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Your dollar, our problem?

The future of the U.S. dollar dominance in an era of geopolitical fragmentation

by AGNIESZKA GEHRINGER

Abstract

The debate over dollar dominance often focuses on whether the rest of the world can move beyond the dollar. This paper argues that the more important question is whether the United States will continue to provide the economic and institutional foundations that made the dollar dominant in the first place. Maintaining that leadership is as much in America's own interest as it could be in everyone else's.

Zusammenfassung

Die Debatte über die Dominanz des Dollars konzentriert sich oft auf die Frage, ob der Rest der Welt den Dollar hinter sich lassen kann. In diesem Beitrag wird argumentiert, dass die wichtigere Frage lautet, ob die Vereinigten Staaten weiterhin die wirtschaftlichen und institutionellen Grundlagen bereitstellen werden, die den Dollar überhaupt erst dominant gemacht haben. Die Aufrechterhaltung dieser Führungsrolle liegt ebenso sehr im Interesse der USA selbst wie im Interesse aller anderen Staaten.

1. Introduction

"The dollar is our currency, but it's your problem" was the reported response by U.S. Treasury Secretary John Connally to European complaints in 1971, shortly after President Richard Nixon had suspended the convertibility of the U.S. dollar into gold, effectively bringing the Bretton Woods system to an end. Connally's remark sent an unmistakable message: the United States would pursue its own economic interests, while the rest of the world would bear the consequences. For decades, the quote came to symbolize the extraordinary privilege enjoyed by the issuer of the world's dominant currency.

Ironically, the Global Financial Crisis of 2008 turned Connally's famous dictum on its head. As interbank lending froze, banks across Europe and Asia faced an acute shortage not of euros, yens, or pounds, but of U.S. dollars. Because international trade, finance, and banking had become deeply dependent on dollar funding, a liquidity crisis in New York rapidly became a crisis for the global financial system. To prevent its collapse, the U.S. Federal Reserve established emergency dollar swap lines with foreign central banks, ultimately providing more than half a trillion dollars in liquidity. The institution that acted as the lender of last resort for much of the world was not the International Monetary Fund, but the U.S. Federal Reserve.

More than half a century after Connally's remark, however, the foundations of this monetary order are increasingly debated. Rising geopolitical tensions, the resurgence of (U.S.) protectionism, challenges to U.S. alliances, various initiatives in the emerging countries to reduce dependence on the dollar, and the emergence of digital currencies have all revived an old question: will the U.S. dollar remain the world's dominant currency? This study analyses this question by first clarifying what currency dominance means, which conditions lead a country to become an issuer of a dominant currency, before assessing whether any plausible alternative could assume both the privileges and the responsibilities associated with monetary leadership.

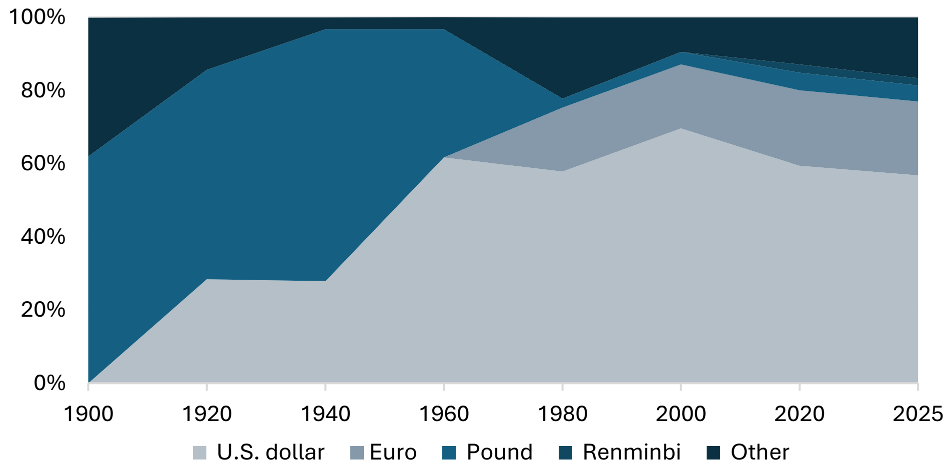
2. What does currency dominance mean?

At first glance, the concept of a dominant currency appears straightforward. It is often referred to the currency that accounts for the largest share of global foreign exchange reserves or international transactions. In reality, however, currency dominance is a much broader phenomenon. An international currency performs several functions simultaneously, serving governments, firms, financial institutions and private investors. Currencies may be internationally important in some functions but not in others. The dominance of the U.S. dollar is remarkable precisely because it extends across all major functions of the international monetary system.

