

# Our Dollar, Your Problem

KENNETH ROGOFF

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Book review by MISLAV BRKIĆ\*

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Mislav BRKIĆ, univ. spec. oec.

Croatian National Bank, Trg hrvatskih velikana 3, 10000 Zagreb, Croatia

e-mail: [mislav.brkic@hnb.hr](mailto:mislav.brkic@hnb.hr)

ORCID: 0000-0003-3872-4824



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In his newest book, the renowned economist Kenneth Rogoff reflects on the causes and effects of the global dominance of the US dollar and discusses whether the dollar's privileged status could be challenged in the future. The author is the IMF's former chief economist and a leading scholar in the field of international economics, who has published several seminal articles on dollarisation, exchange rates regimes, debt and currency crises.

The topic of the book is highly relevant in the current environment characterised by elevated uncertainty, fading globalisation and rising fragmentation. These trends could have a negative impact on the international role of the dollar and thereby reduce the economic benefits that the United States enjoys as its issuer. Some major economies from the opposite geopolitical bloc have already taken steps to reduce their reliance on the US dollar, notably by replacing the dollar as the invoicing currency in their bilateral trade.

The book is composed of an introduction and six parts, each containing several chapters.

In the introduction the author presents the historical and economic factors that have contributed to the US dollar's key role in the global economy. Rogoff reminds readers that the United States emerged from World War II as the only economic superpower, as other major economies had suffered severe devastation during the war. This gave US officials significant leverage in negotiations about the post-war international monetary system.

At the conference held in Bretton Woods in 1944 it was agreed that the US dollar would be the anchor currency of the international monetary system: its value would be pegged to gold, while other countries would be obliged to maintain fixed parities of their currencies against the dollar. Rogoff points out that such a system was advantageous for the United States, as it kept full autonomy in the conduct of monetary policy, unlike all other countries which were constrained by the need to maintain their dollar parities. In addition, demand for US Treasury debt was strong under this framework because other countries had to hold sufficient dollar assets to be able to conduct foreign exchange interventions if needed.

The monetary system established in Bretton Woods operated smoothly for almost three decades, but it eventually collapsed as overly expansionary economic policy in the United States undermined the confidence in the convertibility of the dollar into gold. Despite the collapse of the dollar-based monetary system in the early 1970s, the dollar has remained at the centre of the global economy, with many central banks keeping their currencies stable against the dollar.

Rogoff provides several strong economic reasons why the dollar significantly outperforms all other major currencies. The global dominance of the dollar reflects in particular the size of the US economy and the depth and liquidity of its financial

markets. While the United States accounts for a smaller share of global output today than it did in the past, it is still the largest economy in the world. Moreover, the United States is home to the largest market of safe assets in the world. Rogoff explains why the US Treasury securities are considered the safest and most liquid sovereign assets, which makes them not only a key part of central banks' foreign exchange reserves, but also a core component of safe assets for financial institutions around the world.

In Part I, entitled "Past challengers to dollar dominance", Rogoff explores the economic performance of the United States' main global competitors in the decades after World War II. The discussion focuses on the Soviet Union, Japan and the euro area. In the 1950s and 1960s, the Soviet Union was a real threat for the United States, not only militarily, but also economically. In that period of massive investment in infrastructure and military equipment, the centrally planned Soviet economy was able to compete very well in growth terms with the market-based US economy. Its growth rates were so impressive that many prominent economists predicted at that time that the Soviet Union would fully catch up with the United States. However, by the early 1970s, productivity gains from massive public investment had waned and the Soviet Union started to fall behind the United States.

Japan emerged as a major global contender somewhat later, in the late 1970s and the 1980s. Rogoff notes that, unlike the Soviet Union, Japan grew rapidly based on its highly advanced manufacturing sector. Strong competitive pressure from Japan gradually began to inflict serious harm on the US automotive industry and the consumer electronics sector. This prompted US officials to explore options to curb the inflow of highly competitive Japanese products. These efforts eventually led to the Plaza Accord of 1985, under which Japan agreed to revalue its currency significantly to help the US reduce its large current account deficit. The strong appreciation of the yen after 1985 turned out detrimental to the Japanese economy, as it triggered a chain of events that led to the boom and subsequently collapse of the real estate sector, a banking crisis, and a prolonged period of stagnation. Rogoff observes that the yen has never really challenged the US dollar on the global stage. While it is considered a safe currency, it does not play a major role in international trade and finance. No country in the world maintains stability by pegging its currency to the yen.

