THE USD's ROLE AS THE WORLD'S RESERVE CURRENCY IN A MULTIPOLAR WORLD AND PRESIDENT TRUMP'S SECOND ADMINISTRATION: ARE THE DAYS OF USD DOMINANCE NUMBERED?

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In the postwar era, the U.S. dollar (USD) has dominated as the world's foremost currency. Given the strength of the U.S. economy and longstanding U.S. accountability, the USD has been universally used in trade, commerce, and finance. However, in recent decades, the USD has seen some gradual erosion in its market share, and general barriers to trade and retreat from multilateralism may perhaps hasten such erosion. The USD's dominance has afforded the U.S. many benefits, such as the ability to run deficits and incur debt much more cheaply than it otherwise could. Other countries have pointed to these unequal benefits, along with the increasing weaponization of the USD in the form of sanctions, to advocate instead for a multipolar reserve currency system that displaces the USD's sole dominance. However, due to a lack of better alternatives, USD dominance will most likely persist in the foreseeable future.

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INTRODUCTION

For a century, the U.S. dollar ("USD") has reigned supreme as the world's foremost international currency.[1] The USD first began its rapid ascension during World War I,[2] and fully consolidated its status as the dominant currency in the international monetary system at the Bretton Woods Conference in 1944.[3] Since 1944 and throughout the entire postwar era, despite the ultimate collapse of the Bretton Woods standard in 1971 and a series of macroeconomic shocks in the latter half of the 20th century, USD dominance has prevailed, with the USD having a disproportionately high share of the world economy.[4] Many critics have rightfully pointed out the drawbacks of USD dominance and highlighted the U.S.'s persistent current account deficits and growing foreign debt.[5] Indeed, while the USD's status as the world's reserve currency remains undisputed as of 2025, in the face of an increasingly multipolar world governed by an arguably segmented international financial system that lacks binding, hard law, the dollar's dominance seems to be at a crossroads.[6]

A. What is a Reserve Currency and its Roles?

In order to appreciate the USD's dominance, it is necessary to first understand the significance of a reserve currency and the roles that it plays in international finance. Put simply, a reserve currency is a foreign currency that a country's central bank or treasury holds as part of its foreign exchange reserves.[7] First, countries need to hold reserves in order to weather macroeconomic shocks and financial panics and service their sovereign debt.[8] Second, adjusting their foreign reserves serves as a key tool for central bankers to pursue their independent monetary policies and precisely target healthy exchange rates of their own currencies.[9] Finally, since many countries cannot pay for imported goods in their own currencies, they must leverage their foreign reserves to facilitate trade.[10] For example, since

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[1] Benjamin J. Cohen, *The Future of Reserve Currencies*, 46 FIN. AND DEV. 26, 26 (2009).

[2] Bo S. Karlstroem, *How Did They Become Reserve Currencies?*, 4 FIN. AND DEV. 209, 211 (1967).

[3] Ousmène Jacques Mandeng, *Bretton Woods—Why the dollar?*, THE BRETTON WOODS COMM. (Apr. 4, 2024), https://www.brettonwoods.org/article/bretton-woods-why-the-dollar [https://perma.cc/MXQ8-TLYA].

[4] Carla Norrlöf, *Dollar dominance*: *Preserving the US dollar's status as the global reserve currency*, ATLANTIC COUNCIL (June 8, 2023), https://www.atlanticcouncil.org/commentary/testimony/dollar-dominance-preserving-the-us-dollars-status-as-the-global-reserve-currency/ [https://perma.cc/3XEH-T7R4].

[5] Cohen, *supra* note 1.

[6] Serkan Arslanalp, et al., *Dollar Dominance in the International Reserve System: An Update*, IMF BLOG (June 11, 2024), https://www.imf.org/en/Blogs/Articles/2024/06/11/dollar-dominance-in-the-international-reserve-system-an-update [https://perma.cc/9ZTP-AVDW].

[7] Anshu Siripurapu & Noah Berman, *The Dollar: The World's Reserve Currency*, COUNCIL ON FOREIGN RELATIONS (July 19, 2023, 2:30 PM), https://www.cfr.org/backgrounder/dollar-worlds-reserve-currency#:~:text=How%20did%20the%20U.S.%20dollar,IMF%20and%20the%20World%20Bank [https://perma.cc/PEJ4-692X].

