Is The US Dollar On The Verge Of Being Dethroned As The World's Currency?

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Gerald Epstein looks at how the loss of the dollar's reserve currency status could impact the U.S. and world economy.

Since Russia invaded Ukraine, and especially after Washington imposed sweeping sanctions on Moscow, a number of countries across the world — including Brazil, China, India, Iran, Saudi Arabia and South Africa — have been pushing back against the hegemony of the U.S. dollar in the global economy. As this de-dollarization movement picks up steam we are forced to ask: Is the U.S. dollar's dominance under threat? Would ending the U.S. dollar hegemony benefit the world?

Progressive economist Gerald Epstein sheds light on the de-dollarization debate in this exclusive interview for *Truthout*. He explains the role the dollar plays as an international currency in maintaining U.S. global hegemony, discusses how imperialism helps to boost the currency role of the dollar, and analyzes whether de-dollarization is really happening and how the loss of the dollar's reserve currency status could affect both the U.S. and the world economy. Epstein is professor and co-director of the Political Economy Research Institute (PERI) at the University of Massachusetts Amherst, and author of a forthcoming book from the University of California Press titled, *Busting the Bankers' Club*: *Finance for the Rest of Us*.

C.J. Polychroniou: The U.S. dollar has been the world's principal reserve currency since the end of World War II thanks to an agreement reached by the U.S. and its allies at Bretton Woods in 1944 to create an international currency exchange regime in which the dollar was pegged to gold. The U.S. unilaterally severed the links between the dollar and gold in 1971, effectively ending the Bretton Woods system, but the dollar still remains the international reserve currency, though non-dollar reserve currencies have increased substantially over the past 10 to 15 years. What is the actual role of the dollar as the primary reserve currency for the global economy?

Gerald Epstein: The U.S. dollar is the dominant "international money" used in much of the world. It has held sway since at least the end of the Second World War and probably a bit before. First, I should explain the roles that "international money" plays.

Like "domestic money" — the good 'ole U.S. dollar used in the U.S., for example — international money serves in several different roles. It serves as a "medium of exchange" in everyday transactions; that is, you use it when you buy a piece of pizza or a new car. A second role is as a "store of value" to keep some of your savings in. For example, if you have a piggy bank, you most likely have dollar bills or coins in it. Third, it is used as a "unit of account"; that is, the units in which prices are announced. For example, we are using the dollar as a unit of account when we say: "this banana costs 1 dollar and 75 cents," or "this house costs 1 million and 750 thousand dollars," or "I owe 25 thousand dollars in student loans that I still must pay because of the Supreme Court." International money is also used as a "means of payment"; that is, it is used to service and repay debts.

nternational money also has some important additional roles that domestic money does not serve. The most important are: as an "intervention currency," which is when it is used by central banks to buy and sell international currencies in order to affect their international exchange rate (for example, when the Mexican central bank buys Mexican pesos with U.S. dollars in order to prop up the value of the peso relative to the dollar); and as an "anchor currency," which is when a country wants to tie the value of its currency to the value of another currency (for example, when Namibia wants to keep its currency value equal to the South African rand). Relatedly, most central banks hold "reserves" (foreign exchange reserves) consisting of foreign currencies, and in some cases gold, in order to intervene in the currency markets and to have foreign currencies to pay for imports and service foreign loans, when needed.

The U.S. dollar plays a dominant role in many of these uses as international money in many parts of the world. The degree to which it plays these roles vary by role, by geographical area and over time. But, overall, there is no other currency that plays as many roles in as many places as the U.S. dollar. Because of this dominance, the U.S. dollar is often referred to as the international "key currency."

But the U.S. dollar is not the only currency that plays these roles. The most important among the latter include the euro, the British pound, the Japanese yen, the Swiss franc, and in some parts of the world, the Chinese renminbi.

Note how *few* currencies play these roles. Most countries' currencies play almost no role as an international currency. For example, most countries cannot even borrow on international capital markets in their own currencies. When Ecuador borrows from foreign banks, the loans are denominated in dollars or euros, for example. When Ecuador has to repay its loan, it has to have enough dollars to do so. When the United States borrows from Saudi Arabia, it just has to pay back in dollars, a currency that the U.S. prints. Easy, peasy.

So, while much is made of the difference between the "key currency" (the U.S. dollar) and everyone else, perhaps a *more* important demarcation of inequality and hierarchy in the world is between so-called hard currencies (currencies that also serve as international money) and soft currencies (currencies that do not serve as international money). Soft currency countries are at a grave disadvantage because they must acquire hard currencies in order to survive in the global economy.

Now I can give some quantitative historical perspective on this.

In 1950, the U.S. produced 62 percent of world manufacturing output. In 1975, almost 80 percent of official foreign exchange reserves in the world were held in dollars, and the U.S. accounted for 43 percent of the world manufacturing output. By 2022, the U.S. accounted for less than 20 percent of world manufacturing output — about 22 percent of world GDP. But 60 percent of the world's official international reserves were still being held in the U.S. dollar.

To what extent is the preeminent role of the U.S. dollar in the global economy linked to the size and strength of the U.S. economy?

As the numbers I presented just above suggest, at the time the U.S. overtook the British pound sterling around the time of the First World War, the size and economic strength of the U.S. was very important in determining the international role of the dollar. But by the turn of the 21st century, the relative size and strength of the U.S. economy had greatly fallen (indeed, the Chinese economy now is or soon will be the largest economy in the world), yet the overall role of the U.S. dollar in international money has remained dominant.

