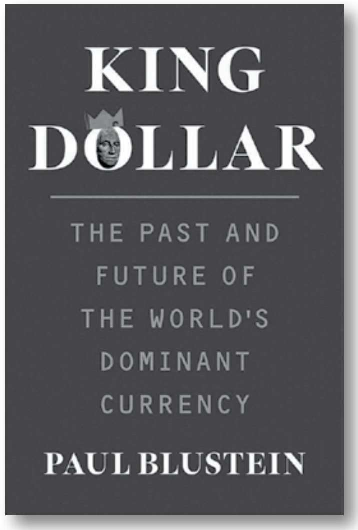
The Dollar's Future



King Dollar: The Past and Future of the World's Dominant Currency
by Paul Blustein (Yale University Press, 2025).

TIE *executive editor Owen Ullmann talks to noted economic journalist Paul Blustein about his timely new book.*

TIE: **The premise of your book is that the dollar, having been the dominant global currency since World War II, will remain so barring catastrophic U.S. policy errors. There has been a lot of commentary recently suggesting that the dollar's status is at grave risk because of various actions taken by U.S. President Donald Trump and his team. Do you agree? Are these the sorts of policy errors you had in mind?**

Blustein: One of the last things I wrote, when I put the finishing touches on the book in late November 2024, was, "Dollar supremacy survived Trump 1.0, and I believe it will survive version 2.0 as well." I continue to believe that.

Of course I've been shocked by how aggressively Trump has acted in ways that batter some of the key pillars of dollar dominance. The trashing of U.S. relationships with our closest allies—that sure wasn't on my bingo card! And despite the fact that he clearly advertised himself as a "tariff man," I never imagined anything so radically protectionist and incoherent as his "Liberation Day" policies. On top of that are these erratic, chaotic policy swings, clearly attributable to the caprice of one man whose grasp of international economics … well, let's just say it lacks sophistication. It's hardly surprising that financial markets are treating U.S. assets as riskier than

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The Dollar's Power in a Nutshell

One of the biggest "aha!" moments I had was when I saw some data compiled by the Bank for International Settlements regarding foreign exchange swaps, which is an obscure but gigantic market. This is a market in which transactions average around $5 trillion a day, with the main participants being multinational corporations, global banks, insurance companies, pension funds, and so forth, with operations all over the world. And the dollar is by far the main currency used—it's just miles ahead of the euro, yen, pound sterling, and Swiss franc. These big firms are using this market to hedge themselves so they can use dollars for all kinds of purposes—investing, lending, borrowing, exporting, importing, you name it.

When you see that sort of data, and the implications sink in, you really start to grasp how misguided it is to think that the dollar could be toppled with ease or minimal disruption.

—P. Blustein

before—and who knows what will have happened by the time this interview is published?

All of those things run contrary to the principles and arrangements that have underpinned the dollar's international role, and they give foreigners all sorts of new incentives to seek alternatives. There were already ample incentives for some countries to do so because of their fears and resentment over the United States weaponizing the dollar as a sanctions tool—that is, cutting adversaries off from access to the dollar-based system.

But that doesn't mean that foreigners will succeed at finding alternatives, and I simply can't see how they will in the foreseeable future. Dethroning the dollar would be extremely difficult and costly, both because rival currencies have so many drawbacks, and because the dollar's role as the key currency for all sorts of transactions is so entrenched in the global financial system.

***TIE:* When you say the dollar's role is "entrenched," and "difficult and costly" to dethrone, what do you mean?**

Blustein: It's not just that the majority of reserves held by central banks are in dollars, or that the majority of trade across borders is invoiced in dollars, or that the majority of borrowing on international markets is in dollars, or that the overwhelming bulk of foreign exchange trading is in dollars. Those are metrics that are commonly cited as evidence for how greatly the dollar's standing exceeds that of other currencies—and they're pretty darned striking! But dollar dominance goes even deeper than those metrics would suggest. Dollar-denominated assets—specifically, U.S. Treasury bills and bonds—are used in an incredible variety of ways by big financial actors, such as hedging, and collateral for the trillions of dollars in transactions conducted every day in global money markets.