[8] *Id*.

[9] Patrick Douglass, et al., *Taking Stock: Dollar Assets, Gold, and Official Foreign Exchange Reserves*, LIBERTY STREET ECONOMICS (May 29, 2024), https://libertystreeteconomics.newyorkfed.org/2024/05/taking-stock-dollar-assets-gold-and-official-foreign-exchange-reserves/ [https://perma.cc/A982-537R].

[10] Siripurapu & Berman, *supra* note 7.

the vast majority of international trade is not settled in Zambian Kwacha, Zambia is unable to pay its importers in Kwacha and must resort instead to other major reserve currencies such as the USD or the euro.

Therefore, for any currency to achieve "major reserve currency" status, it must simultaneously fulfill all of the above three roles. Currently, the IMF recognizes eight such reserve currencies—the USD, euro, Japanese yen, British pound, Chinese renminbi, Canadian dollar, Swiss franc, and Australian dollar.[11] Not surprisingly, all eight currencies are backed by major and populous sovereigns with high economic activity and robust financial markets. In addition, the IMF also has its own Special Drawing Rights (SDR)—an international reserve asset (not a currency) with a value pegged to a basket of five of the above reserve currencies: the USD, euro, Chinese renminbi, Japanese yen, and British pound.[12] The USD is by far the dominant reserve currency, with a market share of 57.39% as of 2024,[13] the implications of which this piece will explore.

B. Bretton Woods System: Origins of the USD's Dominance

Even though the Bretton Woods System ("Bretton Woods") faced its ultimate demise back in 1971 when President Nixon abandoned the gold standard,[14] Bretton Woods played an indispensable role in facilitating the USD's dramatic rise to the dominant reserve currency.[15] As a result of the Bretton Woods conference in 1944 and as part of a cooperative framework under the auspices of a newfound International Monetary Fund ("IMF"), participating countries agreed to avoid unilaterally adjusting the value of their currencies[16] and instead fix or peg their currencies to the USD.[17] The USD was then itself fixed to gold.[18] As a result, the USD became the universal reference currency for most of the global economy and thereby inevitably became the world reserve currency.[19]

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[11] IMF: CURRENCY COMPOSITION OF OFFICIAL FOREIGN EXCHANGE RESERVES (COFER) (2024)

[12] IMF, https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr [https://perma.cc/X4A7-ZW3D] (last visited Mar. 25, 2025).

[13] IMF, *supra* note 11.

[14] Norrlöf, *supra* note 4.

[15] Mandeng, *supra* note 3.

[16] Put more bluntly, the countries agreed to avoid explicitly manipulating exchange rates of their currencies to gain a competitive edge in trade.

[17] Mandeng, *supra* note 3.

[18] *Id.*

[19] TREAS., APPENDIX 1: AN HISTORICAL PERSPECTIVE ON THE RESERVE CURRENCY STATUS OF THE U.S. DOLLAR (Oct. 15, 2009).

When President Nixon suspended the dollar's convertibility into gold in 1971 in response to the Triffin dilemma[20] along with speculation of the USD and global trade imbalances,[21] many USD skeptics believed that this would lead to the inevitable demise of the USD as the world reserve currency.[22] In March 1973, when most of the G-10 countries decided to jointly float their currencies against the USD, the complete death of Bretton Woods was realized.[23] However, despite the USD losing its role as the universal reference currency, it has continued to hold onto its dominant share of reserves.[24] While Bretton Woods ushered in the USD as the world reserve currency, as soon as the USD became comfortably dominant, Bretton Woods became dispensable. The next part of this piece will explore the reasons for the USD's continued dominance.

C. The Role of Soft Law in International Finance

It is important to note that the USD's dominance as the world reserve currency was not the product of hard law. That is to say, neither Bretton Woods nor the IMF—or any other multilateral public international law, for that matter—has declared the USD as the world reserve currency by legal decree.[25] In fact, many at Bretton Woods had no intention of endowing the USD with such a role.[26] Instead, use of the USD and management of the global financial system at large has largely been facilitated by soft law[27]—international agreements that are not legally binding on the member country signatories. For example, Article IV of the IMF Articles of Agreement explicitly provides that its principles "shall respect the domestic social and political policies of members . . . [and] regard the circumstances of members,"[28] which gives countries much wiggle room to avoid implementing the Fund's preferred standards. Granted, soft law in certain circumstances can still exert a significant coercive effect that compels compliance.[29] However, public international law alone cannot explain the USD's dominance.

