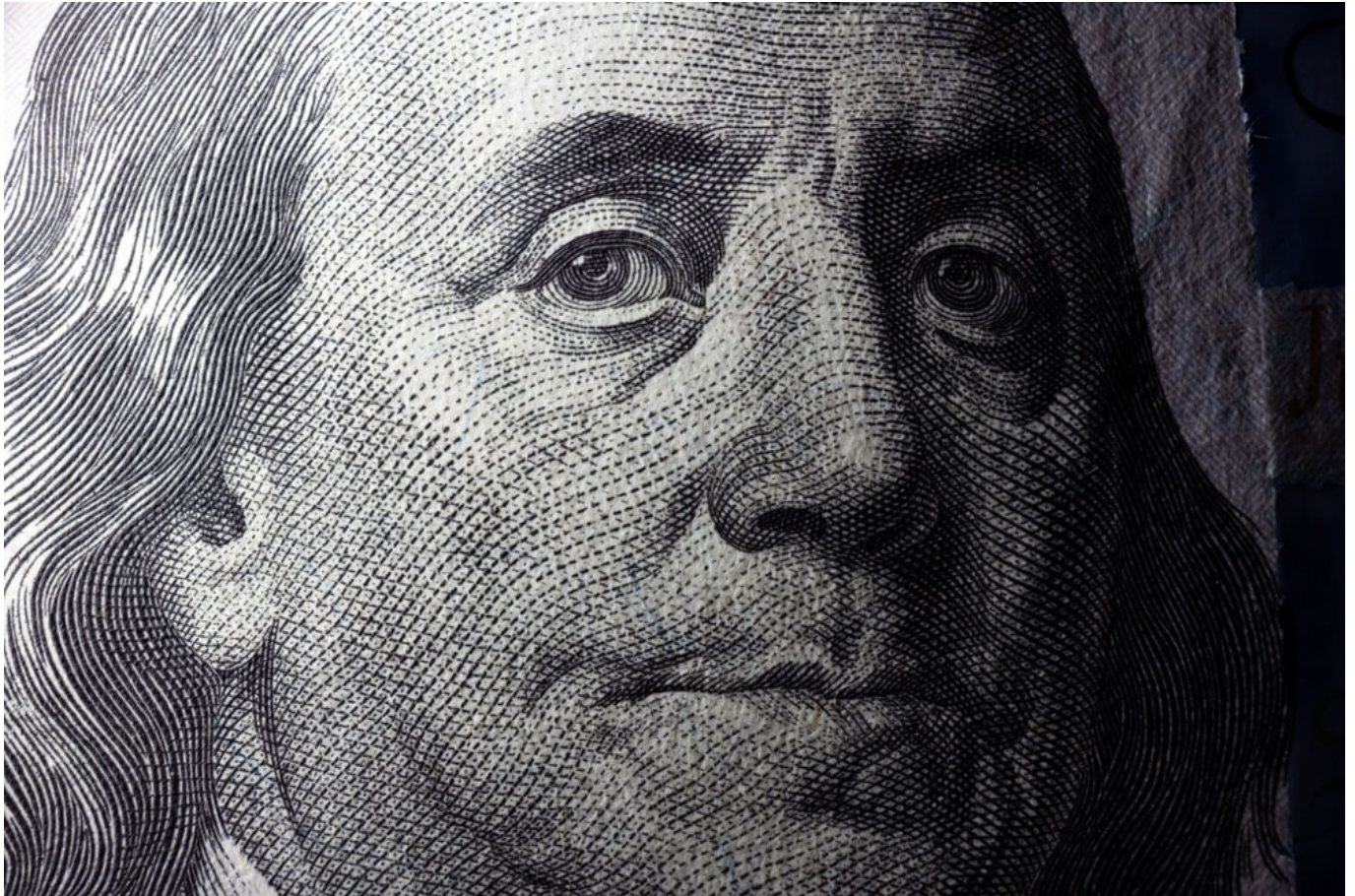




By: [Kaushik Basu](#)

Is the US dollar starting to lose its status as the world's currency?