One of the biggest "aha!" moments I had while researching my book—the revelation that really blew me away, in terms of appreciating how dominant the dollar is—was when I saw some data compiled by the Bank for International Settlements regarding foreign exchange swaps, which is an obscure but gigantic market. I show this in my first chapter, the only chart in the book, because it's a bit complicated to explain in words but so remarkable. This is a market in which transactions average around $5 trillion a day, with the main participants being multinational corporations, global banks, insurance companies, pension funds, and so forth, with operations all over the world. And the dollar is by far the main currency used—it's just miles ahead of the euro, yen, pound sterling, and Swiss franc. These big firms are using this market to hedge themselves so they can use dollars for all kinds of purposes—investing, lending, borrowing, exporting, importing, you name it.

When you see that sort of data, and the implications sink in, you really start to grasp how misguided it is to think that the dollar could be toppled with ease or minimal disruption. Governments around the world may get fed up with the United States and decide they'd really, really, like to use different currencies. Well, sorry, but it would turn out to be a mighty tough slog. In fact, that has already happened, for example in 2018 when Trump reimposed sanctions on Iran, and the Europeans—who strenuously objected to that—tried to set up an alternative system for transacting with Iranian companies. As I recount in the book, the European efforts to counter the United States

I never imagined anything so radically protectionist and incoherent as "Liberation Day."

completely flopped. It was quite the object lesson in the power of the dollar.

Let me put all this another way: one of the terms we're seeing bandied about more and more in the wake of Liberation Day is "de-Americanization." It includes trends like the boycotting of American brand goods, refusals to take vacations at U.S. destinations, initiatives by countries around the world to find new trading partners and cut new trade deals with each other, and now this latest phenomenon of investors getting so antsy about U.S. assets that they're demanding higher risk premia. It's a thing for sure! All these trends may turn out to be quite significant. Even so, I seriously doubt that the dollar's role in all sorts of international transactions will be affected much.

***TIE:* What is the main reason the dollar has kept its dominance?**

Blustein: I feel very strongly that it's the liquidity, breadth, and depth of U.S. financial markets, and particularly the market for U.S. Treasury securities. Everything else given as reasons for the dollar's dominance is shared in one way or another by other major currencies. For example, China's a big economy. The eurozone is a big economy. Rule of law is cited as important for dollar dominance, and it is, because investors need to feel that if they have a dispute over their U.S. investments, it will be adjudicated impartially in U.S. courts. But Europe has that. Japan has that.

Network effects are another important factor. In the book I write about how I get to see the network effects of the English language quite frequently in the town where I live in Japan. There are lots of tourists who visit and they are struggling to communicate in English with Japanese clerks and wait staff. They all have to learn English because it has network effects. The British pound had similar network effects when it preceded the dollar as the dominant currency, yet in the end that didn't save the pound from losing out.

We have to face this real inconvenient truth, that the dollar is dominant and it gives Donald Trump even more power to bully other countries than he's done so far.

There's no single asset that rivals Treasuries even in a big economy like the eurozone.

But no currency has ever been as dominant as the dollar is. And no currency today has markets in a single safe asset class like U.S. Treasuries that are as deep and liquid and broad as Treasuries are. This is so crucial in a crisis because everyone wants to get their hands on cash to make sure that they're going to pay their obligations coming due. If they don't, they're the next Lehman Brothers. They also don't want to raise cash by selling assets at big fire sale losses. They can sell huge volumes of Treasuries and get cash with almost no loss. It's a big, deep market. That to me is a unique feature of the dollar that stands way above the others in importance.

