Discussion of Eichengreen, Chitu and Mehl : ”Has the dollar always dominated global oil markets? Evidence and implications for the international monetary system”

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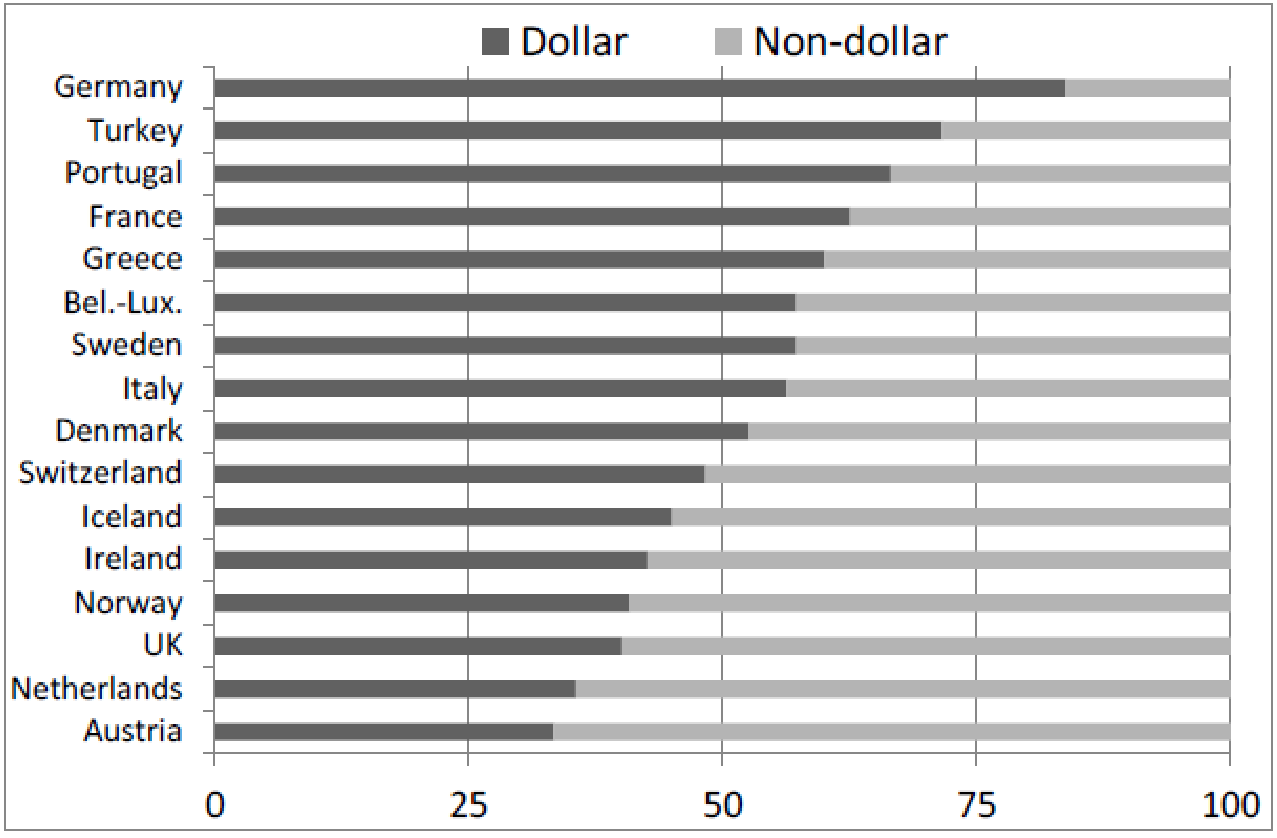
What they do

- Paper uses data on currency denomination of European oil imports for 1938, 1947, 1949, 1950, (1953).
- Document patterns and discuss implications for use of multiple currencies today.
  - Establish that oil markets were ”multi-polar”.
  - Regressions of type common in recent work do ”surprisingly” well
  - ”That several national currencies could simultaneously play a role in oil settlements suggests that a shift from a dollar-based international monetary system toward a multipolar system in the period ahead is possible”.

