

The Hegemony of the Dollar*

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Kliberal opinion holds that the international monetary and financial system is a device for promoting the interests of all participating countries by providing a convenient payments arrangement within which trade can be carried on. The reality however is altogether different: the international system is founded upon the hegemony of western imperialism, and in turn sustains this hegemony. Since the US dollar is the lynchpin of this international system, one can say that the hegemony of the dollar in the international economy is both sustained by and in turn sustains, the hegemony of western imperialism; and this hegemony even comes in the way of mutually convenient trade between participating countries.

An example will make this point clear. Suppose country 1 requires commodity x which country 2 has, and country 2 in turn requires commodity y that country 1 has. They do not, under the current system, simply exchange these two commodities among themselves. Each of them must get hold of dollars first before buying the other's commodity. And unless each of them has sufficient dollar reserves to start with, this trade would simply not occur. In other words, the dollar being the medium of circulation in international transactions, a shortage of dollars in the hands of some countries would hold up even their mutual transactions. This is especially true of trade between third world countries, which remains constricted because each of them is afflicted by a paucity of dollars. They could expand their mutual trade if they could trade in their own currencies, that is, "de-dollarise". The term "de-dollarisation" refers to reduced reliance on the US dollar as a medium of circulation, unit of account, or form of holding reserves for international transactions.

De-dollarisation, however, is naturally opposed by the US, for, its currency being crucial in the world economy, and generally considered to be "as good as gold", gives the US an immense advantage, as if it is sitting on a free and inexhaustible gold mine. It can buy up resources from other countries, it can take over their enterprises, it can invest as much as it likes abroad, and finance its own current account deficits; all this it can do simply by printing more dollars.

But in addition to these obvious advantages, of having access to unlimited amounts of international purchasing power of assured value, the US also can use this role of the dollar to arm-twist countries into accepting its hegemony. It can make dollars available to a country that it favours; alternatively, it can impound the dollar reserves of particular countries that it wishes to punish, for such reserves are typically held in western banks. Indeed it has meted out such punishment to numerous countries ranging from Iran to Russia. The tendency towards de-dollarisation which is generally favoured by third countries that are typically crippled by a shortage of dollars, has acquired a great fillip of late, because of the frequency of such impounding in recent years.

If as many as one-third of the countries of the world have been subjected to unilateral western sanctions, that is sanctions that do not have the support of the United Nations and hence not imposed in defence of some principle, as the anti-apartheid sanctions against South Africa were, then it is natural that there would be a strong desire among

countries of the global south, and countries that have been so targeted, to de-dollarise. This desire found expression recently at the Kazan summit of the BRICS countries.

The role of western sanctions spearheaded by the US in strengthening the desire to de-dollarise, has been recognised within the US administration itself. The US Treasury Secretary Janet Yellen, speaking with the House Financial Services Committee in July, said that US economic sanctions had led to BRICS trying to embark on de-dollarisation. She admitted: “The more sanctions the US imposes, the more countries (BRICS) will seek financial transaction methods that do not involve the US dollar.” Implicit in Yellen’s remark was the admission that the US uses the hegemony of the dollar to browbeat countries into toeing its line, and that the number of countries so browbeaten has been increasing.

There is a specific dialectics of exercising hegemony through unilateral sanctions. If sanctions are imposed on one or two recalcitrant countries then they may be effective without posing any threats to the entire structure; but if sanctions are imposed on a host of countries then the structure itself gets threatened. And given the distress to which countries are reduced under neoliberalism, there is a tendency for the number of recalcitrant countries to increase over time. But with the increase in the number of sanctioned countries, the tendency towards de-dollarisation necessarily keeps getting strengthened. And this is also when the sheer coercion behind the hegemony of the dollar, the fact that this hegemony is based on imperialist arm-twisting, becomes clearly evident, exposing the vacuousness of the liberal claim that the dollar arrangement is in the interests of all countries.

A very important proximate reason behind the hegemony of the dollar, going back to the 1970s, was the agreement between the US and the oil producing countries, achieved through the mediation of Saudi Arabia, that the dollar would be the medium in which oil prices would be expressed and oil trade carried out. Given the importance of oil, this gave the dollar a big boost; in fact, more recently when western sanctions were imposed against Russia with the objective of decimating the rouble, that currency was salvaged inter alia by Russia’s insistence that all payments for its oil and gas exports must be made in roubles.

But clearly such an agreement with oil exporters as took place in the 1970s, is not considered sufficient now to ensure the continued hegemony of the dollar. Even Janet Yellen who had pooh-poohed all talk of de-dollarisation earlier, now takes it more seriously. It is not surprising in this context that Donald Trump has even threatened countries that seek to move away from the dollar with the imposition of 100 per cent tariff on their exports to the US. Trump’s threat makes it crystal clear to everybody that behind the hegemony of the dollar is the coercion exercised by US imperialism.

Such coercion can be effective because any de-dollarisation is a process that takes time. If the de-dollarising countries’ exports to the US are curtailed meanwhile, then they face an acute shortage of dollars that can make their lives extremely difficult. Even if they can somehow manage to meet their import requirements through non-dollar payments, if they have external debt commitments in terms of dollars to the IMF or the World Bank or to western financial institutions, then meeting those becomes impossible. Trump’s threat therefore is a serious one. Significantly, in issuing this threat Trump brazenly exposes the mechanics of US imperialism that are normally camouflaged by liberal chatter.

Ironically however this very threat that can be effective in the short-run will make more and more countries conscious of the need to de-dollarise, of the fact that dollar hegemony entails thralldom to the United States. Of course, there is still a long way to go before any meaningful de-dollarisation occurs, and the Kazan summit was well aware of this fact. After Trump's threat, several countries including India have expressed their lack of interest in de-dollarisation. But while that may be an immediate move to remain in America's good books, the fact that imperialism is facing a serious challenge is beyond doubt. Even the unity among the imperialist powers that is visible on the question of Ukraine and on Gaza, with social democracy in all the imperialist countries characteristically falling in line behind imperialism, testifies to the seriousness of the challenge to imperialism.

The talk of de-dollarisation is part of this challenge. There is however no clear idea even among the BRICS countries about the alternative financial architecture that should replace the current one. Progressive opinion in the world must ensure that this replacement, whenever it occurs, does not just substitute dollar hegemony by the hegemony of some other currency, reflecting the hegemony of some other country or set of countries.

For this, it is necessary that the same arrangements are not kept alive when the dollar is replaced by some other currency, whether some existing currency or some alternative BRICS currency; the rules themselves need to change, and one important change must be that the burden of adjustment for achieving payments balance falls not on the deficit countries, as was the case under the Bretton Woods system and as is the case now, but rather on the surplus countries.

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