Now, the market crash following Trump's Liberation Day raised some concerns about the functioning of the Treasury market. This is one example of why I argue in the book that the Spider-Man adage—"With great power comes great responsibility"—should apply to the dollar, in a variety of ways. That includes the responsibility the U.S. government has to ensure that the Treasury market, the most important market in the world, functions smoothly.

***TIE:* Why is the U.S. Treasury market more liquid than that of other major currencies such as the euro?**

Blustein: The eurozone has very sophisticated financial markets, probably as sophisticated as American markets. But because it's a collection of sovereign governments, each of which issues its own debt and raises funds on its own with its own sovereign backing, there is no single asset like U.S. Treasuries.

German bunds are arguably as safe as Treasuries, and the same goes for Dutch government obligations, Finnish government obligations, and some others that are denominated in euros, but there's not as big or deep a market for them. Other euro area countries such as Italy, Greece, and Spain also issue securities backed by their full faith and

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credit, but investors don't necessarily have such high regard for them as they do with other euro securities.

So there's no single asset that rivals Treasuries even in a big economy like the eurozone, which is sophisticated, has rule of law, and issues a currency with most of the other features that the dollar has.

TIE: **Turning to the Chinese renminbi, U.S. Treasury Secretary Scott Bessent said in a recent TV interview that the renminbi could never become the dominant global currency because the Chinese government would manipulate it, weakening it for trade purposes, and then flood the world with cheap goods. The world economy would go to hell as a consequence. Do you agree with him?**

Blustein: I'd put it differently, while coming to a similar conclusion. China has the ability to manipulate its exchange rate in ways that other countries don't because it maintains capital controls—that is, it doesn't allow money to flow freely in and out of the country. Those controls make international investors very skittish about putting lots of money in renminbi because of the fear that the government would clamp down in a crisis and block them from taking their money out.

Another factor that makes investors wary is the power that the Chinese Communist Party exerts over the nation's courts, which casts doubt on whether you'd get a fair shake in a legal dispute. That's how I prefer to explain why the renminbi's chances of dethroning the dollar are close to zero.

TIE: **Let's look back historically at how the Treasury market became so liquid. What led to the dollar's dominance?**

Blustein: I tell this story in some detail in the book, and as I'm sure many readers know, the dollar was the central currency of the post-war international monetary system under the Bretton Woods agreement, with all other currencies pegged to the dollar and the dollar pegged to gold.

After Bretton Woods collapsed in the early 1970s, the market for Treasury securities was exploding for a variety of reasons. For one, the United States was starting to run big budget deficits in the 1960s because of Lyndon Johnson's guns-and-butter policy of financing the Vietnam War and the Great Society at the same time without being willing to raise taxes to pay for all of it. So the U.S. Treasury was issuing a lot of securities. Along with big deficits, inflation was starting to erupt and interest rates were fluctuating. That contributed to the pressures that led to the end of Bretton Woods, but it also meant that the market for Treasuries became very active and lucrative for a lot of traders.

Around the same time came the development of the eurodollar and petrodollar markets—that is, the offshore use of dollars by banks and other financial institutions. And when they're holding dollars for periods of time—maybe as short as a day, maybe a week, maybe a month—they want to be in Treasuries because it is safe, and they can at least get some yield on it. They're not just holding idle cash. Every big asset manager wants to make sure that they're optimizing the return that they're getting on their holdings without sacrificing safety and liquidity.

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Also at that time, computerized trading was becoming much more of a thing. And for all these reasons, people in the markets developed a big, deep network for exchanging these incredibly important securities.

TIE: What are some of the key advantages for Americans in a world where we have King Dollar?

Blustein: The advantages are much more geopolitical than economic, in my opinion. This isn't a consensus view, but a lot of economists believe the economic benefits of dollar dominance are not that great anymore. They were in the 1960s, when French Finance Minister Valéry Giscard d'Estaing coined the phrase "exorbitant privilege." At the time, the United States was indeed gaining enormously from having a currency that everyone had to hold. The U.S. government and American companies could borrow at cheaper rates and the United States could run budget and trade deficits more freely than other countries could under the Bretton Woods system.

