadequate today, not only for its ignoring the hierarchy of states and sources of authority other than states, but also because of its mistaken emphasis on the geographical expression of authority (particularly under the ambiguous sign of “sovereignty”) as invariably and inevitably territorial. Key Words: states, effective sovereignty, territoriality, sovereignty regimes, dollarization.

The sovereignty of states has long been viewed as both a source of and a response to inter- and intra-state conflict. Among political theorists, most attention has been given to the relationship between sovereignty and political authority: in particular, that state sovereignty has arisen to enforce internal order legitimately and to protect against external threat. Recently, the grounding of this claim about de jure or legal sovereignty in relation to assumptions of international anarchy and equality among states has been subject to some examination (e.g., Badie 1999; Krasner 1999, 2001; Lake 2003). Indeed, across a number of fields—from geography to law and sociology—there is a shared sense that the conventional understanding of sovereignty as unlimited and indivisible rule by a state over a territory and the people in it is in need of serious critical scrutiny (e.g., Camilleri and Falk 1992; Walker 1993; Murphy 1994; Anderson 1996; Biersteker and Weber 1996; Luke 1996; Hashmi 1997; Ong 1999; Mason 2001; Sidaway 2003; Stacy 2003). But the conceptual connection between sovereignty and state territoriality has enjoyed less systematic analysis (Murphy 1996; Koh 1997; Biersteker 2002). Implicit in all claims about state sovereignty as the quintessential form taken by political authority are associated claims about distinguishing a strictly bounded territory from an external world and thus fixing the territorial scope of sovereignty (Agnew 1994). Territoriality, the use of territory for political, social, and economic ends, is widely seen as a largely successful strategy for establishing the exclusive jurisdiction implied by state sovereignty.

But effective sovereignty is not necessarily so neatly territorialized. In a landmark paper on sovereignty and territoriality, Murphy (1996) distinguishes between de jure and de facto sovereignty to make this point. This distinction, however, necessarily implies that there actually is a pure de jure sovereignty from which de facto sovereignty is a lapse or anomaly. My claim is that de facto sovereignty is all there is. The U.S. government, for example, since 2001, has refused to recognize a denial of rights to so-called enemy combatants from Afghanistan held at the U.S. base in Guantánamo Bay, Cuba, on the
claim that the base is not within the jurisdiction of American courts and thus not subject to judicial review concerning the constitutionality of holding people indefinitely without charge. But Guantánamo Bay is just one of a large chain of detention centers, an American gulag, which the Central Intelligence Agency (CIA) and American military operate worldwide with scarcely a nod to local claims of territorial sovereignty (Priest and Stephens 2004). Indeed, local sovereignty is then a mask to allow treating prisoners in ways that would potentially be subject to judicial review in the U.S. proper. Remarkably, and subject to scarce commentary at the time or since, under a Military Order of 13 November 2001, President Bush gave himself the right to detain any non-U.S. citizen anywhere in the world for as long as he chose if there were suspicion of involvement in anti-U.S. “terrorist activity.” In the wake of so-called humanitarian crises, as in Somalia, Bosnia and Kosovo, the U.S. and other governments (sometimes under the mantle of the United Nations) have also intervened militarily across the globe, even when the states facing interventions have defended themselves against such “violations” of territorial sovereignty (Mills 2000). Various threats and dangers motivated repeated military interventions by American and Soviet governments in states within their putative respective spheres of influence during the Cold War (e.g., Weber 1995). Most recently, the supposed threat to the territorial U.S. from “weapons of mass destruction” allegedly held by the Iraqi government was the prima facie reason for the U.S.-led invasion of Iraq in 2003. But it was clear that when the U.S. “handed back” sovereignty to an Iraqi-staffed government on 28 June 2004 that effective sovereignty remained up for grabs. It is not just the so-called Great Powers that have such an extended geographical reach, however. For example, through its heavy troop presence, the Syrian government exercises tremendous leverage over the government of Lebanon, and Australia has intervened militarily in the face of political instability in various Pacific island states.

More specifically, the impact of globalization on states is felt not only in the challenge it poses to their overall or issue-specific authority from other states, but also in its consequences for the territorialization of sovereignty (e.g., Zacher 1992; Cohen 1998; Agnew 1999; Hardt and Negri 2000; Slaughter and Burke-White 2000; Hall and Biersteker 2002; Langewiesche 2004; Singer 2004). For example, the worldwide explosion in negative environmental externalities does not respect international boundaries; currencies, long seen as the badges of state sovereignty, are increasingly denationalized; many people hold citizenship in multiple states; borders are increasingly porous to flows of migrants and refugees without state regulation; knowledge and innovation networks no longer honor national boundaries; it is increasingly difficult to establish state origin for a large number of commodities in world trade as transnational corporations coordinate their activities across multiple locations in different countries; a large number of public and private organizations intervene, mediate, and engage in the provision of public goods across state boundaries; perhaps the most important political innovation of recent times, the al Qaeda terrorist network, works across state boundaries while exploiting the lack of territorial sovereignty exercised by some of its host states (such as Pakistan); privateers (in the form of private military contractors licensed by powerful states) and pirates on the high seas (popular with local populations) have made serious comebacks that challenge the thesis that states invariably monopolize the legitimate use of violence; and judicial regulation within states increasingly involves reference to supranational courts (as with the European Union [EU]) or to the decisions of foreign ones (as in the U.S.).

In other words, effective sovereignty is not necessarily predicated on and defined by the strict and fixed territorial boundaries of individual states. In my view, the negotiation and redefinition of political authority in geographically complex ways suggests the need to change the terms of debate about sovereignty. The purpose of this article is to do so by: (a) critical analysis of the conventional wisdom about sovereignty, paying particular attention to the expansion of sources of authority beyond states and the attenuation of territoriality as sovereignty’s primary mode of geographical organization; (b) examining the historical and geographical incidence of different “sovereignty regimes” (capacities of states in different global situations to exercise de facto sovereignty internally and externally); and (c) showing through the example of the “geography of money,” or how currencies operate around the world today, how these regimes have come to operate in recent years.

The questioning of territorial de jure sovereignty matters not simply because of the challenge to state political primacy from globalization but because the equation of state with sovereignty is intrinsic to the ways in which politics in general and democracy in particular have been considered in modern times. For one thing, democracy has been historically dependent upon the nation-state—the state as underwritten by a singular national identity. Democracy and popular sovereignty grew together after the American and French revolutions. The rise of nationalism further reinforced the link (Dallmyr and Rosales 2001). I and others have recited
the ways in which the deliberative nature of democracy as it developed seems to require territorial adjacency among citizens and in which its symbolic content rests on common territorial histories of struggle and social organization (Thaa 2001; Agnew 2002, 166–67). But is there a necessary conceptual dependence of each on the other? Statements such as “the ideals of citizenship clash with the sovereign nation-state in which they were first developed” (Linklater 1998, 182) imply that they no longer do. Indeed, much of the so-called cosmopolitan literature on democracy (e.g., Linklater 1998; Held 2004) holds to this viewpoint, rhetorically advocating a move beyond the state to world citizenship. But the only way that they can conceive of world citizenship without opening up to question the founding condition of democratic theory—the presumption of a territorialized political community—is by “scaling up” from individual states to the world as a whole. In this account, therefore, normative categories of consent and legitimacy based on territorialization remain unaffected by globalization. This is because established democratic theory and practice have required a necessary fiction to make them possible at all, that is, that there is absolute popular sovereignty vested in a national/territorial political community rigidly marked off from all others (Näsström 2003; Runciman 2003). Absolute sovereignty thereby continues to underwrite democracy as it is typically thought of by cosmopolitan democrats, even as the contemporary world calls for attention to divisible sovereignty and deterritorialized legitimacy. Democracy’s advocates will have to respond to this challenge if democracy is to survive and prosper in a globalizing world (Anderson 2002).

**Sovereignty at Bay?**

In conventional political discourse, sovereignty is about central state authority. This is a relationship in which an agent of a state can make commands that are voluntarily complied with by those over whom the state claims authority. In the typical story, such internal or “domestic” sovereignty requires a source of authority (kingship, the nation, the people-in-government, etc.) that operates effectively within the territory of the state. Explicitly, therefore, sovereignty is seen as state-based and territorial. Currently dominant understandings of state sovereignty are based on older ones in which sovereignty was associated with the physical person of a monarch. Thus, the incorporeal realm of the state is often described in Western thought as a “body.” In early modern European absolutism, the “body politic is always an adult male body that has no history of birth and is not subject to natural deterioration. This body, whose head is a king and whose limbs and organs are subjects of various rank, can die only by violent attack or the infection of some of its parts” (Shemek 2002, 5). The physicality of the sovereign has been symbolically transferred from the monarch to the state territory (Bartelson 1995, 98; also see Kantorowicz 1957; Melzer and Norberg 1998). This metaphor resists the idea that sovereignty can be deterritorialized. At the same time, and in the same story, sovereignty has an external dimension. Any given state must be recognized as sovereign by other states in order to qualify as such. Such recognition implies a formal equality between states in which none can exercise command over others. “Juridical” or legal sovereignty, therefore, provides the necessary geographical condition for the operation of domestic sovereignty: a rigid distinction between the hierarchy exercised by the state within its territory from the anarchy that prevails beyond it.

From this viewpoint, state sovereignty may be understood as the absolute territorial organization of political authority. Most accounts of sovereignty accept its either/or quality: a state either does or does not have sovereignty (see Lake 2003). They differ as to whether they see this as a foundational principle (originating in, for example, the seventeenth century with the Peace of Westphalia or earlier) or as an emergent social practice. They also vary in accepting that there are actors in international politics (such as militarily weaker states) that are not fully sovereign. From Hobbes (1651) and Locke (1690) to Schmitt (1985) and Agamben (1998), to name just a few, however, modern states and political authority are seen as practically bonded together. Even Foucault (1991, 93), a theorist with a less state-centered view of the world, seems to see central state authority as achieving sovereign power in the modern world with “a triangle, sovereignty-discipline-government, which has as its primary target the population and as its essential mechanism the apparatuses of security” as the exclusive political centerpiece. Of course, Foucault (1980) is also the theorist who pointed to the conflict between the sovereign power of rules backed by sanctions and the actual daily experience of power exercised by a multitude of nonstate sources as a fundamental element of discourse and social practice. Unfortunately, this dualist vision has rarely prevailed in critical analysis of the practices of state sovereignty. Rather, for example, when states show evidence of increasing economic and political interdependence, this is construed as either a choice that they have made in pursuit of self-evident interests rather than an exogenous challenge to them (Helleiner 1994), or sovereignty is seen as totally under threat or
“at bay” from “new technologies” of power (Luke and O Tuathail 1998). But what if the absolute and indivisible political authority implicit in this story about state sovereignty and its presumed territorial basis is problematic to begin with?