The euro is a much stronger global competitor to the dollar than the yen. It accounts for about 20% of global foreign exchange reserves, second only to the US dollar with its 58% share. The third and fourth most important currencies, the yen and pound sterling, account for only 6 and 5% of total global reserves, respectively. The euro is also a major invoicing currency because the vast majority of intra-EU trade is conducted in euros. However, compared with the US dollar, the euro appears to be primarily a regional currency. It is not regularly used for settling trade transactions between non-EU countries and very few countries outside Europe peg their currencies to the euro. Rogoff argues that one of the obstacles

preventing the euro from challenging the dollar more seriously on the international scale is the fragmented nature of the euro area's financial markets. Achieving further integration in the banking sector, including a common deposit insurance scheme, and establishing a capital market union would be essential to strengthen the euro's global reach.

When comparing the share of the US dollar in total global reserves with the shares of the euro and other major currencies, Rogoff focuses on the most recent data and does not take into consideration the important changes observed over time, which are well documented in the ECB's report on the international role of the euro (ECB, 2025). Importantly, the report shows that the share of the US dollar declined by more than 10 percentage points in the last decade, while the euro's share remained almost unchanged. The same report also shows that non-traditional reserve currencies, such as the Canadian dollar, the Australian dollar and the Korean won, have seen their cumulative shares increase noticeably since the pandemic.

Part II, "China: the present-day challenger", examines China's recent economic performance and the potential impact of efforts taken by its authorities to decouple from the US dollar. Rogoff acknowledges the success that China's economy has achieved in the last four decades, but doubts it can sustain high growth rates and surpass the United States in terms of per capita GDP. Rogoff is one of the first well-known researchers to have recognised that China's export- and infrastructure investment-led growth model has been largely exhausted. After decades in which it has expanded export-oriented manufacturing and invested heavily in public infrastructure and private housing, there are clear signs of overcapacity in these sectors. In addition, China already holds a significant share of world exports, so a further expansion of its export-oriented industries would be difficult even in the absence of the high tariffs recently imposed by the United States and the EU on some of its most competitive export products.

Despite China's large size and global influence, the renminbi lags significantly behind the dollar and the euro according to all major metrics. China has made efforts to promote the use of the renminbi as an invoicing currency in trade with its Asian partners. However, the renminbi is rarely a part of central banks' foreign exchange reserves. This reflects the restrictions on foreign participation in China's debt markets and the insufficient depth and liquidity of these markets. Rogoff does not mention other factors highlighted in the ECB (2025) report that have negatively affected central banks' demand for the renminbi in recent years – geopolitical concerns, transparency issues, and weaker growth outlook. Rogoff argues that the renminbi's prospects as a reserve currency crucially depend on whether steps are taken to make its debt markets more open and liquid. However, if China decided to switch to a more flexible exchange rate, this could indirectly weaken the dollar's global role, as China's trading partners in Asia might loosen their ties to the dollar and focus on the renminbi exchange rate instead.

In Part III, “Everyone else’s problem: living with the dollar”, Rogoff provides an overview of several past episodes of currency crises to illustrate how difficult it can be to maintain financial stability in a global economy dominated by the US dollar. He shows that dealing with dollar dominance is particularly challenging for countries that peg their currencies to the dollar. Adopting a fixed exchange rate regime can bring significant benefits to countries suffering from persistently high inflation and low institutional credibility. But such a regime also makes the economy more exposed to external shocks and currency speculation, especially if its capital account is fully liberalised.

Rogoff points out that the Federal Reserve runs its monetary policy to fulfil its dual mandate of full employment and price stability in the US economy, and that it is typically not concerned with possible spillover effects of its policy on other countries. The exposure to US monetary shocks can therefore be a major challenge for policymakers in other countries, especially in times of sudden shifts in the Fed’s policy stance. Rogoff refers here to an influential strand of the literature suggesting that, regardless of exchange rate regime, countries would be well advised to deploy macro-prudential measures to insulate their economy from the global financial cycle emanating from the United States. The Fed is willing to consider explicitly the spillovers of its policy actions on other countries only in times of global financial turmoil. During the last two major crises – the Global Financial Crisis of 2008-09 and the Covid pandemic of 2020-22 – the Fed injected a substantial amount of dollar liquidity into global markets through its swap lines with other central banks. This helped restore stability in dollar funding markets, preventing a further deepening of the crisis that would have affected the United States as well.