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[20] Discussed again in Part II, the Triffin dilemma is the unavoidable conflict that the U.S. faces by virtue of the USD serving as the world reserve currency. Because the USD is the world reserve currency, there is heightened global demand of it, but the U.S. does not have enough gold to back up such demand. Therefore, it needs to choose between two subpar options: either 1) print more money and devalue the USD; or 2) limit supply of the USD and hamper global economic growth. *See* IMF, https://www.imf.org/external/np/exr/center/mm/eng/mm_sc_03.htm [https://perma.cc/W6KE-MCN9] (last visited Mar. 25, 2025).

[21] OFF. OF THE HIST., https://history.state.gov/milestones/1969-1976/nixon-shock [https://perma.cc/9US7-U5J2] (last visited Mar. 24, 2025).

[22] TREAS., *supra* note 19.

[23] OFF. OF THE HIST., *supra* note 21.

[24] TREAS., *supra* note 19.

[25] TREAS., *supra* note 19.

[26] Mandeng, *supra* note 3.

[27] Chris Brummer, *A Theory of Everything: A Historically Grounded Understanding of Soft Law – and the Bank for International Settlements*, SSRN, 1, 1 (2021) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3485122.

[28] IMF art. 4, July 22, 1944.

[29] Brummer, *supra* note 27 at 14.

I. THE USD'S ROLE AS THE WORLD'S RESERVE CURRENCY

A. The USD's Current Dominance

The USD's dominance *in absolute terms* can be shown in the following statistics (as of 2024) that span the different reserve-currency roles discussed above. As a store of value, USD-denominated assets comprise about 59% of global currency reserves, with the second-place euro far behind at 20%.[30] 64% of the world debt—both sovereign and corporate—is denominated in USD.[31] Excluding eurozone payments, 58% of international payments and foreign exchange transactions are made with the USD.[32] And as of 2022, 54% of foreign trade invoices were made in USD.[33] Key commodities such as oil are also usually traded solely in USD.[34] The USD has even been the primary driver of financial innovation, such as being the dominant anchor for stablecoins.[35] And the USD's dominance *in relative terms* also becomes clear when the aforementioned percentages are juxtaposed against the fact that the U.S. only contributes around a quarter of global GDP.[36]

Notwithstanding the collapse of Bretton Woods and the lack of hard law requiring the use of the USD, the USD has persevered for other reasons. First, the USD has dominated by virtue of the sheer economic (and geopolitical) strength of the U.S.[37] The sheer magnitude of U.S. GDP and the general stability of the U.S. economy makes the USD an effective store of value and safe haven for investors.[38] For example, during the Covid pandemic, investors and business owners flocked to the USD, pushing the USD index to near record highs compared to other major reserve currencies like the euro.[39] Furthermore, the U.S. has one of the most extensive trade relations of any country (behind only China).[40] Finally, the U.S. has the deepest and most open capital markets that facilitate liquidity and lowers transaction costs.[41]

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[30] Sam Boocker & David Wessel, *The changing role of the US dollar*, BROOKINGS (Aug. 23, 2024), https://www.brookings.edu/articles/the-changing-role-of-the-us-dollar/ [https://perma.cc/A8A3-MGBP].

[31] *Id.*

[32] *Id.*

[33] *Id.*

[34] Siripurapu & Berman, *supra* note 7.

[35] Bertaut, et al., "*The International Role of the U.S. Dollar" Post-COVID Edition*, BOARD OF GOVERNORS OF THE FED. RSRV. SYS. (June 23, 2023), https://www.federalreserve.gov/econres/notes/feds-notes/the-international-role-of-the-us-dollar-post-covid-edition-20230623.html [https://perma.cc/9SED-WJR6].

[36] David Lubin, *US dollar dominance is both a cause and a consequence of US power*, CHATHAM HOUSE, (Oct. 2, 2024), https://www.chathamhouse.org/2024/09/us-dollar-dominance-both-cause-and-consequence-us-power.