The conventional story is based on giving the state an ontological and a moral character equivalent to that of the individual person in classical liberalism (N. Jacobson 1998; Agnew 1999; Skinner 1999). The state is thus treated as a “given.” It is rooted in a grammar of fixed boundaries and identities. As a naturalized abstract individual, the state has acquired a personhood that then underwrites its special status as the locus of sovereignty. This depiction of the state is especially convincing because a moral claim equating the autonomy of an individual person with that of the state is masked by the natural claim that is made on behalf of the state as an individual. In this way, the historical construction of statehood as a particular type of political enterprise is given a transcendental makeover. The sovereign state is exalted as the singular solution to both the problem of human aggression, by displacing that aggression from within the territory of the state into the realm of interstate relations, and to the problem of organizing economic life, by using its unique qualities to compete within a global division of labor (Inayatullah and Rupert 1994).

In fact, statehood and personhood alike are not the pregiven phenomena this story suggests. Rather, they are both subjectivities formed out of social interaction and mutual recognition. Persons and states only form as such through the interaction and recognition of households, tribes, dynasties, social movements, and such. More particularly, statehood emerges out of struggles for control; it is never a preexisting basis for those struggles. In other words, a state is not ontologically prior to a set of interstate relations. A state emerges and is recognized as such within a set of relationships that define the rules for what is and what is not a “state.” Statehood results from mutual recognition among states (Biersteker and Weber 1996). It is not the outcome of “isolated states” achieving statehood separately and then engaging with one another as abstract individuals. The importance of the Peace of Westphalia in 1648, for example, lay in the mutual recognition among elites of the new European territorial states as a set of neutral centers of public power in the face of devastating religious wars. Yet, the legitimation of state sovereignty also depended on the increased loyalty and support of populations through the cross-mapping of nation with state (Gottmann 1973). In the nationalist imagination, the state then becomes something of a superperson (e.g., Schmitt 1985).

From the brief overview of dominant strands of contemporary thinking about sovereignty three aspects stand in need of particular scrutiny. The first two have received increasing attention. But the third has been largely neglected. The first is the assumption that sovereignty is acquired exogenously, or in a “state of nature,” rather than in an ongoing system of states. So-called constructivists have been especially concerned with this aspect of contemporary thinking (e.g., Wendt 1999). Key to their interpretation is the idea that sovereignty—both domestic and external—is socially constructed as states interact with, imitate, and conflict with one another. “Domestic order” is thus premised on “external” disorder and danger (Campbell 1992). In this understanding, sovereignty is a social fact produced by the practices of states. So, rather than emerging from the “state-of-nature”—the war of all against all—that Thomas Hobbes (1651 [1968, 186]) used as the basis for positing the origins of the state, sovereignty comes about as a result of the “purposes” of states in interaction and can involve a wide range of actual practices and policies that change over time. This is all good and well, as I have emphasized above, but it fails to address two further assumptions that are critical to the dominant views of sovereignty.

One of these is that of an essential equality between states claiming sovereignty, notwithstanding the obvious reality of hierarchy in power between actors in world politics. The modern world is one of major inequalities in power between states in different world regions (Slater 1997). Much of this inequality is the result of imperialism in the past and the hegemony exercised by the U.S. and its allies in the present. Thus, although the assumption of equal sovereignty (both domestic and juridical) may apply, at least to a degree, to the European states, their settler offspring states, Japan, China, and a few others, states in the rest of the world have a serious sovereignty deficit. For them, sovereignty is as yet “unrealized” (Inayatullah and Blaney 1995). They simply do not have the power resources to challenge seriously restrictions placed upon them by more powerful states (and other actors such as international institutions, banks, and multinational businesses). Nor can they expect ready recognition of their internal political authority when they have either inherited their claim to rule from colonial powers or depend for their continuance in power on external support (Keene 2002). Of course, a danger here lies in seeing state sovereignty as a largely realized phenomenon in the West and absent elsewhere when it is better thought of as “unrealized” everywhere in the de jure form that it is usually alleged to take.
But the problem of lack of conformity to an absolute sovereignty is even more pervasive simply because hierarchical dominance in world politics is even more widespread in its effects than just in the relation between imperial (or hegemonic) powers and subordinate ones (Krasner 1999; Lake 2003). More generally, situations of “shared sovereignty” (such as one China, two systems in Hong Kong, the emergence of supranational systems such as the EU, and the ceding of economic power into the hands of international institutions such as the International Monetary Fund (IMF) in the case of heavily indebted, undeveloping countries) and other anomalous situations (such as that of the Palestinian National Authority, the government of Bosnia, and the British/Irish collaboration over Northern Ireland) suggest how widespread exceptions to the rule of absolute, indivisible sovereignty exercised equally by all states can be. Sovereignty is divisible and seems increasingly so across the world (Delbruck 2003; Stacy 2003). In this context, international lawyers increasingly distinguish between a historic insular sovereignty, which emphasizes a right to resist, and an emerging relational sovereignty, which is the capacity to engage (e.g., Slaughter 2004). They use this distinction as the basis for explaining the proliferation of networks of government officials who share information and coordinate their activities around the world. This “disaggregated sovereignty” points to the willingness of states to share authority in the face of environmental, economic, and social problems that go well beyond their individual capacity to manage on their own.

The last problematic assumption, one that has received less attention, is the assumption that sovereignty is invariably territorial or exercised over blocs of terrestrial space. Modern political theory tends to understand geography entirely as territorial: the world is divided up from hunter-gatherer tribes through nomadic kinship structures to city-states, territorial states, spheres of influence, alliances, trade pacts, seaborne empires—derive or develop (Agnew 1994).1 This is the reason why much of the speculation about “the decline of the state” or “sovereignty at bay” is posed as the “end of geography.” Yet, the historical record suggests that there is no necessity for polities to be organized territorially. As Spruyt (1994, 34) claims,

If politics is about rule, the modern state is verily unique, for it claims sovereignty and territoriality. It is sovereign in that it claims final authority and recognizes no higher source of jurisdiction. It is territorial in that rule is defined as exclusive authority over a fixed territorial space. The criterion for determining where claims to sovereign jurisdiction begin or end is thus a purely geographic one. Mutually recognized borders delimit spheres of jurisdiction.

Territoriality, the use of territory for political, social, and economic ends, is in fact a strategy that has developed more in some historical contexts than in others. Thus, the territorial state, as it is known to contemporary political theory, developed initially in early modern Europe with the retreat of nonterritorial dynastic systems of rule and the transfer of sovereignty from the personhood of monarchs to discrete national populations (Neocleous 2003). That modern state sovereignty, as usually construed, did not occur overnight following the Peace of Westphalia in 1648 is now well established (e.g., Osiander 2001; Teschke 2003). Territorialization of political authority was further enhanced by the development of mercantilist economies and, later, by an industrial capitalism that emphasized capturing powerful contiguous positive externalities from exponential distance-decay declines in transportation costs and from the clustering of external economies (resource mixes, social relations of production, labor pools, etc.) within national-state boundaries (Kratochwil 1986; Teschke 2002).

Absent such conditions, sovereignty—in the sense of the socially constructed practices of political authority—may be exercised nonterritorially or in scattered pockets connected by flows across space-spanning networks. From this viewpoint, sovereignty can be practiced in networks across space with distributed nodes in places that are either hierarchically arranged or reticular (without a central or directing node). In the former case, authority is centralized, whereas in the latter, it is essentially shared across the network. All forms of polity—from hunter-gatherer tribes through nomadic kinship structures to city-states, territorial states, spheres of influence, alliances, trade pacts, seaborne empires—therefore, occupy some sort of space (Agnew and Corbridge 1995; Smith 2003). What is clear, however, if not widely recognized within contemporary debates about state sovereignty, is that political authority is not necessarily predicated on and defined by strict and fixed territorial boundaries.

Two issues are crucial here: that political authority is not restricted to states and that such authority is thereby not necessarily exclusively territorial. Authority is the legitimate exercise of power. The foundation and attribution of legitimacy to different entities has changed historically. By way of example, the legitimacy of rule by monarchs in the medieval European order had a different meaning from that of later absolutist rulers and that operating under more recent democratic justifications
for state power (Bobbitt 2002). In no case, however, has the authority of the state ever been complete. There have always been competing sources of authority, from the church in the medieval context to international organizations, social movements, businesses, and nongovernmental organizations (NGOs) today. More specifically, transparency, efficiency, expertise, accountability, and popularity are as much foundations of legitimacy as are nationality and democratic process (Delbruck 2003, 30–34; but also see Hudson 2001; Mulligan 2004). Thus, even ostensibly private entities and supranational governments are often accorded as great or even greater authority than are states. For example, in the U.S., there is widespread suspicion of the efficiency and accountability of the federal government. This often leads to perhaps excessive faith in the virtue of privatization of what are elsewhere seen as “public” services. In Italy, much of the popular enthusiasm for the EU is driven by the hope that Brussels will increasingly supplant Rome as the seat of power most effective in relation to people’s everyday lives.

Phrases such as “divisible” and “graduated” sovereignty are often used to give the sense of an increasingly labile sovereignty (political authority) not immediately associated with territorialized state power. Thus, for example, Ong (1999, 217) claims that

Globalization has induced a situation of graduated sovereignty, whereby even as the state maintains control over its territory, it ... lets corporate entities set the terms for constituting and regulating some domains. ... Weaker and less desirable groups are given over to the regulation of supranational entities.

It is not the existence but the nature of sovereignty that is transformed by the workings of graduated sovereignty. Authority is vested in agents who manage flows through space or through action at a distance as much as in those who manage territories. Adjacency and territorial division of space as modalities of power thus face the challenge of coercive power and authority emanating from scattered sites. The spatiality of authority, therefore, cannot be entirely reduced to the territorial template of state sovereignty. Indeed, with globalization, the transactional balance is increasingly tipping in favor of a networked system of political authority that challenges territorialized state sovereignty as the singular face of effective sovereignty (Appadurai 1996).

