

Businessweek | The Big Take

Dollar's Superpower Status at Risk From Turmoil at Home and Abroad

Washington's aggressive use of sanctions and heightened partisanship are shaking foreigners' faith in the US currency, according to an exclusive excerpt of *Paper Soldiers*.





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Illustration: Ben Denzer for Bloomberg Businessweek

By [Saleha Mohsin](#)

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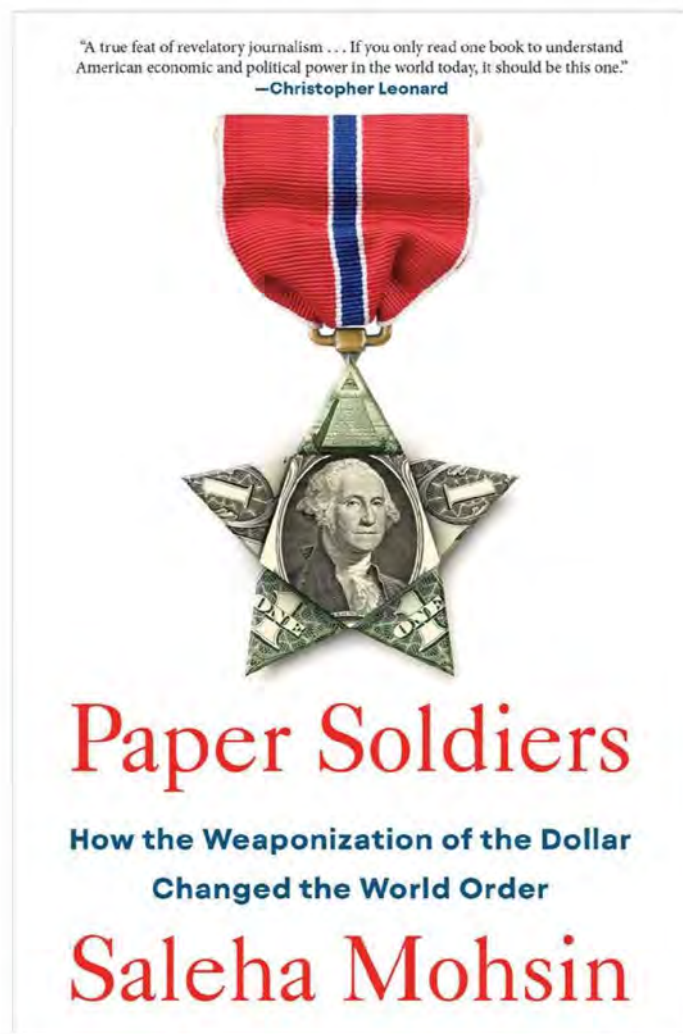
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One cloudy autumn evening in Washington, a black Chevy suburban pulled up to an old stone mansion on Sixteenth Street. The columns of the White House were visible just one block south. A man wearing a dark suit and an earpiece emerged from the front seat and

opened the passenger door, placing a small stepping stool on the ground in front of it. A 5-foot-3-inch woman with short white hair, the collar of her plum-colored blazer popped up, exited the SUV and swiftly entered the Hay-Adams Hotel, the Secret Service officer in her wake.

Once inhabited by a descendant of one of the nation's Founding Fathers, the 136-year-old Beaux Arts building has received members of the literati like Mark Twain and political giants like Henry Kissinger. On the night of Oct. 20, 2021, it was the scene of a private gathering to welcome a new US Treasury secretary: Janet Yellen.

Guests included former Treasury secretaries, along with the sitting and former chairs of the Federal Reserve. The welcome dinner, a tradition that took root in the 1950s, is meant to be a celebration of Treasury's nonpartisan prestige. With political and ideological division seeping deep into every alley and corridor in Washington, there's no guarantee that will be the rule at the next gathering.

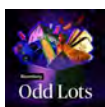


Paper Soldiers: How the Weaponization of the Dollar Changed the World Order by Saleha Mohsin. *Source: Penguin Random House*

From US sanctions on Russia to tariffs on Chinese imports to America's ballooning debt load, policies that touch the Treasury Department are becoming fraught with politics. All of these pose risks to the national asset the agency is supposed to protect at all costs: the US dollar. "The unchecked rise in government debt, the dysfunctionality of policymaking in Washington and the weaponization of the dollar through the aggressive use of financial sanctions have all contributed to the perception that the US dollar's dominance should be under threat," says Eswar Prasad, a Cornell University professor and senior fellow at the Brookings Institution.