[37] Boocker & Wessel, *supra* note 30.

[38] *Id.*

[39] Eric Lorber & Jonathan Schanzer, *The US dollar is still king during the coronavirus*, CNN (April 17, 2020, 8:25 AM), https://www.cnn.com/2020/04/17/perspectives/strong-dollar-coronavirus/index.html [https://perma.cc/QLQ8-3SYQ].

[40] OFF. OF THE U.S. TRADE REPRESENTATIVE, https://ustr.gov/countries-regions (last visited Mar. 24, 2025).

[41] Boocker & Wessel, *supra* note 30.

Case in point, the U.S. treasury market itself is worth approximately $28 trillion, with nearly $1 trillion being traded every day.[42]

On the other hand, the USD also enjoys support from the U.S.'s political stability and accountability, along with the longstanding American commitment to maintaining a robust and sound international financial system. For example, the Federal Reserve ("Fed") has, in the last two decades, implemented two major programs to ease severe strain in the financial markets during crises and facilitate the continued extension of credit.[43] After the 2008 Global Financial Crisis, the Fed introduced temporary swap lines with several foreign central banks, many of which were subsequently made permanent in 2013.[44] During the Covid pandemic, the Fed further bolstered these swap lines, while introducing a repo facility to alleviate pressure in the financial markets.[45] The Fed's actions have thereby reinforced the USD's dominance as the global economy at large has repeatedly gained confidence that the U.S. government will ensure stable sources of USD funding.[46] Furthermore, beyond specific financial crises, the U.S. has also consistently overseen and reinforced the infrastructure and institutions that underpin the international financial system, ranging from the Society for Worldwide Interbank Financial Telecommunications (SWIFT) to clearinghouse payments systems.[47]

In summary, by virtue of the U.S.'s strength—in terms of its economic strength, geopolitical clout, and political stability—the USD has remained the most attractive option for foreign governments and private institutions alike. As a result, the USD continues to dominate.

B. Recent Erosion of the USD's Dominance

However, despite the USD's dominant use in reserves, payments, and trade, the USD has seen some recent erosion in its market share. To a certain extent, central banks have gradually shifted away from the USD—in 2000, a little over 70% of global foreign reserves were held in USD-denominated assets; that percentage has since slipped to 59% in 2024.[48] During that same timeframe, the share of nontraditional reserves has jumped from 2% in 2000 to 11% in 2024.[49] Therefore, roughly 10% of the USD's market share has been lost to other reserve currencies such as the Chinese renminbi, Canadian dollar, and Australian dollar.

There are a number of reasons for the erosion of the USD's market share. Primarily, in an increasingly multipolar world with countries making proactive efforts to push adoption of

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[42] *Treasury Market Structure*, SEC. INDUS. AND FIN. MTKS., https://www.sifma.org/explore-issues/treasury-market-structure/#:~:text=The%20U.S.%20Treasury%20market%20is,government%20to%20finance%20its%20activities [https://perma.cc/TGZ5-GFLT] (last visited Mar. 25, 2025).

[43] Bertaut, et al., *supra* note 35.

[44] *Id.*

[45] *Id.*

[46] *Id.*

[47] Boocker & Wessel, *supra* note 30.

[48] *Id.*

[49] *Id.*

their own national currencies, there are more viable alternative reserve currencies to the USD. After decades of explosive economic growth, China's renminbi has already carved out an international role for itself, and the Chinese government has actively pushed for its use.[50] Specifically, the Chinese government has created networks of dedicated renminbi clearing banks, renminbi-centric payment systems, and renminbi swap lines, while entering into bilateral agreements with other countries that use the renminbi.[51] In other words, China's monetary authorities have largely mimicked actions that the Fed has taken to shore up international support for and confidence in the renminbi. Furthermore, China is not alone—the European Central Bank has made intentional policy decisions to further the euro's international attractiveness.[52] And beyond China and the European Union (the "EU"), other viable competitors to the USD include other international organizations such as BRICS and ASEAN.[53] Furthermore, new technologies such as cryptocurrencies and the blockchain can also compete against the USD by rendering it (or any global currency, for that matter) increasingly irrelevant.[54]

Another key reason for the recent erosion of USD market share is the U.S. government's extensive use of sanctions and "weaponization" of the dollar and dollar payments system.[55] For example, after Russia invaded Ukraine, the U.S. leveraged the dollar payments system to freeze Russia's access to its foreign exchange reserves.[56] As a result, since the USD's dominance helps make international sanctions much more effective, [57] Russia and other geopolitical adversaries of the U.S., such as China, are deeply incentivized to reroute the global economy away from the USD. And given the lack of hard law in international finance to stymie such progress, along with increasing geopolitical tensions, further erosion of the USD's dominance may continue.