In this regard, the terms “territory” and “space” need to be very carefully distinguished from one another (Durand et al. 1992; Lévy 2001). Simply because the former might be superseded or supplemented in the organization of political authority does not mean that the latter disappears. Territory is not geography tout court. Indeed, “states” of one type or another can continue to serve as loci of political authority even as their power is deployed by networked flows rather than by territorial control penetrating other nominally sovereign states. For example, relatively powerful states today can supervise security threats in distant places and financial transactions in “offshore” centers (even as they have little direct regulatory control) by rewarding and/or punishing actions that they judge in relation to the spatial efficacy of their authority (e.g., Roberts 1994; Hudson 1998; Palen 2002). Of course, in such situations, sovereignty is not absolute. But, then, as is increasingly clear, and as criticism of the first two assumptions about conventional views of state sovereignty implies, state sovereignty rarely ever has been, or is, absolute, even when apparently nearly territorialized (Lind 2004).

The main issue is that territoriality is only one type of spatiality or way in which space is constituted socially and mobilized politically (Durand et al. 1992; Offner and Pumain 1996; Agnew 1999; Allen 2003). Territoriality always has two features: blocks of rigidly bordered space and domination or control as the modality of power upon which the bordering relies (Gottmann 1973; Sack 1986). Such power may well be legitimate, i.e., exercised with authority (either bureaucratic or charismatic), but it ultimately rests on demarcation through domination. It works through territorial division of space, boundary control, and the hierarchical dissemination of authoritative commands. Yet, space and power have other possible modalities (Mann 1993; Allen 2003). Centralized power, involving command and obedience, can operate between points over long distances as well as over territorial blocs, for example, through the deployment of military assets, but this may have less possibility of sustained, and legitimate, impact on the people with whom it comes into contact. But this is then still a networked form of power. It is based on flows through space-spanning networks, not privileged access to territories (blocks of space). On the contrary, diffused power refers to power that is not centered or directly commanded but that results from patterns of social association and interaction in groups and movements (as, for example, in NGOs and global social movements) or through market exchange (credit rating agencies such as Moody’s are one example, see Sinclair 2000). Diffused power can be territorialized and authoritative, but only in so far as the networks it defines are territorially constrained by central state authority. Otherwise, networks are limited spatially only by the purposes for which they are formed. In this way, power is generated through social and market-based association, affiliation, and reticular diffusion rather than
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through authoritative command or domination. This is power that comes into existence through association and assent as a result of human agency (Arendt 1958). When not sustained through legitimate collective action, however, the power networks thus created will disintegrate. Today, both centralized and diffused powers are arguably less territorialized by state boundaries than at any time since the nineteenth century (Agnew and Corbridge 1995; Paasi 1999).

Sovereignty as the legitimate exercise of power (as authority), therefore, is necessarily about ceded, seduced, and co-opted diffused power as well as coercion by (and acceptance of) centralized power. The precise combination of power mechanisms (coercion, assent, seduction, co-optation, etc.) involved in the exercise of authority by different states can be the same for all issue areas (trade, security, currency, etc.) or may differ across them and operate solely within a state’s territory or more widely either territorially or nonterritorially. But without at least a modicum of active collaboration by collective actors on both sides of borders, state sovereignty can be neither sustained nor undermined. In short, as John Allen (2003, 159) remarks, “domination is not everywhere.” Indeed, even demarcation by means of borders, the quintessence of state territoriality, relies to a considerable degree on the extent to which networks of association and affiliation parallel the boundaries of domination. Even the seemingly most Westphalian of states, then, are riddled with authoritative power networks (based on centralized and/or diffused power) whose extension beyond territorial boundaries can render claims to absolute state sovereignty moot but whose continuing presence inside the boundaries is critical to their apparent credibility.

Effective Sovereignty and Sovereignty Regimes

Political authority is the legitimate practice of power. In other words, it is the myriad effects of an ascribed asymmetry between actors that permits some actors not just to command but also to enroll others in their desires and activities. “Ascribed” is the key term. As Bruce Lincoln puts it, “Persuasion and coercion alike are constitutive of authority, but once actualized and rendered explicit they signal—indeed, they are, at least temporarily—its negation” (Lincoln 1994, 6). Today, it requires both communicative and infrastructural resources and a high degree of popular acceptance to operate effectively. More specifically, political authority qua sovereignty requires: (1) a governmental apparatus to serve as a final seat of authority and (2) an accepted definition of functional and geographical scope (territorial and nonterritorial) beyond which its commands go unheeded and unenforced. What has been lacking in efforts at understanding the range of practices associated with sovereignty has been a means of identifying the effects of co-variation in the effectiveness of state authority, on the one hand, and its relative reliance on state territoriality, on the other (e.g., Hurd 1999).

A useful approach to doing so comes from writing on the historical sociology of power. Specifically, the terms despotic and infrastructural power have been used by Mann (1984) to identify the two different ways in which a governmental apparatus acquires and uses centralized power. In other words, these terms identify, respectively, the two different functions that states perform and that underpin their claims to sovereignty: the struggle for power among elites and interest groups in one state in relation to elites and interest groups elsewhere and the provision of public goods that are usually provided publicly (by states). In Mann’s (1984, 188) words,

Let us clearly distinguish these two types of state power. The first sense [despotic power] denotes power by the state elite itself over civil society. The second [infrastructural power] denotes the power of the state to penetrate and centrally co-ordinate the activities of civil society through its own infrastructure.

Historically, infrastructural power has risen in importance since the eighteenth century. This is because elites have been forced through political struggles to become more responsive to their populations and, as a result, rising pressure groups have demanded more infrastructural goods. In turn, the delivery of public goods gave a boost to the territorialization of sovereignty. Until recently, the technologies for providing public goods have had a built-in territorial bias, not least relating to the capture of positive externalities. Increasingly, however, infrastructural power can be deployed across networks that, though located in discrete places, are not necessarily territorial in the externality fields that they produce. Thus, currencies, systems of measure, trading networks, educational provision, and welfare services need not be associated with exclusive membership in a conventional nation-state. New deployments of infrastructural power both deterritorialize existing states and reterritorialize membership around cities and hinterlands, regions, and continental-level political entities such as the EU (Cox 1998; Scott 1998). International organizations, both private and state-run, likewise have developed the capacity to deliver a wide range of public goods associated with infrastructural power. There is a
simultaneous scaling-up and scaling-down of the relevant geographical fields of infrastructural power depending on the political economies of scale of different regulatory, productive, and redistributive public goods (e.g., Brenner 1998; Ilgen 2003). Consequently, “the more economies of scale of dominant goods and assets diverge from the structural scale of the national state—and the more those divergences feed back into each other in complex ways—then the more the authority, legitimacy, policymaking capacity, and policy-implementing effectiveness of the [territorial] state will be eroded and undermined both within and without” (Cerny 1995, 621).

At the same time, despotic power (in Mann’s sense) has historically come to rely much more on establishing its legitimacy than once was the case. Direct coercion is simply less effective as a mode of rule in modern states. Though it can be used against recalcitrant minorities, large segments of the population must be placated and pleased rather than coerced. Rulers need to establish at least a modicum of popular authority before they can achieve their goals. Such legitimacy is also fragile. It cannot be taken for granted. But establishing authority need not always involve a singular focus on fixed state territories if elites and pressure groups adjust their identities and interests to other territorial levels (such as city-regions, localities, and empires) or shift loyalties to nonterritorial entities such as international organizations, corporations, social movements, or religious groupings (e.g., Gill 1994; Kobrin 1997; Cutler et al. 1999). This shift could involve the enhancing of territorial hierarchy in pursuit of, for example, an imperium, or the attenuation of territorial sovereignty in the form of the diffusion of authority across a multinodal financial network involving transnational corporations, banks, other states, debt-rating agencies, and NGOs. There is no necessary association, therefore, between despotic power and central state authority. Both despotic-governmental and diffuse social power can work together to challenge central state authority. Consequently, an up-scaling or a fragmentation of sovereignty can result as elites and social groups pursue their goals in ways that potentially territorially expand or nonterritorially undercut the authority of the central governmental apparatus, respectively.

By way of recent example, the use of American military forces to invade Iraq in 2003 without benefit of sanction from the United Nations had a number of shifting rationales: “weapons of mass destruction” that threatened the U.S., Iraqi ties to al Qaeda, and so on. Most of these turned out to be based on poor or false intelligence. One outcome, however, has been to deploy despotic American power towards a sort of imperium as the U.S. government destroyed the authority (what there was of it) of the government of Iraq. But this destruction in turn had a number of devastating side effects, including a bitter war of resistance inside Iraq, the prospect of internal disintegration along ethnic and religious lines, and a general worldwide diminution in respect towards the U.S. government. This is because the invasion has been not only bereft of legitimacy in the eyes of most Iraqis but also in those of much of the rest of the world and of large segments of American public opinion. Coercive power as an element of effective sovereignty, therefore, has limited possibility of long-term success unless it can simultaneously enroll and gain the consent of others. It can actually undermine effective sovereignty, as it seems to have done for the U.S. in Iraq and more generally. Through its stimulus to recruitment of more members into anti-American terrorist networks, it certainly seems to have made the territory of the U.S. itself an even greater target than it was before the events of 11 September 2001 that started the rush to war.

A second example indicates a different aspect of the sovereignty-territory nexus. In Britain, in the 1980s, financial elites, using their long-term political ascendancy within the state, pushed the government for regulations that would enhance the performance of London as an international banking center (see Ingham 1994 on the long-running City of London vs. Britain conflict of interests). Though such regulations (for instance, relaxing capital controls and deregulating commodity markets) benefited London’s financial sector, they had generally negative macroeconomic effects on the state territory as a whole. In the long term, they may also have had the unintended negative effect on the ability of the government to move in contrary directions because they generated powerful interests whose loyalties now link them to other financial centers rather than to their nominal home states. British government anxiety about joining the European Monetary System has been exacerbated by the despotic power now exercised most effectively within British politics by London’s financial center, even though such a move might be helpful to manufacturing and agricultural interests elsewhere in Britain. This conundrum is related to the “who is ‘us’?” question raised about nominally U.S.-owned businesses in the early 1990s that paid low or no taxes in the U.S., invested heavily in jobs in other countries, and yet depended on American consumers for final demand for what they produce.