The international role of a currency can be classified according to the functions it performs for both public and private actors (Cohen, 2012; Eichengreen, 2019). Governments primarily demand international currencies as reserve assets and intervention instruments, whereas private actors use them for invoicing trade, settling international payments, denominating financial contracts and storing wealth. The more extensively a currency performs these functions, the more dominant its position within the international monetary system.

The most widely recognised dimension of currency dominance is the role of a reserve currency. Central banks hold foreign exchange reserves to stabilize exchange rates, reassure financial markets, meet external payment obligations and provide liquidity during periods of financial stress. Although the share of the U.S. dollar in official foreign exchange reserves has gradually declined over the past two decades – from around 70 percent at the beginning of the century to approximately 58 percent today – it remains by far the world's most important reserve currency. By comparison, the euro accounts for roughly one-fifth of global reserves, while the Chinese renminbi represents only a negligible fraction despite China's growing economic weight (**Fig. 1**).

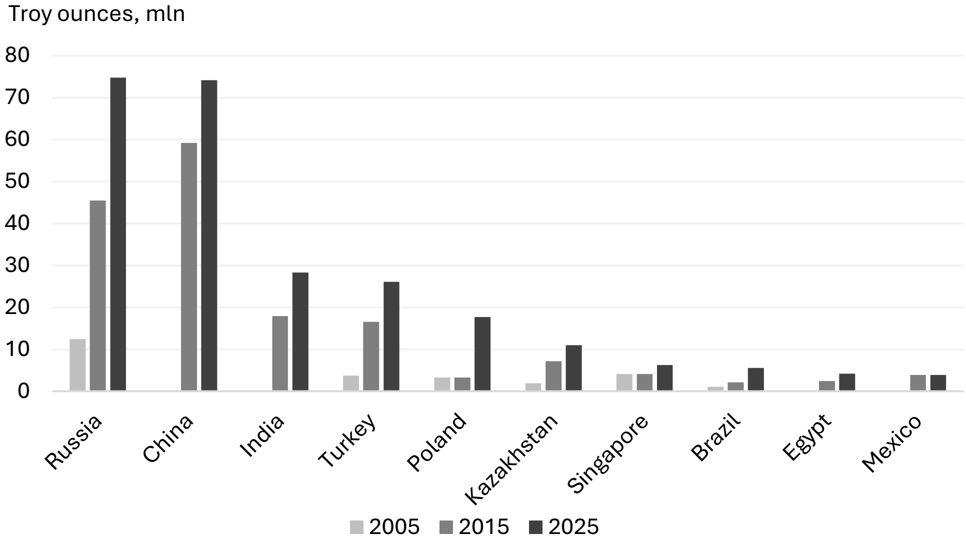
Figure 1. Composition of global reserve currencies



Source: Own elaboration (FvS Research Institute) based on IMF database Currency Composition of FX Reserves and Visual Capitalist

The gradual decline in the dollar's share of official foreign exchange reserves should not be interpreted as a straightforward shift toward competing reserve currencies. Much of the reduction has instead been absorbed by rising official gold holdings (**Fig. 2**). In recent years, central banks have accumulated gold at the fastest pace in decades, reflecting concerns about growing geopolitical fragmentation, the increasing use of financial sanctions and uncertainty surrounding the long-term trajectory of U.S. public debt. Gold has therefore strengthened primarily in its traditional role as a store of value. However, unlike the U.S. dollar, gold cannot efficiently perform the other essential functions of an international currency. It is neither a practical medium of exchange for international payments nor a unit of account for trade invoicing and financial contracts. Consequently, the growing role of gold complements rather than replaces the dollar's central position within the international monetary system.