C. The Implications of the Second Trump Administration's Policies on USD Dominance

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[50] Bastian von Beschwitz, *Internationalization of the Chinese renminbi: progress and* outlook, BOARD OF GOVERNORS OF THE FED. RSRV. SYS. (Aug. 30, 2024), https://www.federalreserve.gov/econres/notes/feds-notes/internationalization-of-the-chinese-renminbi-progress-and-outlook-20240830.html [https://perma.cc/Y2TQ-KGMF].

[51] *Id.*

[52] Lukas Spielberger, *No Longer Neutral: The ECB's Depoliticization of the International Role of the Euro*, 13 COGITATIO 1, 10 (2025).

[53] Tahir Abbas, et al., *De-dollarization of the Global Economy: Implications for U.S. Hegemony*, 6 QLANTIC J. SOC. SCI. 32, 37 (2025).

[54] Jay Sapsford, *Will Technology Erode the Dominance of the Dollar?*, U.S. CHAMBER COM. (Dec. 05, 2024), https://www.uschamber.com/international/payments-sanctions-and-the-us-dollar [https://perma.cc/XRN9-G2CH].

[55] Robert H. Wade, *Long Read: The beginning of the end for the US dollar's global dominance*, LONDON SCH. OF ECON. (Feb. 29, 2024), https://blogs.lse.ac.uk/internationaldevelopment/2024/02/29/long-read-the-beginning-of-the-end-for-the-us-dollars-global-dominance/ [https://perma.cc/4D85-AGM8].

[56] *Id.*

[57] Maxim Chupilkin, et al., *Exorbitant Privilege and Economic Sanctions*, SSRN, 1, 2 (2023) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4584974.

President Trump has openly condemned any attempts to circumvent the USD, threatening 100% tariffs on the BRICS countries for any efforts to launch a new reserve currency.[58] President Trump has also pledged to make the U.S. the world's "crypto capital" in order to protect "the sovereignty of the United States dollar."[59] However, it is unclear whether tariffs may help preserve the USD's dominance; in fact, there is a possibility that tariffs, along with the Trump administration's broader skepticism of multilateralism, may actually *weaken* USD dominance.

President Trump has a strong preference for a weak USD (in terms of exchange rates) and has consistently called for the Fed to implement lower interest rates.[60] A persistently weak and artificially suppressed USD could potentially lead to loss of investor confidence and demand for the USD as a safe-haven store of value. And if the Fed's independence is eroded, the USD may lose its longstanding benefit from U.S. political accountability and transparency.

With respect to trade, tariffs could potentially sow confusion in the global economy and shake faith in the U.S.,[61] which has effectively been the overseer of the current global economic order in the postwar era and global financial markets. As a result of the ensuing economic disruption, many trade partners might be incentivized to hedge against the USD by using alternative reserve currencies.[62] Moreover, despite President Trump's wishes to the contrary, tariffs may more likely inflate, rather than deflate, the USD's value, resulting in other sets of economic disruptions.[63] Finally, with respect to the U.S. trade deficit, there is a fundamental policy paradox. President Trump has been unequivocal about his interest in reducing the U.S. trade deficit.[64] However, the trade deficit is a direct consequence (or cost) of USD dominance—put in the simplest terms, because much of global trade is done in USD, there will always be a greater demand for it outside of the U.S.'s borders, so that countries can use the USD to trade amongst themselves.[65] Therefore, the Trump administration's policy prerogatives of preserving USD dominance seem to be somewhat at odds with

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[58] Chelsey Dulaney, *What's Behind Trump's De-Dollarization Tariff Threats to Brics Countries*, WALL ST. J (DEC. 2, 2024, 6:59 PM), https://www.wsj.com/livecoverage/stock-market-today-dow-sp500-nasdaq-live-12-02-2024/card/what-s-behind-trump-s-de-dollarization-tariff-threats-FoUeJFNSoHUM7OwkMClU [https://perma.cc/G32E-NANN].