The United States does benefit tremendously in its foreign policy because the dollar can be weaponized and used as a sanctions tool.

But there also are drawbacks, because if so many people hold dollar securities, the foreign exchange rate of the dollar will be higher than it would be otherwise. That detracts from the competitiveness of American exporters and manufacturers in import-sensitive industries—not that it's a decisive factor, but it surely has some modest effect. It's very hard to measure these things precisely, but I would argue that the economic benefits probably outweigh the economic disadvantages. I don't think it's huge in either direction.

But the United States does benefit tremendously in its foreign policy because the dollar can be weaponized and used as a sanctions tool. That is a major advantage. I don't know how much Americans appreciate the degree to which the government is able to use sanctions instead of military force. It means our men and woman in uniform don't have to go overseas and shed blood as much as they might if we used hard power instead of our economic power.

TIE: Returning to the issue of catastrophic policy errors, tell us under what scenario you could see the dollar's special privilege being lost or diminished.

Blustein: Even before the second Trump term began, it was easy for me to conjure up a few such scenarios in my book. One—which is looking ominously like it might come true—is that U.S.-China tensions boil over to the point that the world splits into separate, economically isolated blocs, one dominated by the dollar and the other by the renminbi.

Another possibility is that the president could put much more pressure on the U.S. Federal Reserve than he did in his first term, undermining the independence of our central bank, which is a very important pillar of people's confidence in the dollar. If the Fed bows to White House demands for lower interest rates and the result is high inflation, faith in the dollar would obviously be sorely tested.

Let's maintain perspective, though, about these disaster scenarios. Loss of dollar dominance would almost certainly be less awful than the other consequences.

TIE: **The Fed has a vital role in dollar swaps—that is, swaps with other central banks, rather than the kind of private sector swaps you were referring to earlier. Tell us about that.**

Blustein: It's very important—it shows how the Fed has come to play this remarkable role, akin to being central bank for the entire world.

Here's what happened: During the 2007–2009 global financial crisis and, more recently, the covid crisis beginning in March 2020, there was huge demand for dollar assets because the dollar was the safest place to be. People were desperate to have liquid, safe assets that they could convert into cash easily. As I said before, that's crucially important in a crisis. Also, lots of companies and financial institutions had borrowed heavily in dollars, so they needed dollars to pay obligations coming due.

The Fed has come to play this remarkable role, akin to being central bank for the entire world.

And there was so much demand for dollars abroad that the Fed had to provide the world with dollars by swapping dollars with other central banks. The European Central Bank, the Swiss National Bank, the Bank of England, the Bank of Japan all needed dollars to lend to big financial institutions in their areas that were desperate to get dollars. So, the Fed was willing to swap dollars for their currencies.

Now, there's a lot of speculation that maybe Trump will insist on some *quid pro quo* that is so unreasonable that it would impede the functioning of swaps. There was a worry about that during the covid crisis, during Trump's first term. As it turned out, Trump did not try to interfere. He probably wasn't paying enough attention to what the Fed was doing. He was probably just happy that the financial crisis was resolved satisfactorily.

But Trump's obviously been much more willing to behave in what are euphemistically called "transactional ways" in his second term than he was in his first term. I think we ought to be worried that confidence in the dollar may be undermined if foreign holders of money become concerned that in a crisis, the Fed won't be there to backstop everybody. That could be a catastrophic misstep.

TIE: **Is there a scenario in which the supply of Treasuries grows so rapidly because of a burgeoning U.S. debt that there is insufficient demand?**

Blustein: There has to be some limit but I don't think we're close to it at the moment. The latest projections show deficits on the order of 6.5 percent of GDP over the next decade or so, and that's an underestimate because that assumes that the Trump tax cuts won't be extended. It's probably more like deficits under current policies might be closer to 8 percent, 9 percent, or who knows what percent of GDP. They'll be big. That means the Treasury has to borrow even huger volumes. And there has to be some point at which foreigners' willingness to extend credit to the U.S. government reaches its endpoint.