But the recasting of the territorial basis to sovereignty and the challenge to central state authority through
deterritorialization at the state level and reterritorialization at local and supranational scales of infrastructural and despotic power are uneven around the world (D. Jacobson 2001; Newman 2001). There is no one trend towards what some have called the “migration of authority” (e.g., Kahler and Lake 2003). And, as noted previously, such trends are not invariably equivalent to the erosion of state territorial sovereignty tout court. What is needed, therefore, is a typology of the main ways in which sovereignty is currently exercised to take account of: (1) its social construction; (2) its association with hierarchical subordination; and (3) its deployment in territorial and nonterritorial forms. The two basic dimensions to the typology are defined by the relative strength of central state authority (state despotic power) on one axis and its relative consolidation in state territoriality (state infrastructural power) on the other. The former involves judgment about the extent to which a state has acquired and maintains an effective and legitimate apparatus of rule. The latter refers to the degree to which provision of public goods and operation of markets is heavily state regulated and bounded territorially. Regarded as social constructions, these dimensions define both the extent of state autonomy and the degree to which it is territorial in practice. Intersecting continua, rather than discrete categories, the two dimensions define four extreme cases that can be identified as ideal types for purposes of theoretical discussion and empirical analysis. These are relational in character, referring to how sovereignty is exercised effectively over time and space, rather than discrete territorial categories into which existing states can be neatly slotted. I refer to these four ideal types as sovereignty regimes, systems of effective sovereignty, recognizing that any actual real-world case need not exactly conform to one particular regime (Table 1).

Of the four exemplary cases, the classic example is the one closest to the story frequently told about state sovereignty, although even here there can be complications (for example, on Hong Kong and Taiwan for China). The sense is one of both despotic and infrastructural power still largely deployed within a bounded state territory (even if increasingly dependent on foreign direct investment and overseas markets for its exports) and a high degree of effective central state political authority. Contemporary China is a good test case for how long absolute sovereignty can survive pressures for divisibility and the need to establish the state’s democratic legitimacy when increasingly open to the rest of the world. The second case resembles most a story that emphasizes hierarchy in world politics but with networked reach over space as well as direct territorial control. This imperialist regime is in all respects the exact opposite of the classic case. Not only is central state authority seriously in question because of external dependence and manipulation as well as corruption and chronic mismanagement; state territoriality is also subject to separatist threats, local insurgencies, and poor infrastructural integration. Infrastructural power is weak or nonexistent, and despotic power is often effectively in outside hands (including international institutions such as the World Bank as well as distant but more powerful states). It is imperialist, if also reliant on the assent and cooperation of local elites, because the practice of sovereignty is tied ineluctably to the dependent political-economic status that many states endure in the regions, such as the Middle East, sub-Saharan Africa, and Latin America, where it prevails.3

The other two cases are less familiar in relation to both conventional and critical perspectives on state sovereignty. The third regime is the integrative, represented here by the EU. In this case, sovereignty has complexities relating to the coexistence between different levels or tiers of government and the distinctive functional areas that are represented differentially across the different levels, from EU-wide to the national-state and subnational-regional. But the territorial character of some of its infrastructural power is difficult to deny (consider the Common Agricultural Policy, for example), even if central state authority for both the entire EU and the member states is weaker than when each of the states was an independent entity. Quite clearly, many of the founding states of the Westphalian system have thrown in their lot with one another to create a larger and, as yet, politically unclassifiable entity that challenges existing state sovereignty in functionally complex and oftentimes nonterritorial ways.

Finally, the fourth regime is the globalist. The best current example of this is the effective sovereignty exercised by U.S. within and beyond its nominal national boundaries and through international institutions within which it is particularly influential (such as the IMF). Certainly, Britain in the nineteenth century also followed a version of this regime. But, in both cases,
attempts have been made to recruit other states, by cooptation and assent as much as by coercion, into the regime. Indeed, globalization can be seen as the process (along with necessary technological and economic changes) of enrolling states in the globalist sovereignty regime. From this viewpoint, the globalist state relies on hegemony, in the sense of a mix of coercion and active consent, to bring others into line with its objectives. The revolution in information technologies and telecommunications has allied with the end of the Bretton Woods monetary system in the early 1970s to lower transaction costs in financial centers and spur the deregulation of financial markets to the extent that various global financial centers (in New York, London, and Tokyo, in particular) are increasingly the collective center of the globalist regime (Martin 1994). Although American central state authority remains relatively strong (notwithstanding the problems of its republican constitutionalism in coping with its global role), its centrality to world politics catches it between two conflicting political impulses: one that presses towards a scattered imperium (as in Iraq) and one that pushes towards keeping the U.S. as an open economy. The basis of its hegemony is welcoming of immigrants and foreign investment and goods and encouraging of these tendencies elsewhere, but at the same time being increasingly subject to fiscal overextension as it endeavors to intervene globally yet also serve the demands of its population for pensions and healthcare benefits. States other than the hegemonic one that enter into the globalist regime are not likely to experience the tension because they can restrict their military expenditures and thus can benefit from the globalist regime as long as they retain a relatively high degree of central state authority. In other words, open borders can be beneficial as long as states retain the capacity to close them down. Otherwise, the danger is always that the globalist regime becomes imperialist for states other than the dominant one.

**Historical Geography of Sovereignty Regimes**

None of the sovereignty regimes is totally new, although the precise form that each takes varies over time and from place to place. They are ideal types or models that cannot map exactly onto real-world cases. Given this caveat, however, a strong case can be made for a historical pattern to their coappearance (Agnew and Corbridge 1995). The purpose of this section is to give a sense of the historical geography of effective sovereignty since the presumed emergence of the modern state system in the early nineteenth century. Perhaps four periods can be identified from the early nineteenth century to the present in which different combinations of sovereignty regimes have prevailed with distinctive geographies to them. Not surprisingly, these periods coincide with general trends in world history that result from a complex mix of economic, geopolitical, and technological change. Needless to say, the periods are heuristic rather than definitive for the purpose of exploring the relative incidence of sovereignty regimes. Any periodization is inherently contestable. The present purpose is merely to historicize and contextualize the relative appearance of sovereignty regimes over time and space, not to provide a total account of world history over the past two hundred years.4

The classic regime is, of course, closely associated with the so-called Westphalian version of state sovereignty, although it really only emerged as a potentially practical form in the nineteenth century (Croxton 1999; Murphy 1996). If the Concert of Europe is its main historical legacy as new states formed a “balance of power” in Europe in the years after the defeat of Napoleon, it coexisted from the outset outside of Europe with imperialist regimes (such as the British in India, the French in Africa, and the Dutch in the East Indies) and with a relatively weak British globalist regime that, through a commitment to free trade and a gold-sterling standard, deployed some types of infrastructural power well beyond Britain’s boundaries. This geopolitical order was undermined in the late nineteenth century by the emergence of a set of rival imperialist projects as Germany, the U.S., and Japan in different ways challenged Britain’s globalist regime.

The net effect over 1875–1945 was to encourage the consolidation of classic and imperialist regimes at the expense of the globalist one. Borders hardened even as they were threatened by the expansionism of those powerful states such as Germany and Japan that saw themselves as closed out of or disadvantaged by the previous imperialist and globalist regimes. The Great Depression of the 1930s reinforced protectionist pressures to seal off territorial economies from foreign economic competitors. Plausibly, this simply deepened the economic misery. But it also encouraged nationalist sentiments. This period reached a crescendo with the Second World War.

The outcome of that war ushered in a period in which an overarching Cold War led to two competing imperialist regimes of which one (the U.S.) had incipient globalist elements. The countries of Western Europe and Japan, however, retained a relatively high degree of central state authority, and the rapid expansion of
welfare states across states in these regions created something akin to the classic regime. The Bretton Woods monetary system, based on a fixed exchange-rate between the US$ (backed by gold) and the main currencies of Western Europe and Japan, tended, until its disintegration in the late 1960s and early 1970s, to reinforce the territorial basis to sovereignty in those states whose currencies were convertible within it. As former colonial countries achieved independence from the late 1940s down into the 1970s, they aspired to classic sovereignty. Unfortunately, the terms of trade for their main products and the weakness of their central state authority worked against this, reproducing in many cases the imperialist regime. Only where states could steer a course between their past dependence and the globalist regime incipient in American sovereignty (as in East Asia) was this path avoided.

When the U.S. government acted in the early 1970s to protect its domestic economy from a series of external shocks initiated in the 1960s (by abrogating the Bretton Woods Agreement of a dollar-gold standard), it inadvertently furthered the opening up of the U.S. and other economies to relatively unregulated flows of capital, goods, and services. Along with the actions of a range of new policies from existing U.S.-dominated international institutions, such as the IMF and the GATT (after 1994, the WTO), this stimulated the worldwide spread of a new “market access” model of global trade and investment. Together with the end of the Cold War, as the Soviet Union and its allies essentially abandoned their imperialist regime because of its failure to deliver economic growth and political participation, this liberated the U.S. for unrestricted pursuit of a globalist sovereignty regime. In many parts of the world, however, the perception is that this is simply a new version of the imperialist regime. In Europe, the deepening of the EU since the late 1980s represents the major example of the construction of an integrative regime. There are, however, a number of possible candidates for such a sovereignty regime should the U.S.-sponsored globalist regime falter (e.g., the Free Trade Area of the Americas, the Association of South East Asian Nations [ASEAN], etc). States such as China, India, and possibly Russia, all large countries, remain as the best surviving examples of the operation of the “classic” sovereignty regime.

Previous periods faded away. There seems no good reason to think that the present one has unlimited staying power. So, what might bring it to an end? The major conflict potential today lies between the globalist regime, on the one hand, and those trapped in the imperialist regime, on the other. Even though asymmetric in orthodox security terms, this tension lies at the heart of much contemporary global conflict in, for example, the Middle East and Latin America. Classic and globalist regimes, however, are also basically antithetical. The current U.S.-China conflict over trade and exchange-rate valuation is an example of this tension. If the integrative regime in Europe gives rise to a globalist regime incompatible with the current one, then this, too, could produce a major conflict of interests as globalist regimes compete for global reach.

