



The Changing Dollar Regime

An Update

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US institutions have underpinned the dollar's role

- Deep open financial and product markets
- Commitment to multilateralism, including credibility in the security sphere
- Strong policy framework, producing price stability, fiscal stability
- Commitment to limited governmental market intervention
- Rule of law

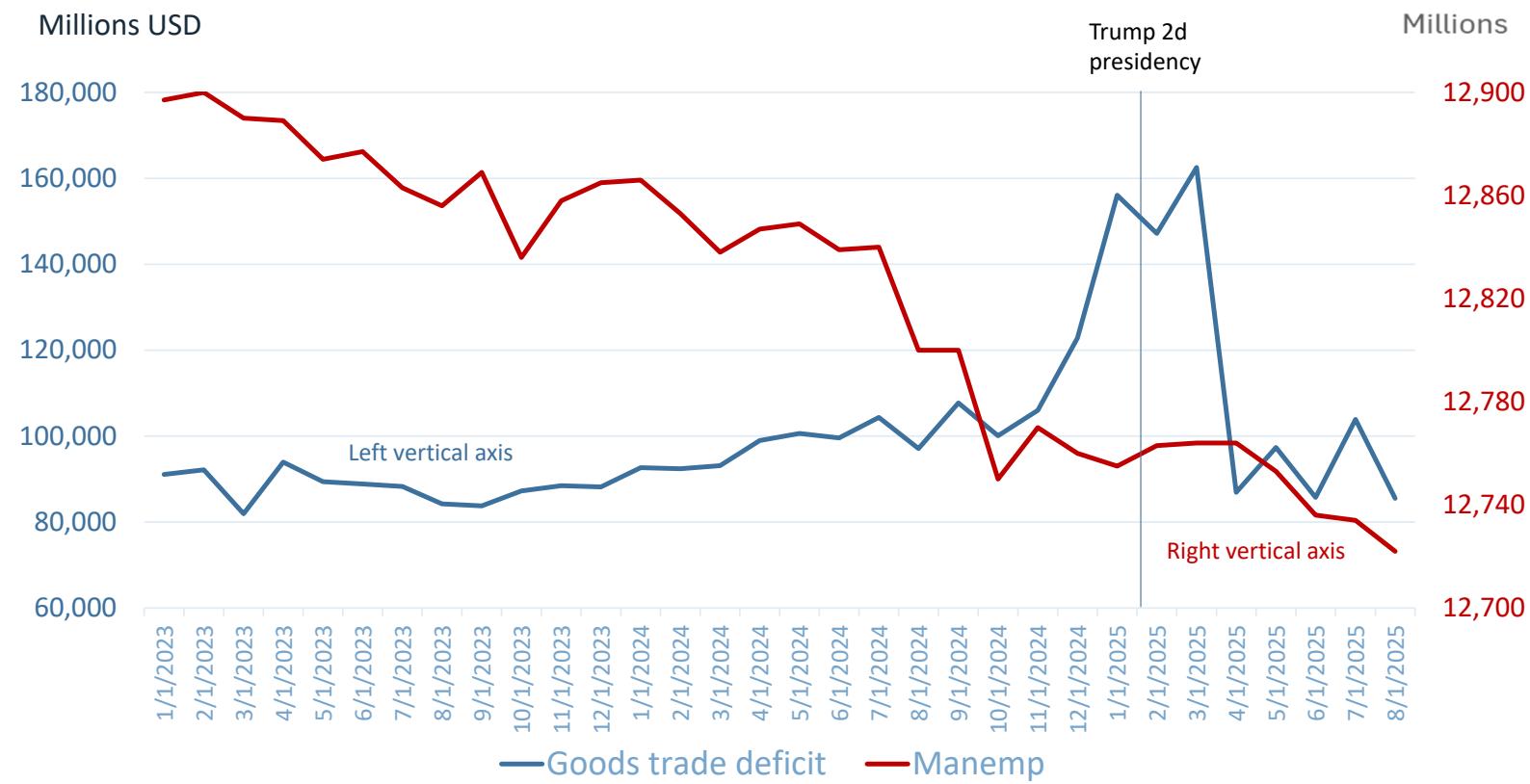
Now, a grievance narrative drives US policy

- Unfair global trade, which causes US trade deficits and manufacturing decline
- Unfair global capital markets, which take advantage of using the dollar and accessing US financial markets
- Unfair burdens of expensive foreign security commitments (broadly defined)

The basic concerns are not new; the zero-sum approach to redress them is ...

... and so is the routine use of tariffs for geopolitical coercion, *going far beyond trade remedies*

