

Book Review

Our Dollar, Your Problem: An Insider's View of Seven Turbulent Decades of Global Finance, and the Road Ahead by Kenneth Rogoff, Published by Yale University Press, 2025, 360 pages.

Different currencies have been at the center of the world stage in different eras, this book dwells upon the dominance of the dollar at the world stage. The author traces the challenges faced by the dollar in the past, contemporary threats to it, and the potential challenges to its hegemony. The author's strong academic background, combined with practical experience, results in an analysis that is both theoretically sound and practically relevant, is a key strength of the book. The book is divided into sections exploring past and present challenges, global monetary issues, alternative currencies, the costs and benefits of dominance, and the peak of dollar supremacy. A limitation of the book is that occasionally author drifts away from the main topic, making the book more voluminous; otherwise, the content could have been reduced without losing important information.

The book begins with an analysis of the factors that make a currency dominant, highlighting that it is a slow process either to attain it or even to lose it. Innovation, conflict, inflation, debt levels, the size of the economy, real and financial openness, share in the world trade, size of the financial markets and military strength are the key factors that determine whether a currency becomes dominant. The main conclusion of the book is that current state of affairs and the way the American economy is being run is the biggest threat to the dollar.

The threat either from within or from outside has always been a source of discontent for each entity, and the USA is no exception. The first actual or perceived challenge that struck Washington emanated from the Soviet Union. Particularly, the Soviet achievement in space travel enthralled USA that this sophisticated technology may transfer into an economic technological edge and potentially endanger dollar's dominance in future. However, the economists were divided: Samuelson and Rostow were of the view that Soviet is a threat, whereas Friedman was sceptic that socially planned economy would ever compete the market economy. I agree with Friedman and opine that to become a dominant currency trade openness and financial openness are essential.

The other threat comes from the Yen. The 'yes' by the Japanese authorities in the Plaza Accord to appreciate Yen forced by the USA is considered a major cause of Japan's collapse by many, but the author disagrees with this simplistic interpretation. The genesis of Japan's decline can be attributed to the imprudent financial market regulations the author maintains. However, the housing bubble, depreciation of Yen, red tape in Japanese bureaucracy, the subsequent overvaluation of Yen, labour force contraction, decreasing returns to investment, banking crisis, debt to GDP ratio as high as 251 percent were the main culprits for keeping the Yen away from being a dominant currency at the world stage.

Euro was introduced in 1999, and the euro zone was going to be a single unit, another threat to dollar was emerging, however, my opinion is that "unit of countries" is

not 'a country' when it comes to economic might. The heterogeneity of Europe, particularly, Greece, and the lack of fiscal authority is a constant threat to the very existence of Euro, not to speak the threat from it to the dollar, the author highlights. The once worrisome factor for USA from Europe was stock market capitalisation. The market capitalization in Europe and the US remained very close most of the time, however, around 2013, there is a clear departure, and USA left the Europe far behind. When it comes to the GDP per capita, European countries per capita GDP never crossed 85 percent of USA per capita GDP. The author highlights that the lack of European dynamism, institutional quality, fragile banking system along with the lack of fiscal authority were the factors in the way of euro to become the most dominant currency in the world.

Coming to the present-day challenge, the author talks about the well-known China threat. The size of the economy, share in the international trade, vibrant financial market along with military might are major influencing factors in making a currency capable to replace or threaten the existing dominant one, and China is performing reasonably well on most of these fronts. China's per capita income relative to the USA on PPP basis increased almost five times, from 5percent in 1980 to 22 percent in 2019. China's economy is bigger than the USA on PPP basis, however, on market exchange rate the USA is still far ahead. Besides the military might, the other factor that has been identified by the author as a threat to the dollar from the Renminbi is the floating of Renminbi. It would weaken the hegemony at least in the Asian dollar block. But the move is not that simple, so far, China has been successful in managing dollar-centric exchange rate policy that benefitted China in economic growth.