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It's too early to tell whether the dollar's status as the world's dominant currency is in imminent danger, but there's no question that America's privileged position at the center of the global financial system is increasingly being challenged by friends and foes alike. Strategic rivals like China and Russia have made no secret of their desire to see their currencies supplant the greenback in some international transactions. The de-dollarization trend is also getting help from a few nations Washington counts as allies that want to take out insurance against the possibility that they too will one day find themselves the target of US sanctions.



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Since 2001, which marked the start of an era in which US governments sharply expanded the use of economic sanctions, the greenback's share of global foreign exchange reserves held by central banks has dropped from 73% to 59%, according to the International Monetary Fund. Gulf nations are starting to settle oil trades in the Chinese yuan, and other commodity producers are considering similar shifts.

“The thing about the US over the next decade or so is how skillfully we navigate this big change in relative power,” Timothy Geithner, who was Treasury chief during the Obama years, said in an interview for my new book, *Paper Soldiers: How the Weaponization of the Dollar Changed the World Order*. Treasury’s “authority comes from the quality of the people, the decisions they make, its reputation for integrity and the perception that it takes a longer term view of US interests, slightly beyond politics,” he said.

Mark Sobel, a retired 40-year veteran of the Treasury Department, is more pessimistic. Citing increasingly populist policies of both Republicans and Democrats and how they’ve eroded America’s standing as a leader on international economic issues, Sobel says the “odds seem stacked against the US exercising robust international economic leadership” at all.

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The US presidential election is kicking off with economic policy untethered from the assumptions of the last generation. For decades the US preferred its currency superpower-strong. Treasury Secretary Robert Rubin, who served in the Clinton administration, sought calm in currency markets, which had faced more than a decade of gyrations from government interventions, by declaring a strong greenback was good for America. His argument, in a nutshell, was that the benefits—including an influx of foreign investment that lowered domestic borrowing costs and a boost to the purchasing power of households and businesses—outweighed the hit to exports. He also started dialing back Treasury's interventions in currency markets. Over subsequent decades, Treasury secretaries from both Republican and Democratic administrations stuck with Rubin's mantra.



President Bill Clinton and secretary Rubin at the White House in 1996 for the signing of a debt limit extension bill. *Photographer: Sharon Farmer White House/CNP/Zuma Press*

The strong dollar helped the US economy prosper in the 1990s. Growth averaged 3.8% in inflation-adjusted terms under Bill Clinton, compared with 2.8% under his predecessors Ronald Reagan and George Bush. But the strong greenback also had insidious side effects. Coupled with the rise of China, it contributed to the hollowing out of the US manufacturing

sector. The Rust Belt states saw factories shutter and company towns collapse as employers decamped to lower-cost locales.

Donald Trump tapped into the economic pain of this overlooked part of the nation. Under his Make America Great Again banner, he turned economic policy inward, unleashing volley after volley of tariffs, renegotiating trade pacts and lashing out via Twitter at American businesses that defied his call to bring jobs back to the US.

The country suddenly had a president and Treasury secretary, Steven Mnuchin, willing to talk down the dollar. Trump repeatedly badgered Federal Reserve Chair Jerome Powell to cut interest rates to spur growth but also to weaken the greenback. And at one point he floated the idea of having the Treasury intervene in currency markets □□ to force its value down.



Yellen and Mnuchin during the G-20 Finance Ministers and Central Bank Governors Meeting in Baden Baden, Germany, in 2017. *Photographer: Ronald Wittek/EPA/Shutterstock*

President Joe Biden kept Trump's tariffs in place, while swapping phrases like "America First" for words like "friendshoring" and "Buy America." Still, Biden stayed out of the way of the Federal Reserve when it hiked interest rates almost a dozen times to tame inflation, helping the greenback appreciate some 15% against other major currencies over his presidency so far.

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Whether it's Trump or Biden who wins a second term, the next set of US Treasury officials will be stewards of the dollar at a time when pressure to move away from the greenback is building from Beijing to Brasilia.

