

Talk of “de-dollarization” and its dire consequences for the U.S. economy seems to be all over the place lately. Somehow, my [previous efforts](#) to dampen the frenzy haven’t worked.

Where’s this coming from? Much of it is from the usual suspects, such as the crypto cult, people for whom Bitcoin is the answer regardless of the question. Some of it, I think, is coming from Putin sympathizers, who want us to believe that America will be punished for, as they see it, “weaponizing” the dollar against the invasion of — I mean, special military operation in — Ukraine.

[Elon Musk](#) is among those warning that weaponizing the dollar will destroy its reserve currency status, because of course he is.

But what inspired me to write about the subject (again) is that lately more sober voices, who should know better, are sounding the alarm. International relations experts like [Fareed Zakaria](#) warn that the dollar is a superpower we’re in danger of losing. Even economic analysts like [Michael Pettis](#), whom I’ve found to be a valuable source of insights on China, seem to believe that dollar dominance is the only reason America can run persistent large trade deficits.

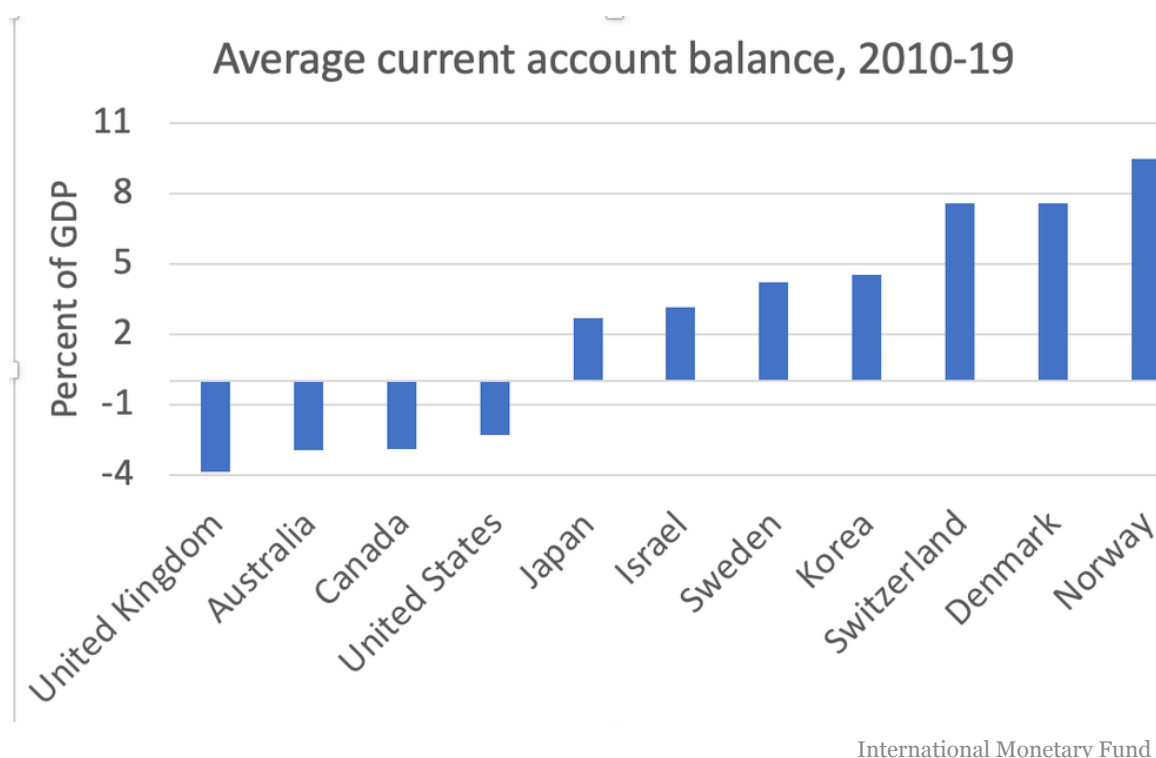
All of this is very odd. Even if you believe that the dollar’s dominance is in imminent danger — which you shouldn’t — a look at what that dominance actually entails makes it clear that the importance of controlling the world’s reserve currency is greatly overrated.

What do we mean by saying that the dollar is a dominant currency? There's a very nice summary in the first few pages of a [2021 paper](#) by Gita Gopinath, now a top official at the International Monetary Fund, and Jeremy Stein. As they note, much of world trade is invoiced and settled in U.S. dollars; many banks based outside the United States nonetheless offer dollar-denominated deposits; many non-U.S. corporations borrow in dollars; central banks hold a large share of their reserves in dollar assets; and maybe (the evidence here is [weaker](#)) interest rates are lower, other things equal, when you borrow in dollars than when you borrow in other currencies.

This is all very impressive. But how much of it redounds to the benefit of the U.S. economy? Why, exactly, should America care whether a contract between Chinese exporters and Brazilian importers is written in dollars as opposed to yuan or reais?

A lot of what's written about this subject begins with the assertion that the special role of the dollar gives America a unique ability to run a large balance of payments deficits, year after year, presumably because the dollar's status forces other countries to accept our money. But even a quick look at the data shows that this claim is false. Yes, America has run persistent deficits, but so have other countries. We're not even at the top of the league table.

Let's look at the balance of payments on current accounts — the trade balance broadly defined, so as to include services and investment income, such as interest payments, as well as trade in goods. And let's look at advanced economies that have their own currencies — that is, leave out members of the euro area. Here's what we get for the decade before Covid struck:



It turns out that there are multiple nations able to run persistent deficits, and several have run bigger deficits relative to the size of their economies than we have. Britain, which has the deepest deficits, used to own a globally dominant currency — but the pound sterling stopped playing any important international role generations ago. The Australian dollar and the Canadian dollar have never been widely used outside their issuing nations.

So where does the idea that dollar dominance gives us a special ability to run deficits come from? I guess it's just something that sounds as if it should be true, which I'll come back to in a minute. But first, are there any other ways in which America gains special advantages from the dollar's dominance?

Well, it's possible that the worldwide use of the dollar creates the perception that dollar bonds are safe assets, so that America can borrow more cheaply than other nations. It's hard to tell, because there are multiple factors affecting interest rates — and U.S. borrowing costs are not, in fact, noticeably lower than those of [other advanced countries](#). If there's any effect, however, it must be small. I won't go through the arithmetic, but I can't see any way that, considering all this together, dollar dominance is worth more to America than a fraction of 1 percent of G.D.P.

Why, then, are people making such a big deal over the possible end of dollar dominance? The answer, I believe, is that global currency issues come across as glamorous and mysterious, so people imagine that they must be important — and yes, some people like to talk about them because they think it makes them sound sophisticated. You have to actually work with the numbers to appreciate how little is really at stake.

Which means that I'm almost reluctant to add that reports of the dollar's coming demise are also probably greatly exaggerated. The aforementioned paper by Gopinath and Stein offers a detailed analysis of one channel through which the dollar maintains its dominance, adding to a long literature that includes, among other things, some old papers by yours truly. The bottom line in most of this analysis is that the dollar is widely used because it's widely used — that all of the various roles the dollar plays create a web of self-reinforcement, keeping the dollar pre-eminent.

The point is that tugging on one or two strands of this web isn't likely to cause it to unravel. Even if some governments express a desire to see payments conducted in other currencies, it's not at all clear they can make that happen, since we're mostly talking about private-sector decisions. And even if they can make partial de-dollarization stick, all the other advantages of the dollar as a banking and borrowing currency will remain.

So ignore all the dollar doomers out there. Or better yet, consider what their hyping of a nonissue says about their own judgment.