[59] Ako Fujii, *All is not quiet: Trump's attack on global economy threatens dollar*, NIKKEI ASIA (Feb 16, 2025, 11:00 JST), https://asia.nikkei.com/Spotlight/Comment/All-is-not-quiet-Trump-s-attack-on-global-economy-threatens-dollar [https://perma.cc/V8JJ-3L4K].

[60] *Id.*

[61] *Id.*

[62] Alan Rappeport, *Trump's Threats Over the Dollar Could Accelerate Push for Alternatives*, N.Y. TIMES (Dec. 5, 2024), https://www.nytimes.com/2024/12/05/us/politics/trump-dollar-trade-china-russia.html [https://perma.cc/A8MA-7GL2].

[63] David Lubin, *supra* note 36.

[64] Usman W. Chohan, *Trump: A Second Administration in Seven Economic Paradoxes*, SSRN, 1, 5 (2024) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5078763.

[65] *Id.* at 6.

immediately and drastically reducing the U.S. trade deficit.[66] While there is definitely some play in the joints at the margin, these two objectives, at least in theory, are mutually exclusive.

In addition, besides monetary and trade policy, a fiscal decision to lower taxes may also weaken confidence in the USD. Lower taxes may exacerbate the U.S.'s fiscal debt,[67] which is already arguably unsustainable. And if investors—global and domestic alike—begin to lose confidence in American creditworthiness, it could negatively impact USD dominance.[68]

In conclusion, the Trump Administration seems to have hope that, in the face of tariffs, U.S. trade partners are not price sensitive when it comes to maintaining access to U.S. markets.[69] If this is true, then the USD's dominance will likely persevere. However, if it is not, then the USD's dominance, along with all the advantages it confers to the U.S., might be significantly weakened.

II. POLICY ARGUMENTS

The virtues and vices of USD dominance are many, with significant implications for both the U.S. and the global economy. This section will discuss arguments both 1) in favor of and 2) against a universal reserve currency dominated by the USD. Admittedly, with respect to the benefits and costs of USD dominance, this section takes an Americentric approach, with the recognition that the benefits of USD dominance for the U.S. are likely to be seen instead as the *costs* of USD dominance by other countries.

A. Arguments in Favor of a Universal Reserve Currency Dominated by the USD

From the U.S.'s perspective, the most consequential benefit of USD dominance is the "exorbitant privilege" that it bestows on the U.S. A term first coined by French president Charles de Gaulle, the exorbitant privilege of the USD refers to the U.S.'s ability to essentially owe money to other countries free of charge.[70] Usually, any country running significant fiscal deficits is required to devalue its currency, print more money to pay bills, cut spending, implement unpopular austerity measures, and endure inflationary pressure.[71] However, as long as the USD is the dominant reserve currency, other countries will always need to purchase USD in order to trade amongst themselves.[72] Therefore, because of this

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[66] *Id.*

[67] Chuck Marr & Samantha Jacoby, *House Republican Budget's $4.5 Trillion Tax Cut Doubles Down on Costly Failures of 2017 Tax Law*, CTR. ON BUDGET AND POL'Y PRIORITIES (Feb. 28, 2025), https://www.cbpp.org/research/federal-budget/house-republican-budgets-45-trillion-tax-cut-doubles-down-on-costly [https://perma.cc/UK3K-G6EP].

[68] Upamanyu Lahiri, *Why the National Debt Matters for the Dollar and Global Economic Strength*, BIPARTISAN POL'Y CTR. (Oct. 16, 2024), https://bipartisanpolicy.org/explainer/why-the-national-debt-matters-for-the-dollar-and-global-economic-strength/ [https://perma.cc/NM28-Y8K6].

[69] Carla Norrlöf, *Trump, Bitcoin, and the Future of the Dollar*, PROJECT SYNDICATE (Mar. 11, 2025), https://www.project-syndicate.org/commentary/trump-bitcoin-reserve-tariffs-future-of-dollar-by-carla-norrlof-2025-03 [https://perma.cc/72SP-4DW6].