Finding 1: Multiple currencies used

Figure 3b: Currency denomination of European countries' oil imports
(Oil imports in value terms, %)



Note: The figure shows the breakdown by currency of denomination of the oil imports (crude and refined products) of our sample's 16 European countries in value terms (i.e. oil imports in thousands of dollars). Data are reported by country and as 1949-1950 period averages (estimates based on ECA, 1949, Tables 9, p. 38).

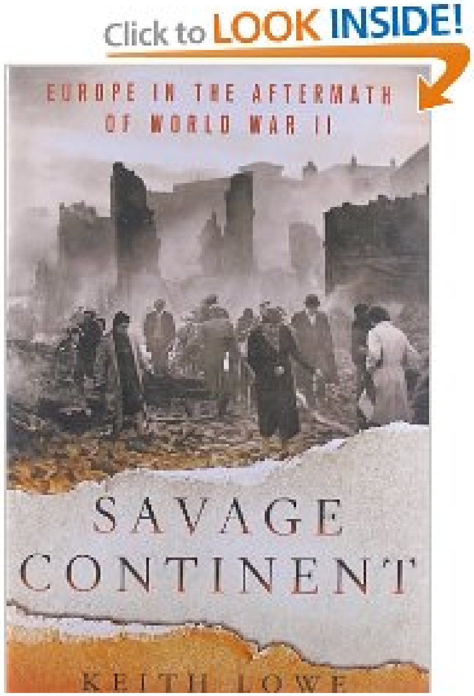
Finding 2: Applying regressions of type used in recent papers work "surprisingly" well

Table 1: Baseline estimates

	(1) Random effects	(2) Random effects	(3) Fixed effects	(4) Fixed effects	(5) Random effects	(6) Fixed effects
Import penetration	0.252	0.533**	0.256	0.562**	0.587***	0.530**
	(0.254)	(0.219)	(0.253)	(0.242)	(0.178)	(0.209)
Country size	0.281	0.312*	0.316	0.647	0.331	0.459
	(0.207)	(0.186)	(0.622)	(0.810)	(0.223)	(0.587)
Import penetration × size	0.049**	0.048***	0.049*	0.057**	0.055**	0.057**
	(0.022)	(0.017)	(0.025)	(0.027)	(0.022)	(0.026)
FX volatility	-4.537	-14.170	2.078	-3.331	-13.914	-0.782
	(18.121)	(26.054)	(15.610)	(23.767)	(20.641)	(18.964)
Sterling area member	3.140	0.410	8.127*	2.880		
	(2.512)	(3.869)	(4.260)	(5.832)		
Transferable account	1.319	-3.464	1.841	-9.355		
	(3.809)	(4.913)	(4.646)	(6.536)		
Bilateral account	11.342	8.369	9.778	0.907		
	(6.913)	(5.603)	(7.658)	(7.569)		
Constant	35.616***	32.293***	35.213***	28.528***	31.620***	30.468***
	(6.153)	(6.104)	(6.833)	(9.470)	(6.484)	(8.472)
Time effects	NO	YES	NO	YES	YES	YES
Observations	69	69	69	69	71	71
R^2 (overall)	0.324	0.367	0.278	0.268	0.263	0.239
R^2 (within)	0.448	0.482	0.455	0.494	0.440	0.446

I like…

- Nice idea to examine currency choice in historical episodes. Data description interesting.
- Quite a bit of discussion about institutional detail at the time – perhaps even more motivated.