The author is of the view that despite well-crafted urbanization policy, the real-estate problem could not be avoided. Within this broader context, the US authorities occasionally threatened China to declare "currency manipulator", and finally in August 2019, the Trump administration did so. However, till then, China had gathered lot of flesh and could not be coerced to repeat the "plaza accord" episode as was done by Japan. In addition, "And unlike Japan, China does not need U.S. military protection, so the United States does not have anywhere near the same degree of leverage", the book states. This also highlights the connection between military power and currency dominance. It is worth mentioning that the author is skeptical about the data released by official authorities about growth rate and bad loans etc.

The points that can make it difficult for Renminbi to attain center stage are diminishing return on investment, slowdown in export growth, demographic problems, centralized decision making. If China can tackle these challenges, then, down the road, renminbi can be a successful threat to US dollar.

After this the author describes the fascination with the fixed exchange rate regime albeit highlighting that its end is inevitable, particularly in this age of open capital markets, and that a country can import credibility to tame inflation by fixing with the a currency but ultimately it has to face the challenge of building a castle on the fragile foundations, and the hyperinflation erupts.

After talking about Ruble, Yen, Euro and Renminbi, and fascination with the fixed exchange rate regime, the author turns towards alternative currencies, which, in my view, are not a real threat but serve as a valuable intellectual exercise. Here the author talks about Special Drawing Rights (SDRs) which fundamentally is an accounting unit with 43percent weight of US Dollar in the basket. The other currency discussed is cryptocurrency, but today most of the crypto is being used for underground activities, author maintains. The missing boon of lender of the last resort and credibility in case of crypto make it a no-threat for the dollar. Yet another contender in this intellectual list is

Central Bank Digital Currency (CBDC), however, “the threat that any foreign CBDC poses to U.S. markets is small”, the author opines.

The second last part of the book talks about perks and burdens of being a dominant currency. The perks include fiscal sustainability available despite huge debt to GDP ratio, privileged borrowing status that is dollar debt sells at premium, and then there is exorbitant privilege. The burden includes high military expenditures, that is, it is difficult to sustain the role of dominant currency without being one of world’s geopolitical superpowers, and it is difficult to be in the list of superpowers without spending a lot on military needs. Another cost is to provide insurance to the world in case of severe global downturns. Yet another cost could be “weaponisation of dollar reserves” by other countries in a coordinated way, or by China particularly.

The author closes the book with the discussion of ‘peak dollar dominance’. The points raised in this part of the book are: central bank independence, (future) level of interest rate, high debt to GDP ratio, and author’s verdict about ‘end of dollar era?’. The greatest vulnerability to dollar comes from within, that is, if central bank independence is diluted by taking many goals into account like response to climate change or income redistribution, the Fed may lose its prime goal, and there is no guarantee that the low inflation will remain there for longer time. Similarly, high debt to GDP ratio would create further fiscal problems for the government if interest rate does not remain low for longer period. If the “great moderation” can come to an end, the expectations that inflation and interest rate in future will remain low can also embrace an end. The author is of the opinion that dollar has reached its peak era, but it does not mean that the sun will set in the decade to come.

The author traces the challenges to the dollar in a very fitting manner; however, he could have stated his view more clearly regarding the starting point (year), the peak, and the end of the threat posed by different currencies. The book’s objective could be achieved in relatively shorter volume by avoiding unnecessary details, while still providing in-depth analysis and incorporating more graphs and data tables to highlight peak points and turning points in the threat. Nonetheless, the book reminds that in a dollar-dominated global system, external shocks from the United States are transmitted quickly and significantly to developing economies.

The book makes a significant contribution by offering a clear, policy-relevant, and analytically grounded explanation of dollar dominance and its global implications, particularly for developing economies facing external vulnerabilities.

Muhammad Naveed Tahir

Forman Christian College (A Chartered University), Lahore.