For much of the post-war era, the United States has enjoyed an economic advantage unavailable to any other major power: the ability to finance its ambitions in a currency that the rest of the world needs. Governments accumulate dollars, corporations borrow in them, commodities are priced in them, and international investors regard American government securities as indispensable. This arrangement has allowed Washington to sustain persistent fiscal deficits, absorb global savings and exercise an extraordinary degree of influence over international finance.

Yet the foundations of this advantage are becoming increasingly complicated. The dollar remains dominant, but the financial benefits associated with that dominance can no longer be taken for granted. Rising American debt, persistent fiscal imbalances and an increasingly unpredictable geopolitical environment are forcing investors to reconsider the premium they are willing to pay for the safety and liquidity of American assets.

The distinction is important. The world is not necessarily preparing to abandon the dollar. Rather, it may be entering a period in which the United States retains monetary leadership while gradually losing some of the economic privileges that historically accompanied it.

This represents a more consequential transformation than the familiar debate over whether another currency will replace the dollar.

The Hidden Economics of American Power

The international monetary system rests on more than the size of the American economy. Its strength derives from the depth of American financial markets, the credibility of its institutions, the convertibility of its currency and the availability of government securities that can be traded in enormous volumes without significantly disrupting prices.

US Treasury securities occupy a particularly important position. They serve as reserve assets for central banks, collateral for financial institutions and benchmarks for pricing credit across the global economy. Their liquidity has historically allowed

the American government to borrow on favourable terms because investors accept lower returns in exchange for the security and flexibility these instruments provide.

Economists describe this advantage as a convenience yield. In practical terms, investors have been willing to sacrifice some financial return to hold assets that are exceptionally liquid, widely accepted and perceived as safe.

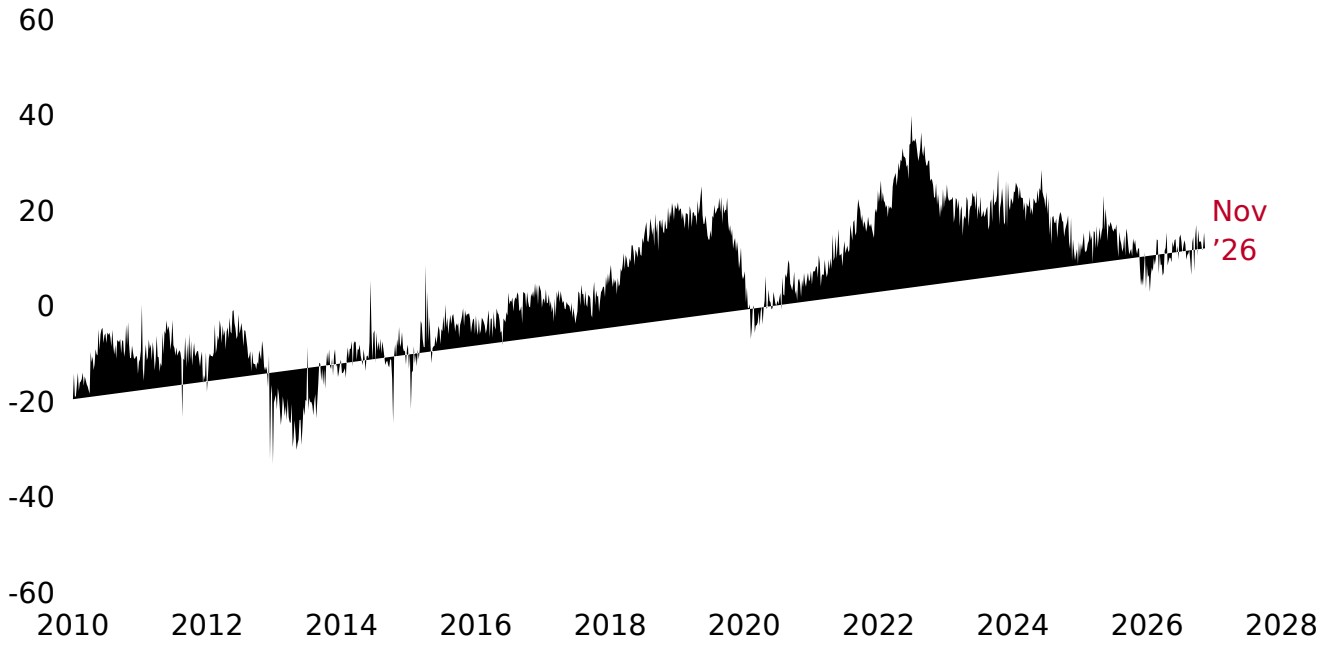
For Washington, the benefits extend beyond cheaper borrowing. Global demand for dollar-denominated assets helps finance fiscal deficits, supports the international reach of American financial institutions and reinforces the effectiveness of US economic sanctions.