Figure 2. Gold holdings as official reserve assets by monetary authorities



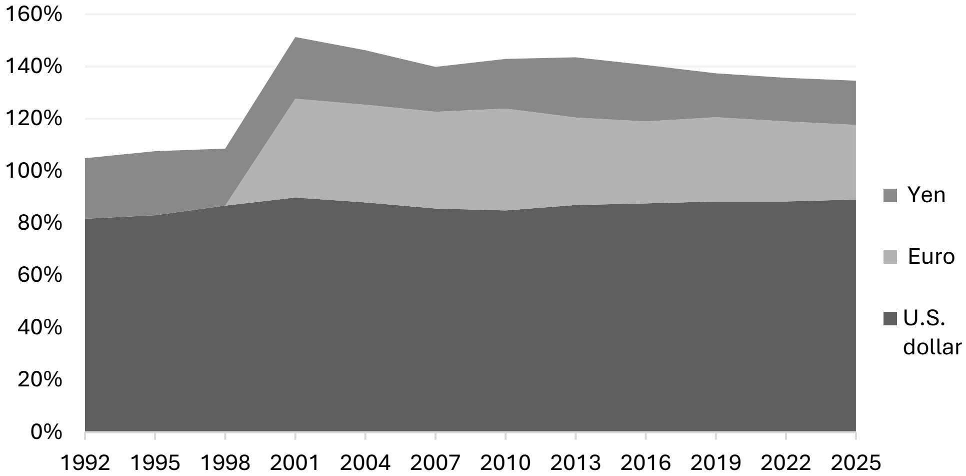
Source: Own elaboration (FvS Research Institute) based on IMF International Reserves & Foreign Currency Liquidity

The persistence of the official reserve holdings illustrates the strong inertia characterizing international currency use: once a currency has established itself as the preferred reserve asset, central banks are incentivized to continue holding it because of its liquidity, market depth and widespread acceptance.

Beside reserve holding function, equally important is the role of a currency as an invoicing currency, in which international trade contracts are denominated. In many cases, exports and imports are not invoiced in the currencies of either trading partner but instead in a widely accepted international currency. The U.S. dollar dominates global trade invoicing far beyond the United States' own share in world trade. While the United States accounts for only around one-tenth of global merchandise exports, roughly one half of world trade is invoiced in dollars (Boz et al., 2025). The dollar's dominance is most visible in commodity markets, where oil, natural gas and most industrial metals are priced in dollars. As a result, dollar fluctuations affect inflation, production costs and external balances even in countries with limited trade links to the United States.

Closely related is the function of a dominant currency as a vehicle currency in foreign exchange markets. International currency trading rarely occurs directly between two smaller currencies. Instead, transactions are typically conducted through an intermediary currency, thereby minimizing transaction costs and increasing market liquidity. The U.S. dollar overwhelmingly fulfills this role. According to the Bank for International Settlements, the dollar is involved in nearly 90 percent of all foreign exchange transactions worldwide (**Fig. 3**). This extraordinary market share reflects strong network externalities: because market participants expect others to trade in dollars, liquidity concentrates in dollar markets, further reinforcing its attractiveness as the preferred intermediary currency.

Figure 3. Currency participation in global foreign exchange turnover

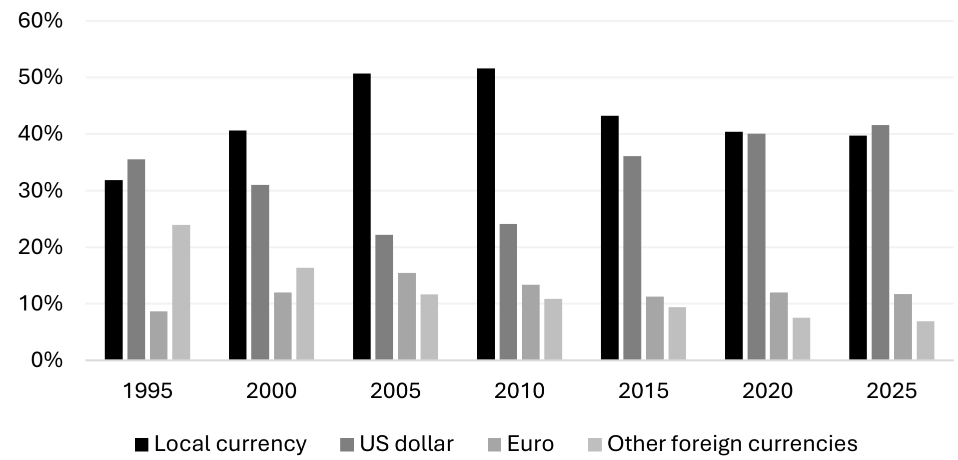


Note: According to the BIS Triennial Central Bank Survey, currency shares are measured as the percentage of total turnover accounted for by each currency on one side of all foreign exchange transactions. Since each transaction involves two currencies, aggregate shares sum to 200%.