Currencies and Sovereignty Regimes

This largely abstract argument needs empirical demonstration. In the context of state sovereignty, currencies are interesting for three reasons. In the first place, they are a key material and symbolic feature of central state authority (Cohen 1998; Simmons 2000). National currencies only rose to prominence in the mid-nineteenth century as state authority in Western Europe and North America was firmly established. They contributed to firming up national identities, reduced transaction costs within national economies, raised revenues through the minting of currency (seigniorage), and provided a means for states to pay for their purchases through taxes on the increasing incomes emanating from industrial capitalism (Helleiner 2003b). As a result, currencies are also, then, one of the main examples of infrastructural power. But many currencies also seem to be losing their national character either because they have much enlarged geographic scope (because of electronic banking and the ease of currency exchange across borders) or they have been effectively replaced by foreign currencies for a wide range of transactions (not least the storage of wealth).

Second, “it is in the monetary realm,” according to Helleiner (1999, 309), “where challenges to the practice of [sovereign state] territoriality are particularly apparent in the present age.” Thus, the various impacts of globalization on the territoriality of state sovereignty should be most immediately obvious in relation to the geographical dynamics of national-state currencies. Because it is primarily a medium of exchange, “[m]oney is a belief that has to be shared with other people” (Goodwin 2003, 4). This makes it a relatively fluid medium in which authority over its issuance and management is always vulnerable to challenge from an array of actors (central banks, investment banks, transnational corporations, speculators, etc.) and yet, because of its symbolism (not least that displayed on coins and banknotes), is frequently one of the most visible examples of state sovereignty.

Finally, decisions by governments and other actors about whether to maintain a national currency, share a
new one, substitute a national one with a global one, and how to manage a global one provide a common metric for examining the descriptive merits of the typology of sovereignty regimes. In other words, the contemporary geography of money provides a way of both illustrating the typology of sovereignty regimes and showing the territorial and nonterritorial ways these regimes work.

To be more specific about the connections between globalization and monetary sovereignty first requires identifying the processes whereby currencies take on distinctive relationships with particular states and mapping these onto the sovereignty regimes identified previously. Since the collapse of the Bretton Woods Agreement in the early 1970s, no single worldwide exchange-rate arrangement has prevailed.\(^5\) This suggests that monetary globalization involves a variety of political-economic processes, not simply a single imperialism or free-floating market capitalism (Bernhard and Leblang 1999). There are four ways in which currencies tend to work with respect to any given national territory, paralleling the four sovereignty regimes. This fact, in itself, suggests that, at least for the geography of money, there is something useful theoretically about the fourfold schema of sovereignty regimes. The four currency processes are as follows:

(1) the territorial, in which a national-state currency dominates a state territory and the population has restricted access to currencies of wider circulation except through a fixed exchange rate, a managed float, or other mechanism controlled by central state authority;

(2) the transnational, in which the currency issued by one state (invariably a powerful one) circulates widely among world financial centers, floats freely, is a standard (or reserve) currency in relation to which other currencies are denominated, and is a preferred currency for transacting global commerce;

(3) the shared, in which a formal monetary alliance operates either through full monetary union (as with the Euro and the EU) or through an exchange-rate union among economic equals with an internal managed float and, in both cases, an external floating exchange rate;

(4) the substitute, in which a transnational currency substitutes either officially or unofficially in all or many transactions for the nominal territorial currency of a given state. The substitute currency is particularly important as a store of wealth in local banks, a hedge against inflation in the national currency, and a medium of capital flight to foreign financial centers for local elites. Given the dominant economic role of the U.S. in some world regions, this is usually a process of dollarization.

These processes map onto the four sovereignty regimes with the four cases taken from Table 1 (see Table 2). They reflect decisions on the part of state and other influential actors based on socialized understandings of their “monetary interests” (Widmaier 2004, 437). These understandings reflect, to one degree or another, views of state and market performance in relation to the different structural positions vis-à-vis the world economy that states and local actors find themselves in. Thus, the classic case can be seen as based on the Keynesian logic that states can mitigate market failures, the globalist represents a neoclassical approach that states should retreat and let markets work their magic, the imperialist stresses the classical monetary theory that state failure necessitates radical decoupling of domestic and monetary policies, and the integrative is a mix of Keynesian/inside and neoclassical/outside the grouping of states in question. Currency processes, therefore, are not the direct result of materialist pressures but are mediated by the understandings governments and other actors bring to their material situations.

In the contemporary world, there are still examples of territorial currencies that reflect “classic” state sovereignty.\(^6\) But the net trend in recent years is away from this regime toward the others. One of the best examples of a classic sovereignty regime is China, whose currency, the renminbi (or yuan), is pegged against the US$ in a managed float and whose economy is thereby insulated to a certain degree from monetary shocks emanating from the wider world economy. The only contemporary example of an intersection between a transnational currency process and a “globalist” sovereignty regime is the U.S. The US$ is the main metric of transnational trade and commerce and the main currency that other

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states (including China) hold as a reserve. As a result, the US$ is also the currency that is the main instrument of globalization. The exchange-rate mechanism associated with the globalist regime is the free float. The only current example of a shared currency is the Euro, associated as it is with the project of pan-European unification. Historically, many national currencies such as the US$ emerged out of the unification of more geographically variegated currency systems (see, e.g., Helleiner 1999; Broz 1999; Goodwin 2003). Finally, to the extent that certain territorial currencies reflect the weakness of their national economies, they are substituted for by the use of transnational currencies. Currently, the US$ is the most important of the transnational currencies, either through informal or formal dollarization, and, more infrequently, through so-called currency boards or some variant thereof that insulate monetary decisions from domestic political pressures. In both cases, any pretense at territorial monetary sovereignty is essentially sacrificed to dampen inflation, increase foreign investment, and reduce the proclivity for growth in government spending. Many Latin American countries have recently experienced this intersection between currency substitution and what I call the imperialist sovereignty regime, even though relatively few countries have engaged in full-fledged or official dollarization. Each of the four currency processes is discussed with reference to the specific example.

But a second issue concerns how the currency processes operate geographically under a given sovereignty regime. The territorial and shared currency processes are the most evidently territorialized. But even they are hardly totally closed monetary spaces. They must coexist with a transnational currency that breaks down borders and challenges the hold of national currencies over a range of transactions, not least by encouraging the development of currency markets at financial centers within their territories. This is an opening up of possibilities for the redistribution of political authority beyond capital cities whose central banks and finance ministries must now work to share power with other actors in the monetary realm. Of course, much of the monetary flow across territorial boundaries today tends to be between financial centers in the richest countries. Wall Street (in New York) and the City (in London) are the key places of authority with affiliates and collaborators scattered all over the world economy but with the densest presence in North American, European, and East Asian cities (Martin 1994; Thrift 1994). This is because most global flows are involved in “diversification finance,” “intended to reduce risk through the fine-tuning of portfolios” (Taylor 2004, 31). One hundred years ago a significant proportion of world capital flows moved from rich to poor countries. Of course, much of this was within colonial currency blocs that used the same or closely pegged currencies (Helleiner 2002). That this is no longer the case suggests that the use of substitute currencies today is more a question of subordinate state elites looking for a monetary port in an economic storm than of a hegemonic state actively looking to use currency as a mechanism of subordination. Yet, susceptibility to the demands of foreign capital provides a major incentive for some states and local actors to find shelter, however problematic, in the holding of a less volatile transnational currency such as the US$, as evidenced by the large domestic and foreign holdings of such currencies (in offshore and other “dollar salting” centers) by the nationals and governments of many countries.

China

If the industrialization of Asia was the “most spectacular economic happening of the second half of the twentieth century” (Daly 1994, 165), then it has been China’s rapid emergence since 1978 as a major global economic actor that is perhaps its most remarkable feature. Closed off to the capitalist world economy from 1949 until the late 1970s, China has quickly become a major presence in both the world’s trading and financial economies. In particular, China has become an incredible exporting machine based on massive foreign as well as domestic investment. China’s exports grew eightfold—to more than $380 billion—between 1990 and 2003. Between 2000 and 2003 this represented an increase of from 3.9 to 6 percent of the world total. Allied to domestic investment, this export explosion has generated a huge demand for raw materials as local firms and foreign investors have vastly increased production capacity in such sectors as steel and cement. As of 2002, China consumed more steel (25.8 percent of the world total) than the EU (16.8 percent), or NAFTA (16.0 percent). In 2002 China accounted for 16 percent of the growth in the world economy, second only to the U.S. (McGregor 2003; Hale and Hale 2003, 37–38).

Since 1978, but especially since 1987, the Chinese economy has gone from a command-and-control model to a state-managed, but market-driven, one. Undoubtedly, however, China has entered into the world economy largely on its own terms. Much of its growth has been driven by foreign direct investment (FDI), which accounts for over 40 percent of GDP (compared to a minuscule 1.1 percent in Japan). But the central government has retained much more control over its national economy than is characteristic of most
contemporary states. One of the main mechanisms for continuing central control has been the managed float of the Chinese renminbi (the yuan) against the US$. This control has served to both keep Chinese goods competitive in the American market as those of other countries have become less so because of the appreciation of their currencies against the US$ since 2001 and to build up massive US$ reserves which the Chinese government has been investing in, inter alia, U.S. Treasury bonds, and thus helping to finance both the American federal budget and current account deficits. Indeed, as the American trade deficit with China expanded monotonically between 1996 and 2003, the Chinese purchase of U.S. Treasury securities climbed at a much faster rate, especially after 2000 (Economist 2003). China, then, uses the monopoly of the renminbi within the country to keep out external currency shocks and to cultivate itself as a destination for massive foreign direct investment premised on low labor costs and a stable exchange rate against the US$. Two major questions arise: how does this work and is it sustainable in a world where conventional state monetary sovereignty seems under considerable pressure?

The Chinese managed-float system began in 1994. Before that date, the renminbi was severely overvalued at about 1.7 to the US$ to segregate the planned Chinese economy from the rest of the world. The official exchange rate was pegged in 1994 at 8.4 to the US$, but only in December 1996 did the Chinese government accept IMF Article 8 and set about making the renminbi convertible for current account transactions. Since 1996, the rate against the US$ has been virtually fixed at Rmb 8.28. The relatively fixed exchange rate encourages both exports to the U.S. and FDI inflows denominated in U.S. dollars. Much of China’s growth since the mid-1990s is owed to this exchange-rate system. It allows China to profit externally while maintaining internal currency homogeneity and stability. The renminbi is a territorial currency whose value is more or less fixed against the currency of its main export market and the main currency of world trade.