Is there a connection between the resiliency of the dollar's role as global currency and the dynamics of financialization and/or the mechanisms of U.S. imperialist hegemony?

Yes, to both questions. While the U.S. has become much smaller in the world in terms of manufacturing output and even in the production of nonfinancial services, it has remained a huge global power financially. The U.S. dollar is used in 60 percent of the world's bank loans and deposits; it accounts for almost 70 percent of the global debt issued in foreign currencies (e.g., Brazilian international borrowing in foreign currency); and the U.S. dollar is involved in almost 90 percent of all global foreign exchange transactions, most of which are for various kinds of financial trading and speculation.

In short, the U.S. has become one of the most "financialized" countries on the planet and this financial dominance props up the international role of the dollar. Importantly, causation runs the other way, too: having the dollar as the key international currency also enhances the role, profits and power of U.S. finance in the world.

Likewise, imperialism helps to prop up the key currency role of the U.S. dollar and this key currency role facilitates U.S. global political and military power — that is, the use of international power to extract resources from other countries for the benefit primarily of U.S. capitalists and the 1 percent.

There is a good deal of evidence, starting with the work of my former graduate student, Roohi Prem, which identifies the importance of military and diplomatic power as an underpinning of first the pound sterling and then the U.S. dollar's key currency role. Countries that are dependent on the U.S. for military support and arms sales and that are part of U.S. diplomatic and military alliances are more likely to hold U.S. dollars as currency reserves. This was very obvious with West Germany during the 1960s, which was totally dependent on U.S. defense, but it shows up in the data today in more subtle ways. Again, causation runs in multiple directions. Countries use their dollar holdings as a signal that they are part of the U.S. "camp" and the United States sees the holding of dollars as a sign of support.

What does the U.S. get out of all this?

There is a debate among economists and political scientists about this. Some economists, such as Robert McCauley, formerly of the Bank for International Settlements (BIS) and Paul Krugman of City College, say the answer is: not much. But if this were true, how can one explain the lengths to which the U.S. government goes to protect and further the role of the dollar. For example, the U.S. Federal Reserve and Treasury engage in massive financial rescue operations at crisis times such as the 2008 financial crisis and the 2020 COVID crisis, to offer dollar lifelines to foreign central banks so they can stabilize the dollar use of these countries' banks and other financial institutions. They use diplomatic capital to make sure that the key global transactions signaling network (SWIFT) is dollar-friendly, etc. Some have argued that the U.S. has gone to great lengths to ensure that oil prices continue to be denominated in dollars.

The fact of the matter is that having the dollar as the world's key currency gives the U.S. government significant power to call the shots financially in the global economy; it gives a leg up to U.S. financial institutions in the global economy because they have easy access to U.S. dollars from the Federal Reserve; and it makes it easier to finance the massive U.S. budget deficit and foreign borrowing.

The U.S. dollar has been facing challenges from the renminbi and the euro in recent years, to the point that there are growing calls from countries like Brazil and Southeast Asian nations for trade to be carried out in currencies besides the

U.S. dollar. Indeed, Russia and China have developed their own payment gateway and more and more countries seek alternatives to the U.S. dollar. Would you say that de-dollarization is real? And is it a good thing?

As you say, there are attempts to reduce the world's reliance on the U.S. dollar. There are areas, particularly in Asia, where the renminbi has become used more in the denomination of trade; in Europe too, trade has been invoiced more in euros and less in dollars. So, there is a push in some areas to de-dollarize. Nonetheless, as I have already indicated, the overall strength of the dollar has remained very high. Part of the reason is the financial and military/political strength of the U.S. And part of the reason is simply inertia. Once lots of people in the world speak English, English remains the international language; once lots of countries use the dollar, they continue to use the dollar.

Would de-dollarization be a good thing? It depends, to some extent, on what replaces it. If, as economist John Maynard Keynes envisaged, a global currency run by a global central bank that better reflected the interests and needs of the world's population were to replace the dollar, yes: this would likely be a very good thing. If the renminbi replaced it? Or if there was a broader multicurrency sharing as is the most likely evolution? Yes. This would almost certainly be better. The dominance of U.S. finance and of U.S. global military adventurism that is aided by the dollar is unhealthy for the world. A more shared role for global defense would be, in my view, a much fairer and hopefully peaceful outcome.

Of course, the role of the dollar per se is not the source of all evil, nor taming it will be a solution for all evil. But it could help.

The most common argument one hears against de-dollarization is that there is, in reality, no credible alternative, while it is often said that if countries started trading with one another in their own currencies, there would be increased currency risk and potentially wild fluctuations in exchange rates. Aren't these sound arguments against de-dollarization?

There is some truth to this, perhaps. But, on the other hand, the problem already persists for developing countries: short-term speculative capital flows in and even more quickly flows out. The key problem here is the uncontrolled speculative flows of international capital, not the existence of a multicurrency system.

What would happen if the U.S. dollar was dethroned as the world's primary *reserve currency? How would it affect the global economy, as well as the U.S. economy, and the laboring classes?*

As I have suggested, it might reduce U.S. military adventurism. It might also reduce, however, the ability of the U.S. to run large budget deficits and current account deficits. The former would mean that the working class would need to build and utilize more political strength to demand government priorities serve the needs of people, rather than of the top 1 percent, banks, military contractors and fossil fuel companies. Current account deficits might also increase local production in the U.S. which, under the right circumstances, could be a boon to domestic employment.

As for the rest of the world, it might tilt some of the global financial and political power elsewhere. Whether the world's workers or world's capitalists outside of the U.S. capture that power is a big question, which I cannot answer here.

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