But…

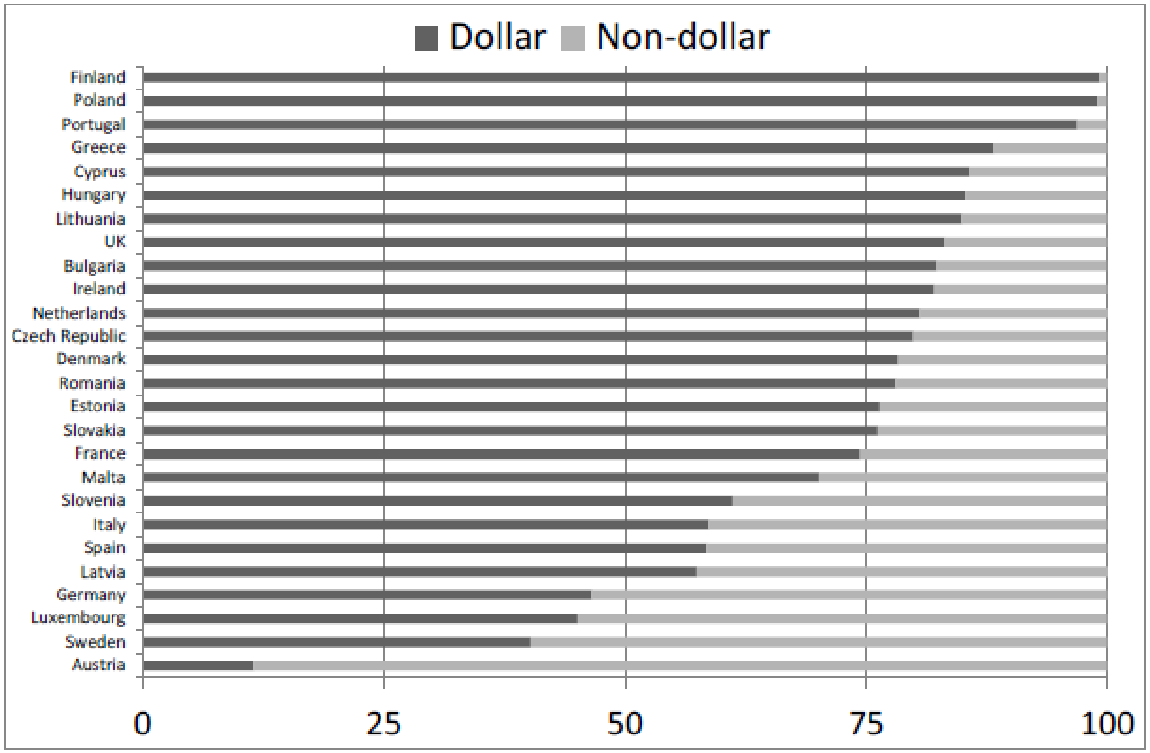
- Title, abstract and conclusions stress that multiple currencies were used in oil markets and that this suggest that, contrary to common perception, there need not be only one international currency.
- Here it would be interesting to dig a lot deeper.

International currency

- Several dimensions to international currency
  - Foreign exchange reserves
  - Anchor for fixed exchange rates
  - Denomination for debt
  - ”Dollarization”
  - Use to denominate trade in goods and services
    - Differentiated products
    - Exchange traded and reference priced goods.
- Even now it seems multiple currencies are used for payment of oil!

This one was really interesting!

Figure B1: Currency denomination of European Union countries' oil imports
(in value terms, %)



Note: The figure shows the breakdown by invoicing currency of the extra-EU oil imports (according to SITC division 33, i.e. petroleum, petroleum products and related materials) of 26 European Union countries (arithmetic averages for 2010 and 2012) based on Eurostat data.

Denomination of goods and services trade

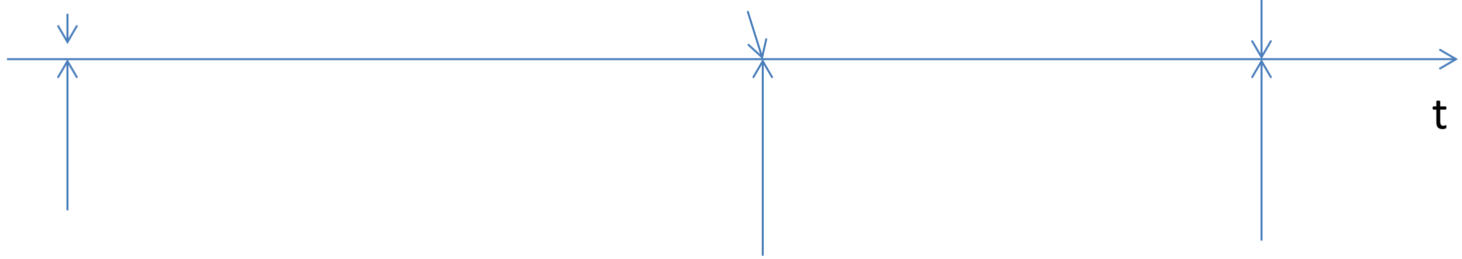
- Currency fulfills different roles and whether different currencies can be used at the same time in trading a particular product depends on many characteristics of goods and competition.
  - How close substitutes are goods?
  - How are prices set (stickiness, posted prices vs bargaining,…)
  - Does currency choice in trade matter for depth of currency markets?....