Part IV, entitled “Alternative currencies”, examines whether cryptocurrencies such as bitcoin and central bank digital currencies (CBDCs) developed by other major economies pose a threat to the US dollar’s dominance. Rogoff argues that despite the advanced technology involved, cryptocurrencies are not capable of outcompeting the US dollar, at least not as a means of payment in the official economy. He notes that, throughout history, government-backed currencies have always prevailed over private sector monetary inventions. The reason is that only the government has the power to regulate the use of means of payment, and this power is exercised every time the official currency and the financial system are at risk. While being sceptical about the ability cryptocurrencies to overtake the US dollar, Rogoff stresses that some of them, notably bitcoin, have a fundamental value due to their widespread use in the underground economy. In that regard, he disagrees with some prominent economists who claim that bitcoin is essentially worthless and merely a vehicle for speculation. Rogoff argues that a more material threat to the dollar’s central global role could come from government-backed CBDCs. The reason is that the United States lags significantly in this area, and other countries could use their advantage in developing CBDCs to increase the global reach of their currencies at the expense of the dollar. While the digital euro and the digital renminbi are in an intermediate or advanced stage of development,

the Fed only recently started exploring the possible effects of introducing its own retail CBDC.

Part V, “The perks and burdens of being the dominant currency”, discusses in detail the effects of the dollar’s global status on the US economy. Rogoff emphasises that being the issuer of the key global reserve currency is very beneficial to the United States. Given that US Treasury securities are considered the safest and most liquid debt instruments in the world, there is an underlying strong demand for these securities from foreign central banks, sovereign wealth funds, and private investors around the world. US Treasury securities are also widely used as collateral in global financial transactions, which makes them even more attractive to investors. This enables the US government to borrow on very favourable terms, including during severe global crises. The capacity of the US government to provide stimulus during crises is thereby greater than that of other sovereign issuers.

Rogoff considers the costs of being the issuer of the dominant currency lower today than in the first decades after World War II, when the Bretton Woods monetary system was in place. That system depended crucially on the United States pursuing responsible economic policies, with low inflation and healthy public and external balances. Otherwise, confidence in the US dollar and the entire system would have deteriorated, prompting other countries to demand the conversion of their dollar reserves into gold – which France, for example, regularly practiced. In today’s monetary system, such a scenario is not possible, but a destabilising run on the US dollar could still occur, particularly if China suddenly decided to reduce its large holdings of US Treasury securities.

Part VI, “Peak dollar dominance”, concludes with reflections on current US policy issues that could negatively affect the dollar’s global role. One of these is the threat to the Fed’s independence, stemming from political pressure on the Fed to put more weight on objectives other than price stability. Rogoff argues that these pressures cannot be resisted forever, and that over time they could impair the Fed’s ability to deliver on price stability, which is crucial for the US dollar’s global reputation.

Another major domestic issue potentially undermining the credibility of the dollar is the rapidly rising US public debt. In recent decades, both political parties in the United States have been prone to running large fiscal deficits, in line with the widely accepted view that, as the largest advanced economy, the United States did not have to worry about the level of its public debt, particularly in times of very low interest rates. Rogoff argues that such a view is wrong, not least because persistently low interest rates seen after the Global Financial Crisis will not be seen again anytime soon. Irresponsible fiscal policy, if left unaddressed, can damage the reputation of the United States in financial markets and result in a much higher inflation risk premium than is currently the case. It is worth noting that, after the book was published, the new US administration implemented a major tax reform providing substantial tax relief, without corresponding spending cuts to offset the

impact on the budget. The outlook for the US public debt has deteriorated significantly as a result.

Taking into account these domestic vulnerabilities, but also efforts taken by competitors to promote the use of their own currencies, Rogoff concludes that dollar dominance has probably reached its peak and could decline in the future. That said, the transition to a more decentralised global monetary system is likely to be gradual and orderly.

#### REFERENCE

ECB, 2025. *The International Role of the Euro*. Frankfurt am Main: European Central Bank.