By way of example for this critical monetary insulation, during the Asian financial crisis of 1997–1998, the Chinese economy remained largely unaffected because the renminbi is not convertible on capital accounts, so investors could not suddenly withdraw their funds as they could elsewhere. Though there was some pressure from international business to devalue the renminbi, not least from the ethnic Chinese business networks that provide foreign capital for Chinese development from San Francisco and Vancouver, Canada, as well as from Taiwan, Hong Kong, and Southeast Asia, the Chinese government resisted this. Wang (2003) claims that this was mainly a question of maintaining the government’s self-image of control and autonomy. But he also points to the role of commitment to low inflation and the lack of influence on government policy of local and foreign-owned enterprises in China that lobbied unsuccessfully for a devaluation. So, even in the face of increased dependence on FDI, the Chinese government was more concerned about other, largely political, goals than pleasing its foreign investors.

Whether this currency system is sustainable is an open question. One danger comes from overheating of the manufacturing sector. As fixed asset investment grew by 31.1 percent in China for all sectors in the first half of 2003, three times the rate for the whole of 2000, consumption grew only at 8.8 percent (Hale and Hale 2003, 39). This disparity indicates a high degree of excess capacity. The fixed exchange rate encourages the growth of foreign exchange reserves, which then push up the money supply (up from 12 percent in 2001 to 20 percent in 2003). In turn, this encourages more fixed asset investment by speculative capital, thus exacerbating the problem of shrinking profit margins as more investment chases stagnant or shrinking demand. At this point, the Chinese monetary authorities would have to strengthen capital controls and intervene in foreign exchange markets to suppress the appreciation of the renminbi (Kuroda 2003). As of November 2004, however, there was no sign of either. Indeed, Chinese officials spoke openly of easing—not of strengthening—capital controls (Kynge 2004).

A second threat comes from the efforts of foreign political leaders, such as the U.S. Secretary of the Treasury, to persuade the Chinese government to move to a freely floating renminbi in order to avoid the imposition of trade and financial sanctions. Disturbed by China’s ability to exploit the US$ by “hiding” behind a managed float, those who would change the Chinese monetary system, however, should note how much American businesses investing in China lower labor costs and reap higher profits and American customers/workers receive lower prices and low-paying jobs (both in the same building at Wal-Mart) from the current system. China has also increased its imports (largely raw materials) at a higher rate than its exports over the period 1998–2003. But the pressure is likely to continue. A territorial currency and a globalizing world economy are not easily harmonized, one with the other, particularly for a country such as China with an increasingly heavy presence in world trade (Leblang 2003). As of summer 2003, the renminbi was approximately 40 percent undervalued against the US$ (Swann 2003). This hands an
enormous competitive advantage to businesses operating in China versus businesses in the U.S., resulting in a major loss of American jobs in relevant sectors. Many of the 2.8 million manufacturing jobs lost in the U.S. between the beginning of the George W. Bush presidency and summer 2003 disappeared because of competition from China: an amazing one out of every seven jobs in American manufacturing. No American president ever presided over such a hemorrhaging of jobs over such a short period of time (Beddoes 2003). That this loss occurred at a time when even many service sector jobs were also becoming vulnerable to relocation overseas from the U.S. and Europe to countries such as India and China (e.g., software programming and call centers) only made the political tension that much greater (Economist 2003). Only a radical restructuring of the Chinese monetary system through relaxing capital controls and allowing the US$ and other currencies to freely circulate between Chinese financial centers such as Shanghai and Hong Kong and foreign ones is likely to assuage the critics. Whether this is possible for a government seemingly still intent for political reasons on maintaining a classic sovereignty regime—keeping the political monopoly exercised by the Communist Party and reestablishing the prestige lost when China was subject to the depredations of colonial powers in the nineteenth and early twentieth centuries—remains to be seen.

The United States

As one of the victorious powers after the Second World War, the U.S. was the main agent of imposing a fixed exchange-rate system on the international economy of the time. This system, known by the name of the place in New Hampshire where it was negotiated (mainly between the U.S. government and British government representatives in 1944)—the Bretton Woods Agreement—pegged exchange rates against a dollar-gold standard for the period from 1945 until 1971. Although full convertibility of European currencies against the US$ did not occur until 31 December 1958, political acceptance of the system in the U.S. and elsewhere rested more on its stimulus to open, multilateral trade than on its particular properties as a strategy for organizing international monetary relations (Eichengreen 1996, 99). Although the system can be seen as part of the “embedded liberalism” that the U.S. extended to its sphere of influence during the Cold War (Ruggie 1982), it was a deeply territorialized way of managing currencies. It rested initially and finally on the capacity of governments (and central banks) to regulate their currencies against an external standard provided by the US$ pegged against a fixed price of gold.

By the 1960s, the system was in deep trouble. The problem was the increasing leakage of dollars beyond American shores through the accumulation of dollar reserves by foreign central banks and the emergence of the so-called Eurodollar market. On the one hand, the economic recovery of Europe and Japan meant that they accumulated large dollar reserves but “this was attractive only as long as there was no question about their convertibility into gold. But once foreign dollar balances loomed large relative to U.S. gold reserves, the credibility of this commitment might be cast into doubt” (Eichengreen 1996, 116). As early as 1947, the economist Robert Triffin had predicted that this would be a problem. By 1960, U.S. foreign dollar liabilities exceeded U.S. gold reserves. If foreign countries wanted to convert their reserves, there would a rush to cash in dollars before the American authorities could devalue. This threat became a major refrain of international monetary debate in the 1960s.

On the other hand, the dollar increasingly became a transnational rather than a territorial currency in the sense it had to be for the Bretton Woods system to function properly. Beginning in 1958, a Eurodollar market had sprung up in London to service dollars beyond the regulatory domain of both the U.S. and Britain. As a result, dollars flowed into this market where they were then lent out without reference to capital controls. Banking Regulation Q, which capped interest rates in the U.S., encouraged investment in the Eurodollar market from the U.S. Multinational businesses parked dollar funds in Eurodollar accounts to avoid American taxes and to gain interest-rate differentials relative to U.S.-located banks. Attempts by American governments to correct the imbalances by manipulating the U.S. capital account did slow down the development of the offshore dollar market. But the Eurodollar market “enabled private financiers to engage in exactly the type of hot-money transactions that the Bretton Woods regime had sought to eliminate. As predicted by Triffin’s dilemma, the opportunity for arbitrage profits against the dollar and the other major currencies was overwhelming. Speculation consequently worsened, and ultimately the system collapsed” (Blyth 2003, 240).

The action taken by President Nixon in 1971 in unilaterally abrogating Bretton Woods can plausibly be seen as an attempt at reasserting classic sovereignty. In other words, given that a fixed exchange rate system seemed to deliver decreasing benefits to the American territorial economy, then it would be best to abandon it (e.g., Gowa 1983). Whatever the intention, the outcome...
was a system in which the dollar was liberated from gold, and after 1973, it floated freely against other major currencies (Eichengreen, 1996). Rather than a return to the US$ as a territorial currency, therefore, the US$ has become an even more transnational currency than that augured by the Eurodollar market of the 1960s.

Arranged in discussion among the finance ministers of the G-5 (the U.S., Japan, France, Germany, and Britain) in 1975, the floating exchange-rate system was formalized in 1978 by a second amendment to the Articles of Agreement of the IMF. This removed the role of gold and legalized floating and obliged countries to promote stability in exchange rates by authorizing the IMF to oversee the monetary policies of members. This was all something of a “leap in the dark” (Eichengreen 1996, 139). No one really knew how it would work. In the 1970s, many established monetary policies coexisted with the new system, such as capital controls and concerted intervention. New financial devices, designed to cope with increased volatility in exchange markets, such as futures and options, bred speculation and further volatility (Strange 1994, 59). The large quantity of dollars introduced into world financial markets by the OPEC-inspired increases in the price of oil had an additional stimulative effect, given that world oil prices were denominated in the US$. This increase led to the spate of lending by international banks that produced the debt crisis for countries that received loans but then were faced with declining terms of trade plus large interest-rate increases in the 1980s, as the U.S. Federal Reserve tried to wring inflation out of the American economy. But in the 1980s, partly in response to persisting stagflation and partly to the increased popularity of ideas of market superiority over state regulation, most industrialized countries moved toward greater exchange rate flexibility by abolishing targeting and reducing interest rate interventions. Policy coordination among countries did help to some degree in reducing volatility in foreign exchange markets.

The net effect of the post-Bretton Woods turn of events, therefore, has been to make the US$ into a transnational currency. In a sense, the dollar has inherited its role from Bretton Woods when it was “the central numeraire” for the system as a whole (McKinnon 2001, 3). As the currency of the world’s largest territorial economy with a long-established and dominant presence in world financial markets, the dollar was not “dethroned” when the official exchange rate parities collapsed in 1971. If anything, the opposite has happened. The US$ has become “the vehicle currency in the interbank spot and forward exchange markets, the currency of invoice for primary commodity trade and for many industrial goods and services, and the main currency of denomination for international capital flows—particularly at short term and interbank. Outside of Europe, governments use the dollar as their prime intervention currency—often pegging to the dollar—and U.S. Treasury bonds are widely held by foreign central banks and treasuries as official exchange reserves” (McKinnon, 2001, 3). This is because, as McKinnon and others have argued, providing transnational money to the world economy is a natural monopoly. For one thing, in a world of about 150 potential territorial currencies, tremendous savings in transaction costs occur if just one currency is chosen as a vehicle currency. All foreign-exchange bids and offers can be made against the one currency. For another, significant economies of scale accrue from pricing and invoicing goods and services in international trade in one territorial currency. The fact that many of the world’s major commodity exchanges are also located in the U.S., in Chicago and New York, gives a further fillip to the dollar.

The dollar, therefore, is not just a matter for America, because the dollar is not just America’s currency. Over one-half of all dollar bills are held outside U.S. borders. Almost one-half of U.S. Treasury bonds are held as reserves by foreign central banks, particularly those of Japan and the People’s Republic of China (Porter and Judson 1996; Davidson 2002). Other currencies cannot, at least as yet, rival this global reach. Consequently, to some economists, the world is now on a de facto dollar standard (McKinnon 2001; Davidson 2002). Certainly, more and more nominally territorial currencies now float freely against the dollar (and other currencies) with the US$ as the common unit of comparison. The percentage of IMF members with pegged exchange arrangements declined from about 77 percent in 1977 to 36 percent in 1997 and 34 percent in 2001, while the percentage with free-floating arrangements increased from 12 percent in 1975 to 25 percent in 1997 and to 32 percent in 2001 (IMF 1997; Hochreiter et al. 2002). But the trend from fixed exchange rates to more flexible arrangements can be exaggerated both in general and with respect to free floating against the dollar in particular. Rather than freely floating against the dollar, many currencies still take the form of managed floats or relatively fixed pegs. Moreover, the coming of the Euro offers a potential alternative currency of wider use to the dollar.