This arrangement has often been interpreted as evidence of American financial exceptionalism. But exceptionalism is not immunity from economic constraints.

When government debt expands persistently, the supply of securities increases. Their relative scarcity diminishes, and investors may demand higher compensation for holding them. The assets can remain liquid and internationally indispensable while becoming more expensive for their issuer.

That is the emerging contradiction at the heart of American financial power: the United States can remain the world’s principal supplier of safe assets even as the market becomes less willing to finance that role at historically favourable prices.

10-year U.S. Treasury yield minus trade-weighted 10-year government bond yield in Germany, Japan, the UK, Canada, Switzerland, Sweden, and Australia, hedged back into dollars using 10-year currency forwards, in basis points



Source: Bloomberg; Federal Reserve Board; author’s calculations

Note: Values below zero indicate the 10-year U.S. Treasury yield is lower than comparable dollar-denominated G10 government bond yields.

When Abundance Undermines Privilege

The growing supply of American government debt reflects a structural fiscal challenge rather than a temporary disruption.

Deficits are increasingly shaped by pressures that cannot be easily reversed through short-term adjustments. Ageing-related expenditure, healthcare obligations, defence commitments and rising interest payments compete for fiscal resources. Political disagreements over taxation and spending further complicate the prospects for sustained consolidation.

The resulting problem is not simply the absolute size of public debt. A country issuing the world’s leading reserve currency possesses greater financing flexibility than most sovereign borrowers. The deeper question is whether the trajectory of

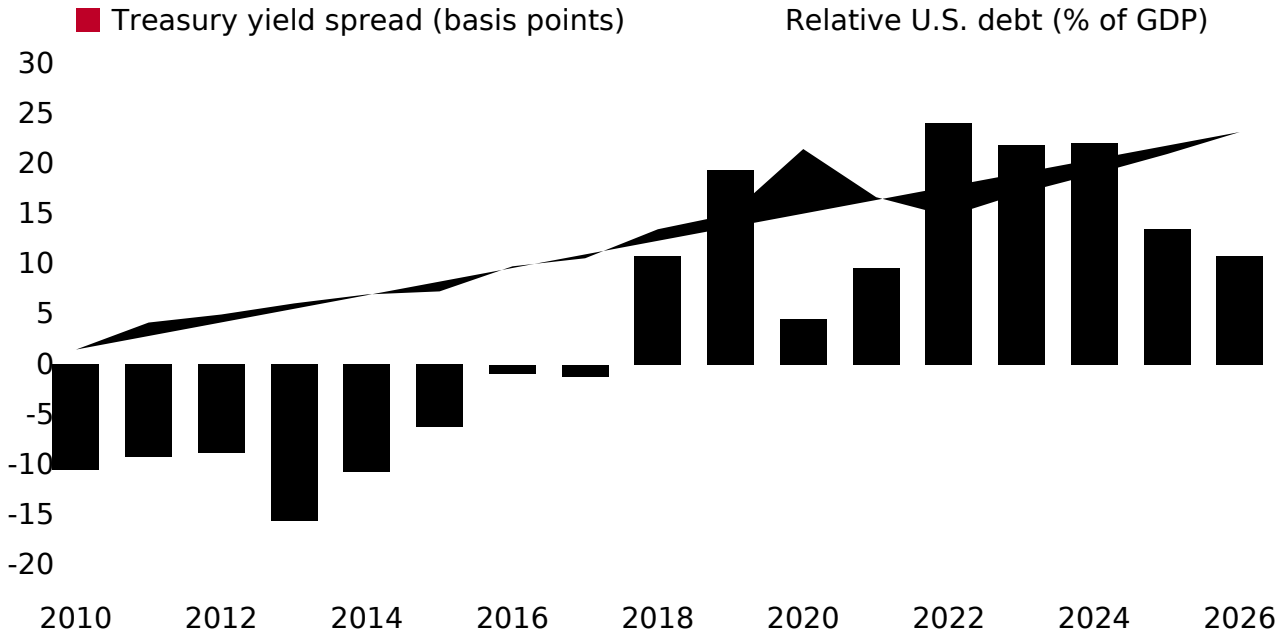
debt is consistent with preserving investor confidence and maintaining favourable borrowing conditions.