Source: Own elaboration (FvS Research Institute) based on BIS Triennial Central Bank Survey

A fourth dimension concerns the use of a currency as a financing and investment currency. International bonds, cross-border bank lending and corporate borrowing are frequently denominated in currencies other than those of either borrower or lender. The U.S. dollar dominates global debt markets, accounting for the majority of internationally issued debt securities and cross-border bank claims (**Fig. 4**). This enables governments and firms worldwide to access deep and highly liquid dollar funding markets. However, it also creates substantial exposure to changes in U.S. monetary policy. As the Global Financial Crisis of 2008 and the COVID-19 crisis vividly demonstrated, disruptions in dollar funding markets can rapidly spread across national borders, requiring extraordinary interventions by the Federal Reserve through its network of central bank swap lines.

Figure 4. International debt securities by currency



Source: Own elaboration (FvS Research Institute) based on BIS data

Finally, an international currency serves as a store of value for both public and private investors. Beyond official reserve managers, institutional investors, sovereign wealth funds, multinational corporations and households seek assets that preserve purchasing power while remaining highly liquid, even during periods of financial turmoil. This function depends less on the currency itself than on the availability of safe and liquid financial assets denominated in that currency. U.S. Treasury securities have long fulfilled this role better than any other financial instrument. Their market size, liquidity and perceived safety make them the world's most desired safe asset.

3. Why do some currencies become dominant?

The international monetary system has been characterized by remarkable continuity. Although economic power has shifted repeatedly over the past two centuries – from Britain to the United States and, more recently, toward Asia – the international use of currencies has changed only gradually. Reserve currencies are rarely replaced overnight. Instead, their rise and decline typically unfold over decades, reflecting significant changes in the underlying determining forces.

The economic literature identifies numerous determinants of international currency status (Cohen, 1971; Tavlas, 1990; Eichengreen, 2019; Iancu et al., 2022). While authors differ in the relative importance they assign to individual factors, a broad consensus has emerged that currency dominance rests on four main mutually reinforcing foundations: economic size, institutional credibility, geopolitical power, and network externalities. None of these conditions alone is sufficient. Rather, a dominant currency emerges from their interaction.

3.1 Economic drivers

A crucial prerequisite for international currency status is the economic importance of the issuing country. Large economies naturally generate extensive trade and financial transactions, creating demand for their currencies beyond national borders.

Economic size alone, however, is insufficient. China, for example, has become the world's second-largest economy and the largest trading nation, yet the international role of the renminbi remains relatively limited.

Beyond economic strength, also the availability of deep, liquid and sophisticated financial markets is another economic prerequisite. International investors require safe and easily tradable assets in which to invest their reserves and savings. Governments and firms issuing debt in the international currency likewise benefit from well-functioning capital markets capable of absorbing large financing needs at low transaction costs. The exceptional depth of U.S. Treasury markets has therefore become one of the principal drivers of dollar dominance. Treasury securities are widely regarded as the world's benchmark safe asset, providing investors with liquidity even during periods of severe financial stress.

3.2 Institutional credibility

Economic size may create demand for a currency, but trust determines whether that demand is sustained. Since the collapse of the Bretton Woods system and the transition to fiat money, international currencies have no longer been backed by gold but by confidence in political and economic institutions. Investors purchasing dollar-denominated assets ultimately place their trust in the legal system, political stability and institutional framework of the United States (Rogoff, 2025).

Several institutional characteristics are particularly important. First, property rights and the rule of law ensure that investors can confidently hold financial assets without fear of arbitrary confiscation or discrimination. Second, credible fiscal policies strengthen confidence that government debt will remain sustainable. Finally, an independent and competent central bank provides assurance that monetary policy will prioritize long-term stability over short-term political considerations.

These institutional foundations explain why reserve currency status often survives periods of temporary economic weakness. Confidence accumulated over decades cannot easily be replicated by competing countries. Conversely, institutional deterioration may gradually erode a currency's international attractiveness even if the issuing economy remains large and prosperous.

3.3 Geopolitical power and international leadership

International currencies have rarely been detached from geopolitical influence. Throughout history, the leading reserve currency has generally been issued by the dominant geopolitical power of its era. The British pound reflected Britain's naval supremacy and global trading empire during the nineteenth century, while the rise of the U.S. dollar after the Second World War mirrored America's economic, military and diplomatic leadership in the world economy (Rogoff, 2025).