What is more important about the dollar than its role as a monetary standard is the revolutionary hollowing out of other territorial currencies that it has facilitated. It is now a direct means of exchange in many countries that still have their own territorial currencies. Indeed, in many financial centers irrespective of country, it is the
currency of most transactions. Its authority, and that of those actors who command it, is often greater than that of the nominally sovereign state. This is one of the main features of the transnational uses of the US$. At the same time, the dollar is still also the currency of the U.S. Specifically, the U.S. uses its dollar to finance its large current account and federal budget deficits (e.g., Corbridge and Agnew 1991; Wolf 2004). Of course, all those foreigners holding dollars have a stake in keeping up the flow of dollars into the rest of the world. They have an interest in keeping the whole system in motion. For this reason, as McKinnon (2001) argues, America’s creditors have a stake in preserving the dollar’s role as a transnational currency even as the U.S. current account deficit balloons. As a country with a large financial services sector, the U.S. also benefits indirectly from the globalist regime that the US$ serves as a transnational currency. This sector has a vested interest in seeing use of the dollar expand around the world. They also are powerful political proponents, as is the financial sector in Britain, the only other country that has both a chronic current-account deficit and a major financial services sector, of liberalized global capital markets (Blyth 2003, 255).

The Achilles’ heel of the US$ as a transnational currency is that although it gives the U.S. a “uniquely soft credit line with the rest of the world” (McKinnon 2001, 8), it also (as in relations with China) opens up the U.S. economy to competition in sectors where it is less competitive internationally (as in labor-intensive manufacturing) and portends a future in which the U.S. will have to rely on foreign-owned capital and foreign central banks (even if in dollars) to finance its domestic economy. As a net importer of 69.2 percent of total global capital flows in 2001, the U.S. risks unbalancing its own economy (through the loss of certain kinds of jobs, etc.) in order to provide a transnational currency to the rest of the world. Foreigners may not need to care that much about the American current account deficit, therefore, but Americans are a different question entirely.

The European Union

Though what today is known as the EU can trace its roots back to the European Coal and Steel Community of the early 1950s and the European Economic Community of 1957, it was not until the disintegration of Bretton Woods in 1971 that much effort was made to implement some sort of managed currency system among member states. And it was not until the late 1980s, in fact, that a fully-fledged monetary union became a major objective of the organization. European monetary unification through the creation of a shared currency, therefore, has had two distinct origins. One is as an economic response to the end of Bretton Woods. The other is much more clearly political: building European integration on monetary unification.

In the European Community (EC), attempts at reducing volatility among European currencies gave rise first to “the Snake” or managed float in the early 1970s. This was a collective arrangement whereby the six original members pegged their exchange rates within 2.25 percent bands. The Snake did not last long, mainly because the oil shock of 1973 had devastating effects on the weaker currencies, and as governments adopted expansionary fiscal policies, such as France did in 1976, they had to leave the Snake. Eventually, by 1978, the idea of pegging currencies within unchanging bands had run its course, particularly when the European currencies were simultaneously floating against the dollar. The European Monetary System (EMS) replaced the Snake in 1979. Under this arrangement, the German mark assumed the strong-currency role that the dollar had performed under Bretton Woods. Eight of nine EC countries participated in the EMS from the outset (Britain was the sole exception). Italy was allowed to have a 6 percent band for a “transitional” period because of persisting high inflation, whereas the system as a whole had one of 2.25 percent. There were no withdrawals during the 1980s, but the first four years were turbulent mainly because the Mitterrand government in France embarked on an expansionary fiscal policy. Once this was abandoned, however, policy convergence across members made it easier for the system to respond to the relative strengthening of the dollar in the late 1980s. “Europe’s ‘minilateral Bretton Woods’ appeared to be gaining resilience” (Eichengreen 1996, 167).

It was precisely at this moment, however, that a set of nonmonetary concerns emerged across the countries of the EU. These included the ability of European firms to compete with the U.S. and Japan, reduce unemployment, maintain European welfare programs in the face of pressures exerted through the floating dollar to liberalize labor markets and pension programs, reinvigorate the “European project,” and create a single European market through the removal of capital controls. A new vision of Europe based on these concerns found expression in the Delors Report of 1989 and in the Maastricht Treaty of December 1991. Eliminating currency conversion costs was one of the ways of forging an integrated market. Concurrently, one way of liberalizing trade among members without stimulating protectionism was to remove the threat of member governments engaging in exchange-rate manipulation. The only way to do these
two things was to create a shared currency for the entire EU. Without moving forward to monetary union, the fear also was that the political project of European unification would also founder in the face of the transnational threat to Europe from U.S. and Japanese economic competition.

The Maastricht blueprint for monetary union threw continuing political commitment to the EMS into immediate doubt. Along with the global recession of 1990–1992, the decline of the dollar against the mark, and the rise in German interest rates following German reunification, this sealed the fate of Europe’s experiment in managing currencies (Eichengreen 1996, 171–81). What replaced it in the 1990s was the movement toward a shared currency by declaring a set of fiscal and monetary criteria for accession to monetary union. These criteria—freeing central banks from political control, setting inflation, government debt, and government spending targets, etc.—should be understood not just as goals in the pursuit of price stability and trade benefits. Rather, “European monetary integration can be best understood as a political compromise involving divergent ideas and preferences within Europe, specifically between France and Germany” (Chang 2003, 219). If the French government desired to enhance France’s and Europe’s independence from the U.S., Germany wanted to see its reunification accepted as unthreatening to the rest of Europe. If the Bundesbank-like role assumed by the European Central Bank (ECB) represents what the Germans wanted out of the system, an independent bank devoted to keeping inflation under control, the French have acquired a currency that can potentially challenge the US$ as a transnational currency.

The transition to a shared currency has gone through three stages as foreseen in the Delors Report and agreed to in the Maastricht Treaty (Artis 1992). The first stage, from 1990 to 1994, saw the removal of capital controls among potential members, political independence for central banks, and convergence toward treaty obligations. The second stage, from 1994 to 1999, saw the convergence of macroeconomic indicators and policies and planning for introduction of the new currency. Finally, the third stage has seen the introduction of the new currency, first alongside the existing territorial currencies and then instead of them. The implementation went remarkably smoothly. Since January 2002, the Euro has been the sole legal tender in all of the then-EU countries except Britain, Denmark, and Sweden, which have chosen to remain outside for the time being (Underhill 2002).

In a sense, of course, the shared currency is simply a new territorial currency for a larger area. But it also has a couple of other features that do set it apart from being just that. One is that it is already a transnational currency, in that, after the dollar, it is now the most important currency for worldwide financial transactions. Critically, inside Europe, it has replaced the mark and the dollar as the two previously most important currencies in cross-border flows. Second, it is peculiar in that individual states have retained control over fiscal policy even as they have ceded control over monetary policy to the ECB and the foreign exchange markets. If the latter has tended to lead toward a more “Anglo-American” market capitalism in Europe’s financial centers (Dyson 2002, 363), the former has created serious problems as some member countries, notably France and Germany, have violated the excessive government deficits rule (no more than 3 percent of GDP) that they agreed to follow when planning the shared currency (Major 2003). The EU’s fiscal rules, therefore, appear simultaneously unenforceable and unchangeable. Until there is some parallelism in Europe between the levels at which fiscal and monetary policies are made, this is likely to be a continuing problem for the shared currency and any deepening of its role as a transnational one (Wachtel 2003).

Latin America

The U.S. has long had a strong influence over monetary policy in Latin America. In the early twentieth century, this took the form of encouraging the use of the US$ as part of a “gold standard diplomacy” (Rosenberg 1985, 1999) that would bring monetary stability to the region and make it easier for American business to operate if countries possessed currency units that were identical in value to the dollar. In Rosenberg’s (1999, 24) words, the idea was to “create a gold dollar bloc, centered in New York, to rival the de facto [British] sterling standard.” At the same time, dollar diplomacy also could involve encouraging straightforward adoption of the dollar itself. This dollarization, however, usually meant the use of the US$ alongside the territorial currency, not exclusive use of the dollar in its place (Helleiner 2003c). By the 1920s, dollar diplomacy of both species had largely peaked. Increasing Latin American nationalism, the various advantages of issuing a territorial currency (identified earlier), and serious current account crises that the economic thinking of the time suggested needed activist monetary policies conspired to limit the substitution of national currencies by the dollar.

After the Second World War, official American policy was to discourage use of the dollar as a substitute for territorial currencies in the region. The new priority was
national economic development, so the best monetary policy should be an independent one with each country having its own currency. Of course, this fit into the conventional economic wisdom of the times as manifested in the Bretton Woods Agreement and many other U.S.-sponsored policies in the late 1940s and 1950s. Indeed, American governments even endorsed economic nationalist policies such as import-substitution industrialization, partly as a tool to undermine left-wing groups and co-opt nationalists to the American side in the Cold War, but also because large American manufacturing firms wanted to build factories behind high tariff walls to serve local markets (Maxfield and Nolt 1990). This illustrates how much American monetary policy in Latin America at the time reflected American foreign policy interests and the relative influence of large-scale American manufacturers compared to foreign financial investors and American investors in mines and agriculture (Helleiner 2003c, 419). But it also suggests strongly that the state territories were seen by locals and Americans alike as very much the basic building blocks for all economic policies. In this regard, American policy in Latin America differed considerably from British and French policies in Africa and elsewhere that often pushed for currency blocs (such as the Franc CFA zone in former French colonies in West Africa) or currency boards to limit the monetary discretion of the local governments (Helleiner 2003a).

