

Threats to the Hegemony of the Dollar*

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Janet Yellen, the US treasury secretary, has finally acknowledged what has been obvious to most people for quite some time, namely that the imposition of sanctions against countries that the US is hostile to, runs the risk of jeopardising the hegemony of the dollar as the world's reserve currency. If the sanctions were imposed on just one or two countries, then matters would be different; but sanctions these days are used by the US to target dozens of countries, and, when this happens, those countries tend to get together to form alternative arrangements for bypassing such sanctions. These alternative arrangements have the effect of undermining the US-dominated world order which is characterised by the hegemony of the dollar.

Ironically, but not surprisingly (for what else can one expect from a senior member of the Biden administration), despite making this admission, Janet Yellen pronounced herself in favour of the sanctions that the US is currently imposing. She also admitted that when sanctions are imposed against countries whose governments pursue policies disliked by the US, they are ineffective in changing these policies; but they bring great hardships to the people of the targeted countries. The example of Iran was cited by her: despite years of sanctions the Iranian government's policies disliked by the US have not changed, though the Iranian people have suffered greatly. As she put it: "Our sanctions on Iran have created real economic crisis in that country, and Iran is greatly suffering economically because of the sanctions...Has that forced a change in behaviour? The answer is much less than we would ideally like." Even this recognition however does not prevent her from supporting the imposition of sanctions by the United States; on the contrary, in the case of Iran, the US, she says approvingly, is looking for ways to strengthen the sanctions even more.

The fact that countries targeted by sanctions make alternative arrangements undermining the US-dominated world order is obvious at present. Russia, which has been targeted by sanctions, is in the process of recreating bilateral arrangements with a number of countries, of the sort that the Soviet Union used to have in the old days, where trade would be carried out in terms of the rouble and the local currency, with the exchange rate between them remaining fixed, instead of the dollar.

What such an arrangement does is to remove the dollar from its role as the medium of circulation over a chunk of world trade; and it is this which poses a threat to the hegemony of the dollar. The role of the dollar as the unit of account in world trade, i.e., the fact that prices are denominated in terms of dollars, is of no great consequence; it is not what underlies its hegemony. It is the fact that dollars are needed for actually carrying out transactions that gives the dollar its unique position.

Of course, the dollar also acts as a form of holding wealth; but this role of the dollar arises because it is a medium of circulation. The dollar, unlike any commodity, has no intrinsic value, in the sense that very little labour is spent on its production; it commands value because this value is fixed vis-à-vis some commodity and is affirmed when it is used as a medium of circulation. It follows therefore that the hegemony of the dollar is based upon its role as a medium of circulation in international transactions. Any displacement of the dollar from this role would entail

an undermining of this hegemony. And this is precisely the fear when sanctions are imposed on a large number of countries that then start alternative arrangements.

In fact, sanctions are not the only reason why a displacement of the dollar from its hegemonic role may occur. Many countries wishing to shake off this hegemony, or wishing simply to expand their trade opportunities, may voluntarily enter into arrangements where the dollar is excluded from its role as the medium of circulation. In the days of the Soviet Union the bilateral trade agreement that India had vis-a-vis the Soviets was not because of any sanctions-induced compulsion to overcome the dollar-hegemony regime; it was simply prompted by the desire to expand trade beyond what was possible within a dollar-hegemony regime. Not surprisingly, neo-liberal ideologues waged a relentless ideological struggle against such bilateral agreements, in order to remove any potential challenges to dollar hegemony. They in short had an ideological agenda while the bilateral trade agreements did not. Even now, China and Brazil have set up an arrangement where trade between them will be conducted in their respective currencies, though neither country has any American-imposed sanctions against it.

Likewise, Dilma Rousseff, the former president of Brazil who has just been appointed president of the BRICS Bank, has announced that between 2022 and 2026, 30 per cent of the loans that this bank will give to member countries will be in local currencies; this is with the general objective of de-dollarising these economies, not because of any specific compulsions.

It is worth recalling here the advantages that the hegemony of the dollar confers on the United States. There are two obvious advantages: first, with dollar as the reserve currency, the US does not have to worry about any balance of payments problems, unlike other countries; it can settle its payments by issuing IOUs to other countries which they would hold, since these IOUs in the shape of dollars are a safe form of holding wealth. For this reason it can manage to, and does, stimulate the world economy. Secondly, also for this very reason, the business of American banks increases greatly. True, dealing in dollars is not confined to American banks alone; but there is no doubt that American banks are the greatest beneficiaries when the dollar is the medium of circulation in world trade.

But in addition to these obvious factors, there is a more basic advantage that accrues to the metropolitan capitalist world as a whole because of the hegemony of the dollar, namely that it enables the system to impose income, and hence demand, compression on the primary commodity producing countries of the third world to ensure a growing supply of primary commodities to meet metropolitan demand without any rise in their prices, even when the output of these commodities does not increase to any significant extent.

This process works as follows. When there is an excess demand for some primary commodity produced in the third world, its price rises in terms of the local currency. This creates expectations of a depreciation of its exchange rate vis-à-vis the world's reserve currency, precisely because this currency is different from the reserve currency. This triggers a flight of finance from that particular third world economy to the metropolis causing an actual currency depreciation, in response to which the country raises its interest rate and adopts measures of "austerity". These steps cause a fall in local incomes and hence in local absorption of that particular commodity and

also of other commodities from which land can be diverted towards that particular commodity. Thus the scarce primary commodity is made available to the metropolis in adequate quantities, eliminating the original excess demand and restoring the original price.

It follows that the prevailing currency arrangement of the capitalist world achieves the same objective as the exercise of direct coercion in the colonial period did, of squeezing out raw materials from the third world at non-increasing prices by compressing local absorption; the contemporary currency arrangement in short is an expression of imperialism. It also follows that the currency of any third world primary commodity producing country, or of a group of them, cannot be the hegemonic currency, without damaging this entire imperialist structure, and hence the stability of contemporary capitalism founded upon it. The hegemony of the dollar is a crucial part of this currency arrangement.

The moves towards de-dollarisation that we witness at present, therefore, strike at the root of this metropolitan hegemony. It is not just a question of having one currency arrangement replacing another; it is a question of the stability of the entire system which is based on metropolitan hegemony and achieved at the expense of the peoples of the third world. This is why furious attempts will be made not just by the United States but by the entire metropolitan capitalist world to prevent de-dollarisation. And these attempts can even involve the use of non-economic coercion against regimes working towards such de-dollarisation.

The attempt towards de-dollarisation in short is expressive of the current crisis of capitalism, and for that very reason it would bring out its utter viciousness.

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