[70] BARRY EICHENGREEN, EXORBITANT PRIVILEGE: THE RISE AND FALL OF THE DOLLAR 4 (1st ed. 2011).

[71] *Id.*

[72] *Id.*

constant demand for USD, the U.S. can print USD to pay off its debts without needing to make the aforementioned sacrifices. In short, the U.S. government and American consumers alike are able to incur debt and borrow much more cheaply than most, if not all, other countries due to the USD's dominance—this unique ability is the USD's "exorbitant privilege."[73]

Furthermore, besides cheap borrowing costs, the USD's dominance affords other trade benefits. For example, a dominant USD, via exchange rates, reduces the cost of imported goods, giving American consumers heightened purchasing power.[74] In addition, the USD's dominance greatly reduces the possibility of the U.S. facing a currency crisis that would halt imports and cause financial crises.[75]

Finally, not only does USD dominance afford more purchasing (and political) power for the U.S., but it also weakens that of other countries. The most obvious example is the weaponization of the USD in the form of sanctions. Because most global trade is done in USD and transactions are handled by banks with accounts at the Fed, U.S. sanctions have particularly strong teeth—those that the U.S. blacklists simply cannot do business.[76] The USD's dominance has become a critical tool for the U.S. to pursue its foreign policy objectives and geopolitical goals.

B. Arguments in Favor of a Multipolar Reserve Currency

Not surprisingly, many critics of USD dominance have pointed to the USD's exorbitant privilege, weaponization in the form of sanctions, and other U.S.-centric benefits as convincing reasons to pursue a multipolar reserve currency. Indeed, back in 2011, Chinese President Hu Jintao delivered a sharp rebuke of USD dominance by calling it a "product of the past."[77] And as mentioned previously, not only China, but also other countries and blocs ranging from Russia to the EU and BRICS have openly expressed their desires to establish a competitor to the USD. As the exact inverse to the arguments advanced in favor of USD dominance, a multipolar reserve currency system (akin to a basket of the dominant currencies) could likely reduce perceived American political overreach while more fairly reflecting the increased statures of dominant emerging market economies such as China, India, Brazil, etc. More currency competition could also make the international monetary system safer and more efficient.[78]

Curiously, notwithstanding the assorted benefits that the U.S. has received from USD dominance, the U.S. could also potentially benefit from a multipolar reserve currency system. By virtue of being the dominant currency, there is essentially insatiable demand for the

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[73] *But see* Ben S. Bernanke, *The dollar's international role: An "exorbitant privilege"?*, BROOKINGS (Jan. 7, 2016), https://www.brookings.edu/articles/the-dollars-international-role-an-exorbitant-privilege-2/ [https://perma.cc/FQ7D-AXBC] (arguing that the USD's exorbitant privilege has already been significantly eroded by competing currencies).

[74] Boocker & Wessel, *supra* note 30.

[75] *Id.*

[76] Siripurapu & Berman, *supra* note 7.

[77] Eichengreen, *supra* note 70.

[78] Emmanuel Farhi, *Toward a Multipolar System*, F&D, June 2019, at 39.

USD,[79] which results in low borrowing costs for the U.S. government and American consumers, as mentioned above. However, while cheap borrowing may seem like an incredible advantage from an American perspective, it comes with a cost—over the long run, the U.S. can only accommodate such demand for USD by running even higher account deficits and stretching its fiscal and financial capacities.[80] Over time, the resulting inflationary pressure would erode investor confidence in the USD, and weaken its dominance.[81] Alternatively, the U.S. could decide to instead stop running deficits, but that would greatly constrain global liquidity, which could then hamstring global economic growth.