Geopolitical influence affects currency use through several channels. Security alliances deepen trade and financial integration, while international institutions often reinforce the position of the dominant currency. At the same time, geopolitical power enhances confidence that the issuing country possesses both the willingness and the capacity to preserve the stability of the international monetary system during periods of crisis.

The relationship also works in the opposite direction. A dominant currency provides important geopolitical supremacy by increasing diplomatic leverage and lowering the cost of projecting economic and military power abroad. It also confers currency statecraft that enables the issuing government to determine what to do – or not to do – across political frontiers to pursue its geopolitical interests (Cohen, 2018). Since many countries and private actors hold government bonds issued by a country with a reserve currency, this creates significant additional fiscal leeway, which makes high levels of military spending possible. Stanford economist Ronald McKinnon has referred to this as an “unlimited line of credit” (McKinnon 2012).

3.4 Network effects and inertia

Although economic and institutional fundamentals explain how currencies initially achieve international prominence, they cannot fully explain why dominant currencies remain dominant for so long. The persistence of reserve currencies is largely driven by powerful network effects and path dependence (He & Yu, 2016).

The usefulness of an international currency increases with the number of users adopting it. Firms prefer to invoice trade in the currency already used by their suppliers and customers. Banks prefer to operate in the currency with the deepest financial markets. Central banks prefer to hold reserves in the currency most readily accepted during crises. Investors seek assets offering the greatest liquidity, while governments issue debt in the currency attracting the largest investor base. Each additional user therefore increases the value of the currency for all other users.

These self-reinforcing dynamics create substantial lock-in effects, reinforced by the underlying switching costs of moving to a possible alternative currency (Posen, 2008). Even if another economy eventually surpasses the incumbent in terms of GDP, market participants have little incentive to abandon an established international currency unless the alternative offers overwhelming advantages. Consequently, reserve currency transitions tend to occur only slowly and often over several decades. The replacement of the British pound by the U.S. dollar was itself a prolonged process extending well beyond the shift in relative economic size between Britain and the United States.

The combination of network effects and institutional inertia implies that international monetary systems resemble natural monopolies. Multiple international currencies can coexist, but one currency often emerges as the principal focal point for global trade, finance and reserve accumulation. This dominance becomes increasingly self-sustaining over time (Benney & Cohen, 2022).

4. Issuing the dominant currency: a blessing or a curse?

The international dominance of a currency is often portrayed as one of the greatest economic advantages a country can possess. Since the 1960s, this benefit has been summarized by the famous expression "the exorbitant privilege", coined by the French Finance Minister Valéry Giscard d'Estaing to describe the unique position enjoyed by the United States.

The most visible benefit of issuing the world's dominant currency is the persistent international demand for domestic financial assets. Global investors – including central banks, sovereign wealth funds and pension funds – seek highly liquid and safe assets. Because U.S. Treasury securities have become the benchmark safe asset of the global financial system, this demand reduces the borrowing costs of the U.S. government and enables it to finance larger fiscal deficits at lower interest rates than would otherwise be possible. Unlike many emerging economies, which are often forced to borrow in foreign currencies and therefore remain exposed to exchange-rate risk, the United States issues virtually all of its debt in dollars. This eliminates the risk that a depreciation of the domestic currency could suddenly increase the real burden of public debt – a problem often referred to in the literature as "original sin" (Eichengreen et al., 2023).

Beyond conventional seigniorage, the United States also benefits from its role as the "world venture capitalist" (Gourinchas & Rey, 2007). Accordingly, foreign investors predominantly hold relatively safe American assets, such as Treasury securities and bank deposits, while American investors hold a larger share of higher-yielding foreign assets, including equities and direct investments. This asymmetry allows the United States to earn systematically higher returns on its foreign assets than it pays on its external liabilities, generating valuation gains that extend well beyond traditional measures of seigniorage.