But I think the bigger thing to worry about is that markets will insist on very high interest rates for Treasuries. And when the government has to borrow at high interest rates, that means everyone else has to borrow at high interest rates, and there won't be so much productive investment, and U.S. growth and prosperity will suffer. That to me is a bigger reason to worry about massive deficits than the possibility that foreigners will say "We simply aren't gonna buy Treasuries anymore." At high rates I think they will. But if they're demanding extremely high returns on every investment, then that's going to be painful for the United States.

TIE: **If the dollar were to stumble and collapse, what do you think would most likely replace it?**

Blustein: The one currency that's looking a little more like a possibility these days is the euro because some of those impediments that I mentioned earlier—the fragmentation of the eurozone market—may be in the process of becoming fixed because Trump signaled that he's not just an unreliable ally, but possibly an economic adversary of Europe. The Europeans are scrambling around looking for ways to spend money and to knit their economies together more tightly. The Germans have relaxed the "debt brake" that they used to limit the amount of deficits that they could run. That'll mean more bunds will be issued. So the euro is looking, at least in early April as we're speaking, a bit more credible, but I still think it's got a long way to go before it's going to rival the dollar.

***TIE:* What do you see as the role of cryptocurrency? Does it weaken or strengthen the dominance of the dollar?**

Blustein: Let's distinguish between two types of crypto. There's the kind that fluctuates up and down by the day, by the hour, by the minute, by the second, like Bitcoin does. And then there's stablecoins, which are tied mostly to the dollar or other fiat currencies or other valuable assets.

Regarding the first type of crypto, I think it's ludicrous to think that an asset like that, which has absolutely no state or institutional backing, will challenge the dollar. The great advantages that creators of crypto touted—that it's decentralized. There's no state involvement, there are no banks—all these things make crypto useless as a means of exchange. I don't see how they possibly develop network effects. They can be used in small markets where their fans congregate. There's that bitcoin city in El Salvador, Bitcoin Beach, I guess it's called. And yes, I know you can go into a bar there and order a nice frosty mug of beer with Bitcoin. Big deal.

Stablecoins are a more interesting question. I must say that at one point in the course of my work on my book,

The Europeans are scrambling around looking for ways to spend money and to knit their economies together more tightly.

I thought that stablecoins really were a good solution to the question of how we keep dollar dominance while advancing in payments technology.

China issued a central bank digital currency in 2020 and then moved ahead with pilots on it. There was a lot of alarm that the United States had better match it or else we'd be carrying around "e-yuan" in our phones and beaming our personal data back to the Chinese Communist Party. I thought that was ridiculous. But I did think there was a good argument that the United States ought to try to be closer to the technological cutting edge in payments. We have the leading currency, and stablecoins offer, like other

The advantages to King Dollar are much more geopolitical than economic.

cryptocurrencies, rather interesting, innovative features such as smart contracts, where a transaction will only go through if certain conditions are met, with the conditions programmed into the software.

But the more I've looked at stablecoins, the more concerned I've become. I've come around to the view of the critics that they would have a lot of undesirable consequences if they're not well regulated. And at the moment, it seems like Congress is kind of rushing to produce a bill which may not properly address a lot of these concerns, particularly illicit finance, sanctions evasion, and money laundering—all the things that bad guys use stablecoins for.

The Trump administration has been making pretty clear that they see stablecoins as a great way of spreading the dollar all around the world, that people will want stablecoins backed by the U.S. dollar and because it's whizzy and innovative and cool and easy to transact.

First of all, I don't think stablecoins are necessary to promote the dollar. For the reasons I said before, I think the dollar's status will be safe as long as we don't make catastrophic policy missteps. Stablecoins aren't going to make much difference.