As the economic consequences of US President Donald Trump's war against Iran become evident, policymakers around the world are running out of patience.

The recent **Spring Meetings** of the International Monetary Fund and World Bank in Washington made this abundantly clear, with UK Chancellor of the Exchequer **Rachel Reeves** lamenting the "folly" of a war that is "not ours."

But much of the cost will be borne by the United States itself. The immediate effects are visible: a sharp rise in gas prices, **inflation climbing** to a two-year high, and growing concerns that, as consumers cut back on spending to offset higher costs, unemployment will rise.

While these short-term shocks are serious, a major risk that has received less attention is that the dollar could lose its status as the world's primary trade and reserve currency.

The decline of a reserve currency is a slow process. The British pound ceded its dominance to the US dollar over roughly two decades, beginning in the 1920s.

As **Barry Eichengreen** has noted, the Roman denarius—arguably the world's first international currency—also unraveled over a long period, starting when Emperor Nero debased it in the first century CE.

Cornerstone of soft power

Any international currency ultimately depends on trust. I witnessed this during my time as chief economic adviser to the Indian government under Prime Minister Manmohan Singh.

On August 5, 2011, **S&P downgraded** the US long-term credit rating from AAA to AA+, fueling fears of immediate capital flight.

Instead, the opposite happened: money flowed into the US economy. In the face of global turbulence, investors trusted that the US

would honor its obligations, no matter the cost.

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That trust, a cornerstone of soft power, is rapidly eroding. Samantha Power, the former administrator of the US Agency for International Development (USAID), highlighted this in a recent lecture at Cornell University, where she criticized the Trump administration's decision to dismantle the agency.

The abrupt and "heartless" manner in which it was shut down, she said, halted humanitarian aid without warning, leading to **immense suffering** among populations around the world that had depended on its continuity.

The closure of USAID, alongside Trump's military adventures in Iran and Venezuela and relentless attacks on long-standing allies like Canada and Denmark, has cast a shadow over America's global standing and trustworthiness. This, in turn, puts the dollar's hegemonic status at risk.

Which currency will replace the dollar?

To understand the potential cost, consider seigniorage: because the dollar is globally trusted, the Federal Reserve can print a \$10 bill for **less than seven cents**, and it will be accepted at full value around the world.

As empires from Rome to Britain have shown, issuing the world's leading currency allows a country to create value almost out of thin air. Losing that capacity would slow economic growth.

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This raises the question: Which currency will replace the dollar? The renminbi appears to be the strongest candidate.

A decade ago, the Chinese currency gained credibility when the International Monetary Fund included it in the basket of global currencies underpinning Special Drawing Rights (the Fund's reserve asset), but it was still widely dismissed as “no match” for the greenback.

Today, the prospect of renminbi primacy no longer seems unthinkable.

America's predicament

Yet China's ability to assume that global role is far from assured. As economist Qiao Liu observed in his 2016 book *Corporate China 2.0*, the country combines an “authoritative political regime” with more flexible institutional arrangements in which “relationships still matter,” a hybrid that does not readily inspire the kind of global confidence a reserve currency requires.

Chinese President Xi Jinping appears to understand this dynamic. In a 2024 speech, Xi emphasized the need to internationalize the renminbi to bolster China's soft power, calling for a “powerful currency that can be widely used in international trade, investment, and foreign-exchange markets and attain reserve currency status.”



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But the main obstacle to reserve-currency status for the renminbi—the maintenance of capital controls—remains firmly in place.

The strongest rebuke of Trump's policies over the past year came from an unexpected source: **King Charles III**.

His address to Congress on April 28, delivered with characteristic British wit and restraint, sent a clear message that the US is on the wrong path, one that could destroy its global standing.

There was, however, cause for optimism. The repeated bursts of bipartisan applause Charles received from members of Congress suggested they were already aware of America's predicament.

Kaushik Basu, a former chief economist of the World Bank and chief economic adviser to the Government of India, is Professor of Economics at Cornell University and a non-resident senior fellow at the Brookings Institution.