Higher interest rates intensify this challenge. As existing obligations mature and are refinanced, the cost of servicing debt can increase. Rising interest expenditure then contributes to larger deficits, creating additional borrowing requirements.

Such dynamics do not imply an imminent American debt crisis. The United States retains substantial economic capacity, deep capital markets and extraordinary institutional advantages. Nevertheless, these strengths cannot indefinitely neutralise the consequences of fiscal deterioration.

A particularly important development is the possibility that investors increasingly distinguish between the liquidity of US government debt and its fiscal attractiveness. Treasuries may remain the easiest securities to trade without necessarily offering the lowest risk-adjusted financing costs among advanced economies.

As U.S. debt has risen relative to key G10 countries, the scarcity value of U.S. Treasuries has diminished



Source: Bloomberg; Federal Reserve Board; IMF; author's calculations

Note: Annual averages. The 2026 yield spread is averaged through November 2, 2026; 2026 debt values are IMF projections. Bars show basis points; line shows percentage-point difference in debt-to-GDP ratios.

The implications extend well beyond Washington. American government bond yields influence borrowing costs for households, businesses and governments across the world. A sustained increase in the compensation demanded by investors could therefore transmit tighter financial conditions internationally, even without a conventional financial crisis.

Dollar Dominance and Financial Privilege Are Not Identical

Public discussion frequently treats the dollar's reserve currency status and America's borrowing advantage as interchangeable. They are related, but they are not the same.

A currency can dominate international transactions because of established networks, market infrastructure and the absence of credible alternatives. These advantages can persist even when the economic conditions supporting the issuing country's public finances deteriorate.

The dollar benefits from precisely such network effects. International banks maintain extensive dollar operations, commodity markets rely heavily on dollar pricing, and businesses use dollar financing because their trading partners and creditors do the same.

Replacing this architecture would require more than political declarations or bilateral agreements to settle trade in alternative currencies.

The International Monetary Fund's second-quarter 2026 data placed the dollar's share of allocated global foreign exchange reserves at approximately 56.7 per cent. Although substantially below its levels around the turn of the century, this remains far ahead of any competing currency.

The persistence of dollar holdings demonstrates the resilience of the existing system. But resilience should not be confused with the absence of change.

Reserve managers can maintain substantial dollar allocations while gradually diversifying incremental investments. Private investors can continue using dollar markets while demanding higher returns. Governments can preserve dollar reserves while developing alternative payment arrangements to reduce exposure to geopolitical disruptions.

These adjustments may appear marginal individually. Collectively, they can reshape the distribution of financial influence without producing a dramatic change in the international monetary hierarchy.

The critical question, therefore, is not whether the dollar will disappear from global finance. It is whether its continued dominance will deliver the same economic advantages to the United States.

Geopolitics Is Repricing Financial Trust

The international appeal of American financial assets has historically depended on the assumption that the United States provides a relatively predictable institutional environment.

That assumption is increasingly exposed to geopolitical pressures.

The expanding use of financial sanctions, restrictions on access to payment systems and the freezing of sovereign assets have demonstrated that participation in dollar-centred finance carries strategic consequences.

For countries concerned about potential conflict with Washington, financial diversification has consequently become a matter of national security as well as portfolio management.

This does not mean that alternative financial systems are immediately capable of replacing American infrastructure. It does mean that governments have stronger incentives to reduce their dependence on any single jurisdiction.

Gold purchases, bilateral currency arrangements and experiments with alternative cross-border settlement mechanisms should be understood within this broader context.

Their significance lies less in their immediate ability to challenge dollar supremacy than in the strategic preferences they reveal.

At the same time, Washington faces a difficult balancing act. The international centrality of the dollar increases the effectiveness of American financial statecraft. Yet the repeated use of that centrality as an instrument of coercion can encourage other countries to build mechanisms that reduce their vulnerability.

Financial power is most durable when others regard participation in the system as advantageous, not merely unavoidable.