International trade transactions

Price is determined

Quantity determined : Invoice

Settlement



Unit of account
Baron (1976)
Friberg (1998)
Bacchetta & van Wincoop (2005)
Engel (2006)
Goldberg&Tille (2008)

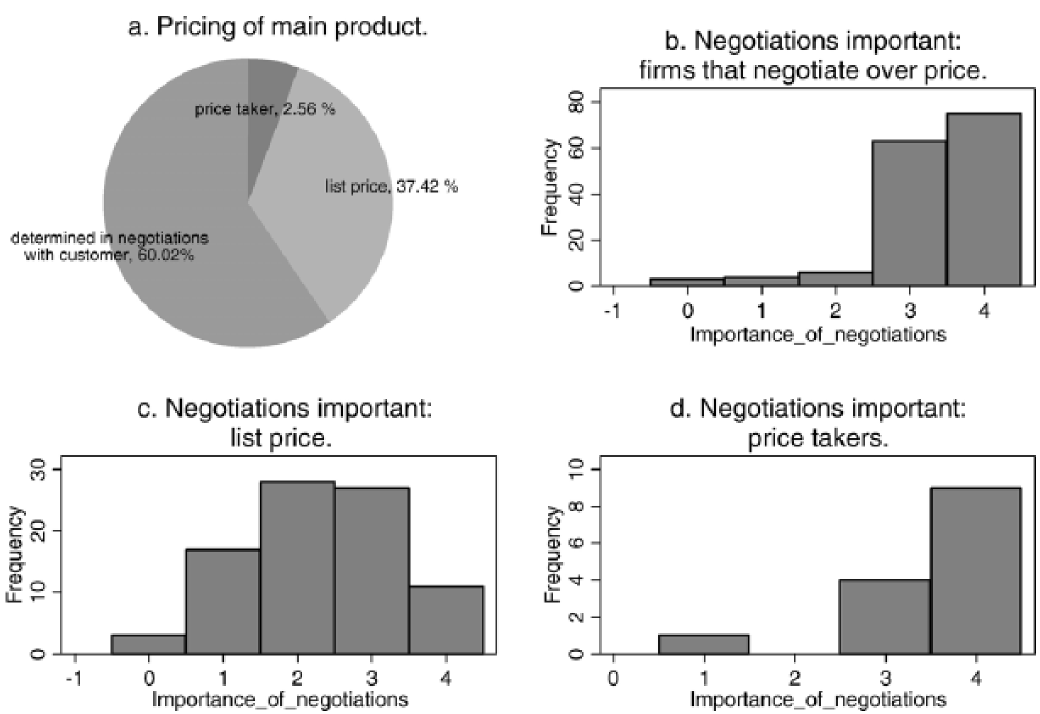
Store of value
Viane and de Vries (1992)

Medium of exchange
McKinnon (1979)
Rey (2001)

- Price setting: For goods traded on exchanges there are strong reasons for one currency to dominate. Mechanism: price taking. LOP expected to hold (as in cross-listed stocks).
- Typically same currency used for all three stages (Friberg and Wilander (2008, Table 3)). But not always!

Same currency used for price setting and invoicing		
Share of exports	Estimated share of firms	Price takers (not in paper)
100%	63%	57%
90-99%	24%	29%
70-89%	5%	7%
50-69%	1%	7%

- Store of value. Weaker forces pushing towards dominance of one currency. Overall riskiness of portfolio should matter (F&W 2008)



- Settlement currency. Possibly strong network effects because of transactions costs – but important for Euro vs dollar?
- So – interesting paper but curious about more on ”implications for the international monetary system.” Would be useful with
  - Discussion of role of technology in facilitating multiple currency use.
  - Deeper work on what the ”network effects” consist of.