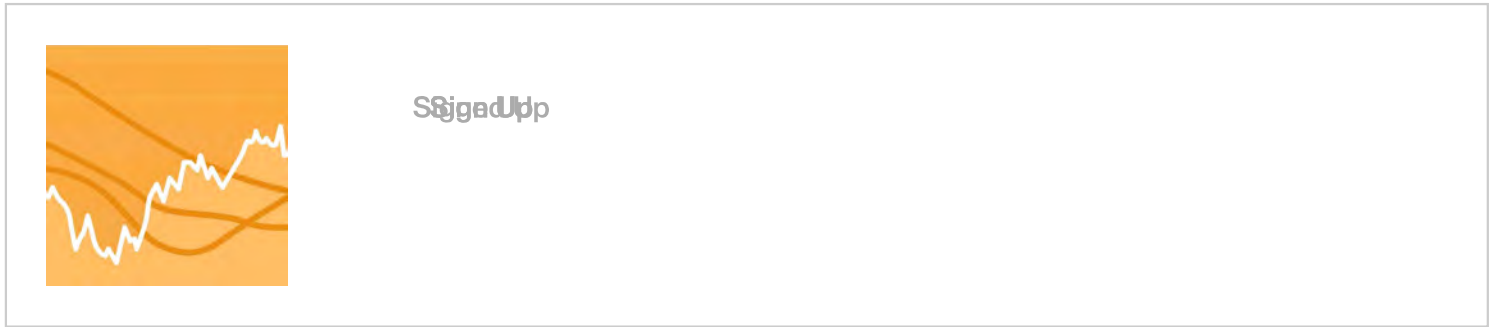
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Trump would “accelerate the erosion of the institutional framework that underpins foreign investors’ trust in US financial markets that bolsters the dollar’s dominance,” according to Prasad, by bringing back instability in economic policymaking, while Biden’s “supercharged weaponization”—namely through sanctions on Russia—is pushing even allies away from the dollar, he says.

Then again, prophecies of the dollar’s demise have been made for decades. In the 1990s it was the Japanese yen that posed a threat, then came a new currency, the euro. Investors and allies wondered if dollar-dependence was worth the trouble in 2008 after an American-made housing crisis shook global markets and again when Trump started a trade war with China in 2018.

One of the most shocking episodes came in the summer of 2019 when then-President Trump, frustrated by a strong dollar exchange rate and China’s manipulation of its own currency, both of which he saw as damaging to disadvantaged American manufacturers, started talking about [actively weakening the dollar](#). To do that, he would have needed both

the Treasury Department and the Federal Reserve to work together to sell dollars in open markets.



To say such a move would be devastating to America's global superpower status would be an understatement. The greenback is on one side of 90% of currency transactions worldwide, and two-thirds of international debt is denominated in dollars. Global commodity markets, such as that for oil, are ruled by the dollar. All of that rendered pretty much the whole world beholden to swings in the currency's price and management—and now Trump wanted to interfere.

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Mnuchin delicately talked Trump out of tampering with the dollar, and talk of intervention went no further than the Oval Office that summer. Nevertheless, the episode was another fracture in an armor that is starting to look more fragile.

Questions around the dollar's continuing reign emerged once again in the wake of Russia's February 2022 invasion of Ukraine. As punishment, Yellen triggered what was considered "the nuclear option" by working together with European counterparts to freeze some \$640 billion in Russia's central bank assets abroad. The move marked an historic point in America's weaponization of the dollar. Government officials the world over started openly making plans to curb their country's dependence on the buck.

Regardless of who become the next signatory of the almighty buck, the role of the US and the dollar is shifting. That was a point that Federal Reserve Governor Christopher Waller drove home in a speech in February focused on the "dollar's primacy." While it's rare for a senior Fed official to publicly discuss the dollar, Waller said, "The role of the United States in the world economy is changing, finance is always changing, and I think it is important for policymakers to regularly consider if and why the dollar's role might change as well."

The answer to how to navigate a new era of both friends and foes rethinking dollar dependence, and the US' fiscal position requiring an ever stronger position in the world for the dollar, may just come from the next guest-of-honor at the Treasury-secretary alumni welcome dinner.

Mohsin is the senior Washington correspondent at Bloomberg News and host of The Big Take DC podcast. She covered the US Treasury from 2016 to 2022 and continues to report on policy, politics and power.

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