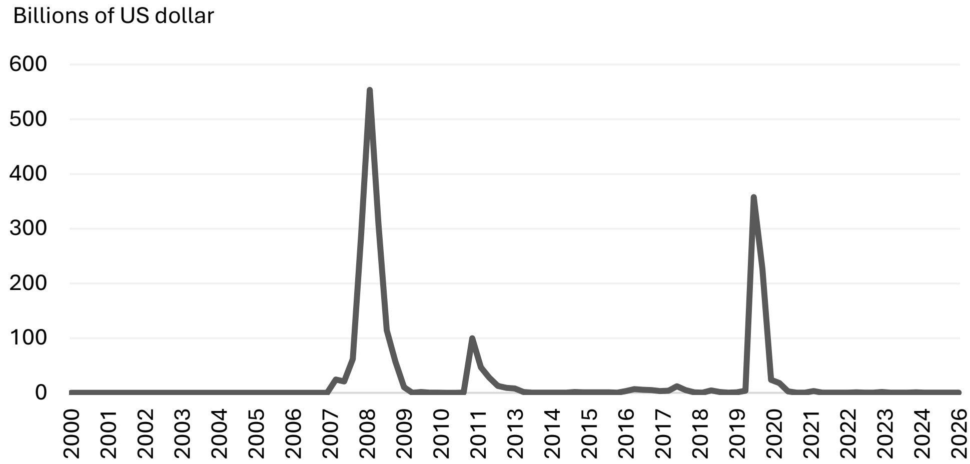
Currency dominance also provides important geopolitical advantages. Because the dollar occupies a central position in international payments and financial markets, the United States possesses powerful instruments of economic statecraft. Financial sanctions, restrictions on access to dollar clearing systems, and limitations on international capital markets have become central components of U.S. foreign policy. The centrality of the dollar therefore translates economic leadership into geopolitical influence, reinforcing the strategic importance of reserve currency status.

These substantial benefits, however, are accompanied by significant obligations. The first responsibility is the continuous provision of safe and liquid financial assets demanded by the global economy. However, this requirement gives rise to the well-known Triffin dilemma: because the rest of the world requires an increasing supply of dollar assets, the United States must continuously export dollars through current account deficits, foreign investment or overseas expenditures. Yet the persistent accumulation of external liabilities may eventually weaken confidence in the currency itself. The very success of a reserve currency thus creates an inherent tension between satisfying global liquidity needs and preserving long-term confidence in the issuer's fiscal and monetary stability (Triffin, 1960).

The responsibilities associated with monetary leadership become particularly visible during periods of financial crisis. Since a large share of international banking, trade finance and cross-border borrowing is denominated in dollars, disruptions in dominant currency funding markets rapidly become global phenomena. During the Global Financial Crisis of 2008, banks throughout Europe and Asia suddenly faced acute shortages of dollar liquidity, despite operating outside the United States. To prevent the collapse of international financial markets, the Federal Reserve established emergency swap lines with major foreign central banks, providing more than 580 billion U.S. dollars in liquidity at the peak of the crisis. Similar facilities were reactivated during the COVID-19 pandemic (**Fig. 5**). Although these interventions were intended primarily to stabilize the functioning of the global financial system –

and thereby protect the U.S. economy itself – they demonstrated that the Federal Reserve had effectively assumed the role of an international lender of last resort.

Figure 5. Fed dollar swap lines to foreign central banks



Source: Own elaboration (FvS Research Institute) based on FRED data

For this reason, the United States enjoys not only an "exorbitant privilege" but also bears an "exorbitant duty" (Gourinchas & Rey, 2022). The credibility of the international monetary system depends on the willingness and ability of the United States to provide global liquidity, preserve the stability of financial markets and maintain confidence in the dollar as the world's principal safe asset. Reserve currency status therefore resembles the provision of an international public good: while the issuing country enjoys considerable economic and geopolitical benefits, it is simultaneously expected to bear responsibilities that extend far beyond its national borders.

Global monetary leadership may also constrain domestic economic policy. Decisions taken by the Federal Reserve increasingly influence capital flows, exchange rates and financial stability around the world. Although the Federal Reserve's legal mandate remains focused on domestic objectives, its policies inevitably produce international spillovers that U. S. policymakers cannot entirely ignore. Similarly, fiscal sustainability of the issuer acquires a global dimension because confidence in U.S. Treasury securities underpins the reserve portfolios of central banks and institutional investors worldwide.

Finally, reserve currency status may itself generate domestic economic tensions. Persistent foreign demand for dollar-denominated assets contributes to capital inflows and may keep the dollar stronger than would otherwise be the case, reducing the international competitiveness of domestic manufacturing while contributing to long-running current account deficits. These concerns have gained renewed attention in recent years. Some policymakers and economists – including the Chairman of the Council of Economic Advisers and a member of the Federal Reserve Board of Governors, Stephen Miran – argue that the international role of the dollar imposes significant structural costs on the United States by encouraging deindustrialization and limiting the country's ability to rebalance its external accounts (Miran, 2024). Whether these costs outweigh the substantial benefits remains highly contested (Krugman, 2025). Nevertheless, the debate illustrates that reserve currency status is no longer viewed within the United States as an unqualified blessing.