Beginning in the 1970s, dollar diplomacy returned to the American agenda in Latin America. Price stability replaced economic growth as the central goal of American policy toward the region. Adoption of this policy was obviously part of the ideological shift toward neoliberalism that followed the freeing of currencies from fixed exchange rates after the collapse of Bretton Woods. But economic conditions in Latin America also made the change seem more imperative than it otherwise might have appeared. In particular, a number of factors played a role in making price stability a higher priority than formerly. Two were especially crucial: the extremely high inflation rates in the countries of the region and the growth of export-oriented FDI as the motor of economic development in place of import-substitution. As a result, the elimination of exchange-rate risk has come to be widely seen as likely to foster American trade and investment throughout the region (Helleiner 2003c, 421). In 1999, a bill devoted to the spread of official dollarization throughout Latin America was actually introduced in the U.S. Senate. But after a flurry of interest, enthusiasm seems to have faded. Cohen (2002) maintains that, from an American perspective, it is likely that American governments will remain passively neutral about official dollarization. Although there are seigniorage, transaction cost, conversion cost, prestige, and geopolitical advantages, many of these can be gained by unofficial and surreptitious dollarization. Official dollarization has the major drawbacks of exposing the U.S. politically if economic growth stalls and imposing costs if the U.S. has to intervene in financial crises. Only if the Euro came to challenge the status of the dollar as the preeminent substitute currency in Latin America, the currency Latin Americans really want to have, does Cohen think that American policy might become more aggressive in pushing official dollarization.

In Latin America itself, Ecuador and El Salvador have enacted legislation in recent years to fully dollarize their economies. Panama has been largely dollarized from its origins as an American dependency at the time of the construction of the Panama Canal. Elsewhere, however, full dollarizations (either official or unofficial) have not occurred. From 1991 until 2002, Argentina did employ something like a currency board to maintain a fixed exchange rate between the peso and the US$ but the charter of the board allowed considerable discretion to the monetary authorities (Hanke 2003). This cannot be seen as a true case of official dollarization. Many other Latin American countries in fact now float their currencies against the dollar and other currencies (IMF 1997; Berg et al. 2003). From this point of view, Latin America is now relatively less dollarized officially than it was in the late 1980s when many of its countries had currencies that were closely pegged to the dollar or adopted so-called intermediate mechanisms such as crawling pegs and bands (Jameson 1990; more generally on trends in adopting fixed versus floating exchange rates across developed and developing countries, see Bernhard et al. 2002; Joshi 2003). In other words, the continent is stuck between the globalist and the imperialist regimes, even though many governments, if given a choice, would aspire to classic sovereignty.

Unofficial dollarization is a different matter entirely. Although much more difficult to document than official dollarization, this is clearly substantial in amount and effects (Doyle 2000). For example, in Argentina in 1992, one study estimates that the dollars in circulation amounted to $26 billion or around 11 percent of Argentine GDP (Kamin and Ericsson 1993). In Bolivia and Uruguay in the same year, the ratio of paper dollars to local currency was reported as an incredible three or four to one (Calvo and Vehg 1993). Bank deposits in different currencies are easier to track than physical flows of cash. Many Latin American countries allow dollar-denominated deposits in domestic banks. Cohen (1998, 112–13) reports figures that suggest perhaps as much as
80.9 percent of all deposits in domestic banks in Bolivia in 1992 were of foreign currency (almost entirely dollars, one surmises). In the same year in Argentina, the comparable figure was 41.5 percent. In 2000, the range went from a high of 92.5 percent of all deposits in US$ in Bolivia to a low of 4.9 in Mexico with a mean of 49.2 percent across all countries in Latin America that allowed foreign currency bank deposits (Berg et al. 2003).

All this adds up to a major unofficial (or spontaneous) dollarization. The reasons are not difficult to find. They range from the fact that drug trafficking, one of the Andean countries’ main economic activities, is an entirely dollar business through remittances from migrants to the U.S. (this is particularly important in Central America) to the salting away of dollars as a defense against inflation and to aid in the acquisition of dollar assets abroad (i.e., capital flight to offshore banking centers in the Caribbean and to Miami). The fact that many states, particularly in Central and Andean America, fail to raise enough tax revenue to pay for even the barest of modern states, including adequate monetary regulation, also leads their own elites to look to the dollar as the best guarantee of future wealth. Lying behind much of the unrealized sovereignty of Latin American states is the fact that Latin America is now oriented almost completely toward the U.S. both as a source of investment and as the destination for many of the region’s commodity exports, migrants, and capital. It is Latin America’s dependence on the American economy that has produced the substitution of the dollar for territorial currencies throughout the region. That this is mainly unofficial or the result of diffusion of the dollar into the economic fiber of the region rather than the outcome of a formal adoption of the dollar as a replacement for territorial currencies is nevertheless a significant strike against the possibility of real monetary sovereignty on the part of Latin American countries. In this regard, effective sovereignty lies to El Norte and is exercised through privatized network flows of U.S. dollars rather than through explicit state adoption of the dollar as a territorial currency.

**Conclusion**

The conception of sovereignty that has predominated in modern political theory relies on the idea of exclusive political authority exercised by a state over a given territory. This idea reflects the concept of sovereignty that emerged from Westphalia and then developed along with Enlightenment and Romantic ideals of popular rule and patriotism. Many governments continue to act as if the concept is actually descriptive of the contemporary world. But this standard conception is a poor guide to political analysis. It is a “truth” that has always hidden more than it reveals. In a globalizing world, this obfuscation is particularly problematic. We cannot meaningfully apply the orthodox conception of sovereignty to the conditional exercise of relative, limited, and partial powers that local, regional, national, international, and nonterritorial communities and actors now exert.

I have proposed an alternative to the orthodox approach to sovereignty that draws from recent critiques of the orthodoxy’s understanding of political authority, to which I have added a critique of its understanding of spatiality as absolute territoriality. This alternative model relies on the idea of “sovereignty regimes,” or combinations of degrees of central state authority and consolidated or open territoriality. I have empirically illustrated the efficacy of this approach to disentangling the impacts of globalization on state territoriality by examining various ways in which monetary sovereignty, perhaps the most obviously symbolic as well as important material manifestation of state sovereignty, operates effectively. I have identified four distinctive currency processes under contemporary global political-economic conditions—territorial, transnational, shared, and substitute—that may be mapped onto the four types of sovereignty regime, respectively, classic, globalist, integrative, and imperialist. This typology has the virtue of distinguishing various ways in which globalization intersects with state territoriality to produce very different modes of actually existing or effective sovereignty in the world today. We do not live in a world that is singularly imperialist, globalist, integrative, or Westphalian. The typology also provides a way of gauging differences in the meaning of sovereignty over time and space and thereby moves beyond the sterile debate over whether some sort of universal “state sovereignty” is eroding. When assumptions about the fixed and universal nature of territoriality no longer work to locate sovereignty in place, we begin to see, for better and for worse, that there is political authority beyond the sovereign construction of territorial space.

**Notes**

1. This is the opposite of the historical situation in the field of geography as a whole, as Sack (1983, 56) once noted, “conventional spatial analysis has largely ignored territoriality.” Fleeting, if important, exceptions such as Gottmann (1973) only help to prove the rule. More recently, however, particularly under the influence of a certain reading of Foucault and the strange revival of interest in the Nazi philosopher Schmitt, it is as if power cannot be thought of except in terms of territoriality (see, e.g., Hannah 2000 for an
example of the former and Barnett 2004 for a critique of the latter), even though, as Allen (2003) persuasively demonstrates, it is Foucault who can provide the best theoretical take-off point for a much richer understanding of the complex spatialities of power and authority.

2. This conflation is not unusual in even the most sophisticated of theoretical arguments. See, for example, Elden (2005, forthcoming).

3. This “regime of sovereignty” is addressed in moral not in political-economic terms by Grovogui’s (2002) essay on Africa’s relations with Europe.

4. Bobbitt (2002), for example, provides a different periodization based on the outcomes of wars rather than any other criteria such as economic downturns or the complex of political-economic and discursive factors underpinning that of Agnew and Corbridge (1995).

5. A good textbook survey of currencies and exchange-rate regimes is provided by Sachs and Larrain (1993).

6. As of 2001, thirty-nine countries had no independent currency (i.e., relied totally on a foreign currency such as the US$), fifty-one had currency boards or pegged exchange rates, seventeen had exchange rates adjusted by indicators (inflation or exchange-rate targets), thirty-one had managed floats, and forty-seven freely floated (Hochreiter et al., 2002, 29). The freely floating currencies are the most integrated into the global economy with the most independently powerful financial centers where the US$ serves as the common metric of transactions. The countries with no independent currency obviously use substitute ones. The managed floats signify those states in which state monetary authority (and other elements of authority) is relatively territorial. The countries with currency boards and pegged rates are often either in macroeconomic crisis or in transition toward some other exchange-rate regime. “Network externalities,” the snowball effect of surrounding countries operating with other systems, make these “intermediate” exchange-rate regimes inherently unstable with financial globalization and will push them toward shared currencies (as with central European countries awaiting admission to the Euro after joining the EU in 2004), substitute currencies (no independent currency) or, most likely of all in most cases under present conditions, towards free floating (Bubula and Otker-Robe 2002; Joshi 2003). In other words, only thirty-one countries (plus the U.S.) could claim that they have the main features of “classic” monetary sovereignty. As I later show, the U.S. case is rather more complex than this. In most cases the retreat of central state authority is paralleled by an increasingly complex spatiality of currency flows and regulation. Several recent studies show that a wide range of state economic policy decisions are fundamentally constrained by the type of exchange-rate mechanism and monetary targets that states adopt (e.g., IMF 2000; Dąbrowski 2002; Hochreiter et al. 2002; Joshi 2003).

7. Strangely, in some of the macroeconomics literature monetary sovereignty is associated with a free floating currency (e.g., Dąbrowski 2002). Why giving up control over a currency to the markets should be seen this way perhaps reflects the classical and neoclassical sensibility that a currency should either “stand and deliver” or go to the wall. It certainly seems to have little or nothing to do with the reality of central state authority as indicated by different exchange-rate mechanisms. In the contemporary world it is successful managed floats, as the closest mechanism to fixed rates, that signify a high degree of central state authority in the monetary realm.

8. Recently in Canada a public discussion has erupted over the merits of dollarizing as one way of responding to the imposition of more restrictive border controls between the U.S. and Canada in the aftermath of the terrorist attacks in the U.S. of 11 September 2001. Emily Gilbert (2005) has expertly explored the discussion in a recent issue of this journal.

9. A fully convertible currency is convertible by any holder for any purpose. Under current account convertibility, as presently operative in China, holders of the renminbi have the right of conversion for purposes such as trade or travel but not for capital account purposes such as making loans or buying foreign assets. Absence of capital account convertibility requires that national monetary authorities monitor the use of all funds; under full convertibility, as prevails with fully floating and some types of managed exchange rates, this is not necessary.

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