“Unfair” trade manifests in two main ways

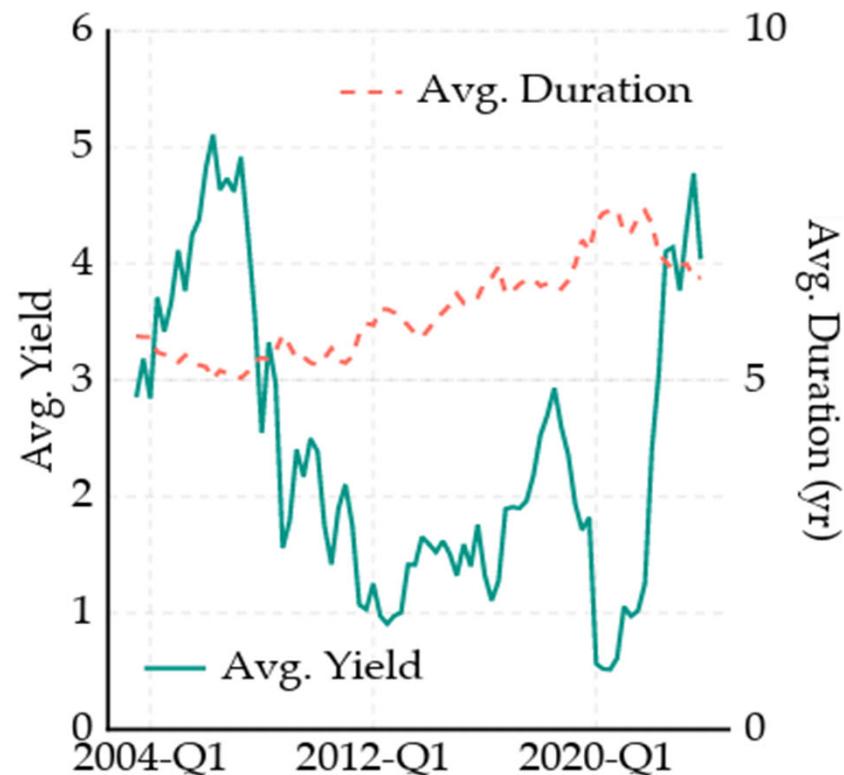
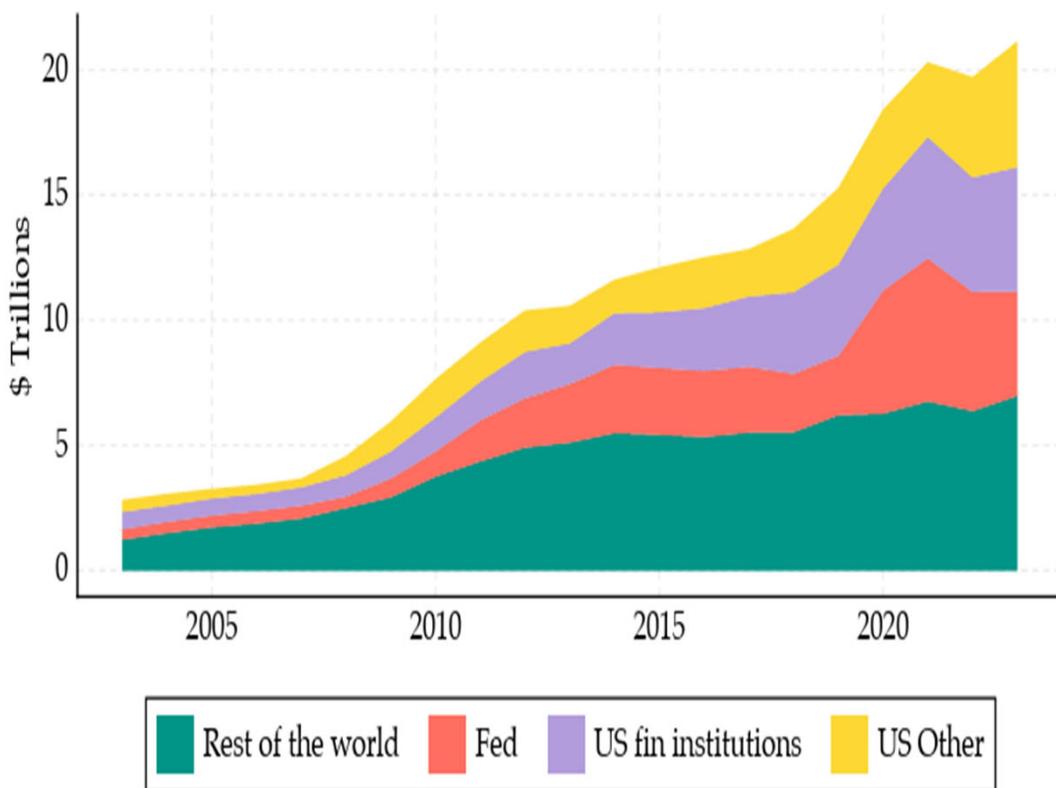


The IMFS is now at a crossroads

Administration policies threaten to undermine US global power – hard and soft – and fragment financial markets as well as trade

- Tariffs and their coercive deployment
- Pullback from international regulatory cooperation seems inevitable
- Risk of US capital controls (inflow and outflow) – especially if deficits remains high
- GENIUS Act and politically- (and fiscally-) motivated worldwide promotion of dollar stablecoins – effect on cross-border payments system?
- US retreat from providing key global security public goods (military and others)
- Pressures on the Federal Reserve
- **Fiscal indiscipline and risk of fiscal dominance**
- General assault on norms and the domestic rule of law

Secular fall in foreign financing of Treasuries



What would Alexander Hamilton say?

Hamilton wrote in his *Report Relative to a Provision for the Support of Public Credit* (January 1790):

States, like individuals, who observe their engagements, are respected and trusted: while the reverse is the fate of those, who pursue an opposite conduct.

The US has aspired to this standard (if imperfectly in practice) and its institutional anchors have been fashioned toward this ideal

Now they are under threat as rarely before

Absent a course change, the dollar's primacy will erode slowly, then quickly, and a multipolar system will emerge



What's next? A partial list of possibilities

- Two-bloc world (US- and China-led)?
- Bipolar world with big middle ground?
- An isolated United States?
 - Fragmented ROW?
 - Multilateralist ROW?
 - Limited multilateralism, subject to manageable tensions with China?
- US multilateral re-engagement, manageable China tensions?
 - Fiscal realities will make a full retreat from tariff revenue hard; and it will be hard to restore trust in the US as a reliable steward of world stability
 - A restored multilateral order will inherently be more multipolar, fragmented
 - The conditions that fostered “hyper globalization” were fleeting



Thank you.

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