5. How much of a problem is a dominant currency?

For countries participating in the international monetary system, using the world's dominant currency offers undeniable advantages. Conducting trade in a widely accepted currency reduces transaction costs, eliminates exchange-rate uncertainty for exporters and importers, facilitates access to international capital markets and provides a reliable store of value for official reserves (Gopinath et al., 2020). Particularly for smaller and more open economies, invoicing exports in an internationally accepted currency simplifies commercial transactions and improves access to global markets (Goldberg & Tille, 2008). Similarly, holding reserves in highly liquid dollar-denominated assets enables central banks to intervene during periods of financial stress and strengthens confidence in the stability of the domestic financial system (Obstfeld et al., 2010). From this perspective, relying on a dominant international currency appears to be an efficient and rational choice.

Yet these advantages can also prove deceptive. The widespread use of another country's currency inevitably creates a relationship of dependence in which domestic economic conditions become increasingly influenced by decisions taken abroad. The very characteristics that make the dollar attractive – its deep financial markets, extensive international use and central role in global finance – also transmit economic and political developments in the United States to the rest of the world. What initially appears as monetary convenience may therefore evolve into a significant source of vulnerability.

Perhaps the most important consequence concerns the loss of monetary autonomy. In principle, countries with flexible exchange rates retain the ability to conduct an independent monetary policy. In practice, however, the dominance of the dollar considerably limits this freedom. Accordingly, the traditional macroeconomic "trilemma" is being replaced by a "dilemma": under conditions of globally integrated capital markets, independent monetary policy becomes difficult even with floating exchange rates (Rey, 2015). Changes in U.S. interest rates trigger global capital flows, alter financial conditions worldwide and influence exchange rates regardless of domestic macroeconomic fundamentals. Monetary tightening by the Federal Reserve therefore frequently forces central banks around the world to raise their own interest rates in order to prevent excessive capital outflows and currency depreciation, even when domestic economic conditions would call for a more accommodative policy. The dominance of the dollar thus tends to reinforce rather than smooth international financial cycles.

The dependence on dollar financing further amplifies these spillovers. As shown above, a considerable share of international borrowing is denominated in U.S. dollars. For borrowers outside the United States, this creates a substantial currency mismatch. While revenues are often earned in domestic currency, debt obligations remain fixed in dollars (Eichengreen et al., 2023). A depreciation of the domestic currency therefore immediately increases the local-currency value of outstanding liabilities, weakening corporate balance sheets, increasing sovereign financing costs and, in extreme cases, triggering financial crises (Krugman, 1999). Numerous emerging market crises over recent decades, including the Asian Financial Crisis of 1997–1998, demonstrated how rapidly exchange-rate depreciation can transform external borrowing into systemic financial distress.

Recent geopolitical developments have highlighted another dimension of dependence: the increasing use of the international monetary system as an instrument of foreign policy. Because most international payments ultimately pass through dollar-based financial infrastructure, the United States possesses exceptional leverage over global financial transactions. This leverage extends beyond the dollar's role as an invoicing and reserve currency. Although SWIFT itself is merely a messaging system rather than a payment network, the overwhelming share of international dollar payments is ultimately settled through U.S. correspondent banks. These institutions occupy a central position within the global payment architecture, acting as the "spider in the web" of cross-border dollar transactions. Because access to correspondent banking relationships is indispensable for participating in international finance, the United States can effectively weaponize the dollar by restricting access to the dollar clearing system.

Relatedly, economic sanctions, restrictions on access to dollar clearing systems and the freezing of foreign exchange reserves have become powerful tools of international diplomacy. The freezing of a substantial share of the Russian central bank's foreign exchange reserves following the invasion of Ukraine in February 2022 fundamentally altered the perception of reserve assets. While reserve currencies have traditionally been viewed primarily as safe financial assets, they increasingly carry geopolitical risk. For many countries, this episode reinforced concerns that access to international reserves may ultimately depend not only on economic considerations but also on geopolitical alignment (Rogoff, 2025; McDowell, 2023).

6. Will the dollar remain dominant?

At first glance, the international environment appears less favorable to the U.S. dollar than at any point in recent decades. The relative economic weight of the United States has declined, geopolitical tensions have intensified, emerging markets openly advocate reducing dependence on the dollar, and digital currencies promise to transform international payments. These headlines alone would suggest that the era of dollar dominance is coming to an end.