The more the monetary order becomes entangled with geopolitical confrontation,

the greater the incentive for states to pursue financial autonomy, even when doing so involves higher transaction costs.

Why the Alternatives Remain Incomplete

Predictions of the dollar's decline often underestimate the structural limitations facing potential competitors.

The euro represents the most credible alternative in terms of economic scale, institutional sophistication and international acceptance. However, Europe's financial architecture remains fragmented, and the supply of common safe assets is constrained by the absence of a fully integrated fiscal union.

The Chinese renminbi faces different obstacles. China's economic weight and trade relationships provide a substantial foundation for greater currency internationalisation. Nevertheless, capital controls, limited convertibility and concerns about institutional transparency restrict its attractiveness as a global reserve asset.

For international investors, the ability to enter a market is only part of the calculation. Equally important is confidence that capital can be withdrawn freely, legal protections will remain predictable and financial claims will not become subject to arbitrary political intervention.

Other currencies, including the Japanese yen, Swiss franc and several smaller advanced-economy currencies, offer diversification opportunities but lack the scale required to absorb global demand for reserve assets.

Consequently, the likely future is not an orderly transfer of monetary leadership from Washington to another capital.

A more plausible outcome is an increasingly diversified system in which the dollar retains its central position while other currencies, gold and alternative settlement mechanisms assume somewhat larger supporting roles.

Such a system could be more fragmented without becoming genuinely multipolar.

The Consequences for Emerging Economies

For emerging economies, changes in the economics of dollar dominance present both risks and opportunities.

The most immediate concern is the transmission of American financial conditions. When US borrowing costs rise, global investors often reassess their exposure to emerging-market assets. Capital flows can become volatile, exchange rates may face pressure, and governments or companies with dollar-denominated liabilities can experience higher financing costs.

These vulnerabilities are especially pronounced where external borrowing is substantial and domestic financial markets remain relatively shallow.

For India, the implications are particularly significant. Its expanding economic scale, growing international trade and ambitions to deepen financial integration make the stability of the global monetary system a strategic concern.

India has legitimate reasons to promote greater use of the rupee in cross-border transactions, strengthen domestic bond markets and diversify external financial relationships.

However, currency internationalisation cannot be achieved through administrative ambition alone. It requires confidence in macroeconomic stability, sufficiently deep financial markets, predictable regulation and a willingness among foreign investors to hold rupee-denominated assets.

The objective should not be to replace dependence on the dollar with unrealistic expectations of rapid monetary autonomy.

Instead, India should pursue greater financial resilience through carefully calibrated diversification, stronger domestic institutions and more flexible international payment arrangements.

The same principle applies across the developing world. Financial sovereignty is best strengthened by expanding credible options rather than making symbolic declarations against the existing monetary order.

The Real Test of American Leadership

The future of the dollar will ultimately depend as much on American policy choices as on the ambitions of competing powers.

The United States possesses advantages that cannot easily be replicated: sophisticated capital markets, a large and innovative economy, globally influential financial institutions and an unmatched network of international monetary relationships.

But these advantages require stewardship.

Fiscal credibility, institutional independence, predictable policymaking and confidence in the rule of law are not secondary considerations. They are essential components of the trust that supports international demand for American assets.

If Washington assumes that the absence of a viable alternative guarantees permanent financial privilege, it risks confusing structural dominance with unlimited investor tolerance.

Conversely, a credible commitment to fiscal sustainability and institutional stability could reinforce the dollar’s international appeal even in a more competitive geopolitical environment.

The central paradox is that America’s greatest monetary advantage may also encourage complacency. Because global investors have few comparable alternatives, the United States can postpone adjustments that other countries would be forced to undertake much sooner.

Yet the ability to delay adjustment should not be mistaken for the ability to avoid its consequences.

The international monetary system is unlikely to experience a sudden revolutionary break. Its transformation will probably unfold through incremental changes in asset allocation, borrowing costs, settlement practices and geopolitical relationships.

The dollar may remain indispensable for decades. What is less certain is whether indispensability will continue to translate into the same degree of financial advantage.

That distinction captures the emerging reality of global finance. American monetary leadership is not necessarily approaching its end. But the era in which that leadership automatically guaranteed exceptionally favourable economic terms may already be giving way to something more conditional.

The dollar does not need to lose its throne for America to discover that occupying it has become more expensive.