In short, as a direct consequence of USD dominance, the U.S. is trapped between these two unappealing choices, a phenomenon popularly known as the "Triffin dilemma." If the USD's dominance is reduced, the U.S. won't need to shoulder the consequences of the Triffin dilemma alone.[82] U.S. policymakers would arguably have much more flexibility, as they would be able to reduce U.S. deficits without directly jeopardizing global economic growth. U.S. exporters would also become more competitive as preserving the value of the USD as a policy objective becomes relatively less important.[83] In conclusion, many arguments can be made that the benefits derived from the USD's exorbitant privilege no longer outweigh its costs.[84]

C. The USD's Dominance Will Likely Persist

Notwithstanding the convincing arguments that critics of USD dominance and proponents of a multipolar reserve currency system have advanced, USD dominance will most likely persist, at least in the near future, for several reasons. First, network effects discourage any quick and large-scale pivot away from the USD.[85] Because the USD is already deeply entrenched in the global economy, from its use in trade to a safe-haven asset and everything in between, the transaction costs of quick decoupling from the USD would be significant.[86] In modern history, there has been only one instance of a predominant currency switching—the USD replacing the British pound's dominance at Bretton Woods[87]—and such a switch only occurred after two destructive world wars that largely rewrote the international order in the U.S.'s favor.

Furthermore, the fear that the USD's weaponization in the form of sanctions might erode its dominance may be overstated. About three-quarters of foreign governments' USD-

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[79] *Id.*
[80] *Id.*
[81] *Id.*
[82] *Id.*
[83] Barry Eichengreen, *Two Views of the International Monetary System*, 54 REV. OF EUR. ECON. POL'Y 233, 235 (2019).
[84] *Id.*
[85] Lubin, *supra* note 36.
[86] *Id.*
[87] Bertaut, et al., *supra* note 35.

denominated assets are held by U.S. military allies.[88] And key U.S. geopolitical adversaries such as China and Russia would not be able to dodge sanctions by using other major reserve currencies issued by U.S.-friendly governments such as the euro, yen, and pound.[89]

And with respect to competing reserve currencies, there does not seem to be a compelling alternative to the USD that would offer more benefits at lower costs. Many have pointed to the Chinese renminbi as a good alternative, given China's continued rapid growth. However, China's strict capital controls and generally low investor confidence in Chinese institutions diminish the renminbi's attractiveness for international investors.[90] The EU, on the other hand, has reputable and stable institutions, along with fairly deep financial markets and free trade.[91] However, the euro's attractiveness remains handicapped by a lack of a common treasury and a unified European bond market.[92] The IMF's SDR does not have its own market and is not accepted in virtually any private transactions, and the U.S.'s veto power in the IMF makes adoption of the SDR a political impossibility.[93] Finally, due to Japan's Lost Decades, the yen's prospects as the dominant world reserve currency have diminished.[94]

Unlike these other potential contending currencies and their aforementioned drawbacks, the USD seems to check all the boxes. The U.S. has the deepest and most liquid financial markets, the U.S. economy is the largest and remains strong, and the U.S. government by and large remains politically accountable and transparent.[95] Granted, as the previous section of this piece explored, gradual erosion of the USD's market share has already occurred and will likely continue as the USD continues to face headwinds. However, in the interim, as any large-scale decoupling from the USD would likely only exacerbate existing problems, the USD seems well-positioned to maintain its dominance for the foreseeable future.

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[88] Colin Weiss, *Geopolitics and the U.S. Dollar's Future as a Reserve Currency*, SSRN, 1, 2 (2022) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4256436.

[89] Bertaut, et al., *supra* note 35.

[90] *Id.*

[91] *Id.*

[92] Siripurapu & Berman, *supra* note 7.

[93] *Id.*

[94] Paul Blustein, *Japan's currency was one of the first challengers to the U.S. dollar—why 90s predictions of a 'yen bloc' fell apart*, FORTUNE (Mar. 21, 2025, 5:00 PM), https://www.aol.com/finance/japan-currency-one-first-challengers-210000154.html [https://perma.cc/7XJC-L62Q].

[95] Bertaut, et al., *supra* note 35.

CONCLUSION

It would not be a gross exaggeration to argue that the USD has largely underwritten much of the postwar global economy, and its continued dominance has withstood a series of shocks ranging from the collapse of the gold standard and financial downturns to geopolitical crises and the explosive growth of countries such as China. However, the USD has seen a gradual erosion of its market share in the last couple of decades, and it remains to be seen whether the Trump administration's policies will exacerbate such erosion. Fortunately for the U.S., it has derived many benefits due to USD dominance. Other critics and countries have bemoaned this and instead argued for a multipolar reserve currency. While they have advanced convincing arguments, the institutional benefits of the USD and overall inertia will most likely preserve USD dominance in the years to come.