A closer examination of the determinants of currency dominance, however, leads to a different conclusion. While various factors supporting the dollar have weakened, none has deteriorated sufficiently to threaten its central position in the foreseeable future. More importantly, none of the frequently discussed alternatives currently possesses the combination of features required to take over currency dominance.

China has become the world's second-largest economy and the largest trading nation, yet the renminbi remains constrained by capital controls, limited financial openness and institutional opacity. Similarly, the emerging economies' efforts – like the BRICS initiative – reflect a legitimate desire to reduce dependence on the dollar, particularly in response to the increasing use of financial sanctions and other instruments of economic statecraft. However, political ambition alone cannot create a dominant international currency. Monetary leadership requires deep and transparent financial markets, unrestricted capital mobility, credible legal institutions, an independent central bank and, perhaps most importantly, a large supply of internationally accepted safe assets. These countries currently possess neither institutional integration nor the political cohesion necessary to provide such a monetary infrastructure. Such initiatives are therefore more likely to contribute to a gradual diversification of the international monetary system than to the emergence of a genuine alternative to the dollar.

Nor is technology likely to overturn the existing monetary hierarchy. Central bank digital currencies, private cryptocurrencies and new payment infrastructures may significantly improve the efficiency of cross-border transactions, but they do not replace the institutional foundations upon which international currencies are built. Trust, legal certainty, financial depth and macroeconomic stability remain as important in the digital age as they were under Bretton Woods. At the margin, rather than undermining the dollar, digital innovation may even reinforce its international role. The rapid expansion of dollar-backed stablecoins extends the use of the dollar into decentralized payment systems and digital finance while preserving demand for dollar-denominated safe assets. Because stablecoin issuers typically invest their reserves in U.S. Treasury securities, their growth also generates additional demand for government debt. U.S. Treasury Secretary Scott Bessent recently argued that widespread adoption of dollar-backed stablecoins could ultimately become an important source of demand for U.S. Treasuries, with likely positive impact on the dollar dominance.[1]

If external challengers remain limited, the more fundamental question becomes whether the United States itself will continue to provide the conditions that have long underpinned dollar dominance. Since the collapse of Bretton Woods, confidence in the dollar has depended on trust in U.S. institutions, which have so far distinguished the United States from every potential competitor.

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[1] "Scott Bessent bets on stablecoins to bolster demand for Treasuries", Financial Times August 20, 2025, available at: https://www.ft.com/content/1914c189-b4ed-46dd-adde-106b08a68183?syn-25a6b1a6=1.

These foundations have come under increasing scrutiny in recent years. Political polarization, repeated debt-ceiling confrontations, rising public debt and growing political pressure on the Federal Reserve have raised questions about the long-term predictability of U.S. economic governance. The return of Donald Trump to the presidency has further intensified these concerns. Renewed tariffs, an increasingly transactional approach to alliances, uncertainty surrounding NATO commitments, discussions about Greenland and Canada, and a less predictable foreign policy have all contributed to perceptions that U.S. leadership may be becoming less stable and less reliable. None of these developments has fundamentally undermined confidence in the dollar so far.

Ultimately, it is hard to assume that the United States would have incentive to relinquish the advantages of its monetary leadership, despite the growing domestic debate over its costs. The more immediate challenge is therefore preserving the confidence on which dollar's dominance rests. Otherwise, Connally's dictum may prove prophetic in a way he never intended: what was once "our dollar, your problem" could ultimately become "our dollar, everybody's problem."

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Publisher: Flossbach von Storch SE, Research Institute, Ottoplatz 1, 50679 Cologne, Germany; Phone +49 221 33 88-291, research@fvsag.com, *Executive Board:* Dr. Bert Flossbach, Dr. Tobias Hirsch, Dr. Tobias Schafföner, Christian Schlosser, Dr. Till Schmidt, Marcus Stollenwerk, *Chairman of the Board of Directors* Kurt von Storch; *Registration*: No. 120 796 in the Commercial and Companies Register held at Cologne District Court; *VAT-No*. DE200075205; *Supervisory authority*: German Federal Financial Services Supervisory Authority, Marie-Curie-Straße 24 – 28, 60439 Frankfurt / Graurheindorfer Straße 108, 53117 Bonn, www.bafin.de; *Author*: Prof. Agnieszka Gehringer, PhD; *Editorial deadline*: 16 July 2026