I think the regulation needs to be extremely strict and I don't think that having dollar stablecoins flying around the world is a good idea. People in other countries will use stablecoins instead of their own national currencies because, in some cases, their central banks are doing poor jobs of running monetary policy successfully. But they'd be much better off if the central banks just do better at monetary policy, rather than dollarizing their economies. I doubt that it's in America's interest to mess up the ability of foreign central banks to get their monetary policies under control.

***TIE:* Global currency markets talk about the "dollar smile," which refers to the fact that the dollar is strong when the United States is doing well but also strong when the rest of the world is doing poorly because every-**

one runs to get dollars, as you mentioned. What do you think will be the state of this dollar smile by the time of next year's midterm congressional elections?

Blustein: That's hard to predict. I can certainly envision that two years from now, there could be a crisis thanks to the confrontation between the United States and China getting out of control, and that neither end of the dollar smile will necessarily be fully applicable. In other words, it won't be that the United States is doing well, and it won't be that foreigners are doing worse. That could mean that the dollar smile would be a really big frown.

TIE: **As you know, economic forecasting is a very hazardous profession: economists predicted nine of the last five recessions. With that caveat, if we were sitting here in 2050, would you still say with confidence that the dollar is still king?**

Blustein: Not with overwhelming confidence, but I think it will be very hard to dislodge it, again barring really catastrophic missteps.

One big worry is that the rule of law is being eroded on an almost daily basis. Fresh horror stories come out all the time about people being kicked out of government jobs that Congress funded, about people being snatched off the street and sent to prison camps in El Salvador without due process. The list goes on. I don't have to enumerate them, but will that mean that big international investors feel that they can't get an impartial shake in the U.S. judicial system? We're not quite there yet, but that's a very important concern.

If the Fed bows to White House demands for lower interest rates and the result is high inflation, faith in the dollar would obviously be sorely tested.

Will the U.S. economy be ruined by protectionism and irresponsible fiscal policy and erosion of Fed independence, and, my God, by the complete wreckage of the whole scientific and technological government apparatus that we've seen in just the short time since Trump came to office? Will that end America's economic supremacy? Will people lose faith in dollar assets to some extent? Yes.

But what can replace the dollar in international commerce? Not the renminbi, unless China is able to overcome the problems that cause investors to regard Chinese markets as unsafe, where there's dubious rule of law and too many capital controls. Otherwise, people won't feel comfortable putting their money there.

The more I've looked at stablecoins, the more concerned I've become.

The euro can't replace the dollar either, unless the eurozone gets its act together and member countries knit their economies together much more closely than they have so that there's a big and safe market for securities denominated in euros. I think that's a very daunting challenge, and it helps explain why displacing the dollar is going to be very hard.

Let me add something that's very strange for an author to say: I wish I were wrong, because Trump has been using economic coercion, in the form of tariffs, on other countries, particularly Canada, in grossly irresponsible ways. He seems to want to beat the Canadians into poverty so that they'll submit to his demands for annexation. Same goes for his ambition to take over Greenland and the Panama Canal.

I can only imagine that the next weapon he might turn to could be dollar sanctions. It's easy to see him saying, "If you don't think my tariffs are painful enough, how about this? I'll sanction you, I'll deprive you of access to the dollar system." I think that would just be a horrible abuse of the power of the dollar. I hope I'm wrong about my confidence in dollar dominance. I honestly do. I suppose some readers may think my attitude is unpatriotic, but I wish my book were wrong. At the same time, I don't think it serves any purpose to pretend that the dollar isn't dominant and indulge in fantasies that all the power the United States gets as a result is just going to vanish overnight because of the president's recklessness. That's delusional. We have to face this real inconvenient truth, that the dollar is dominant and it gives Donald Trump even more power to bully other countries than he's done so far. And whether we like the truth or not, we'd better understand it. I hope my book helps. ◆