**Do “Dollar” and “Detrimental” belong in the same sentence?: An Economic Evaluation**

Almost anyone has heard the saying that “the U.S. dollar is strong”, but can the U.S. dollar be *too* strong? To understand the full impact of the U.S. dollar, one must first understand how the dollar came into power.

Globalization in the 20th century shifted power dynamics, propelling the United States into a leading position after the world wars (Fisher). Initially, the British pound was dominant due to the thriving British Empire. However, the Bretton Woods Agreement in 1944 replaced the gold standard with the U.S. dollar as the global reserve currency, sparking the beginning of the dollar’s regime. In the 1970s, inflation prompted President Nixon to end the gold standard, marking the start of our modern economy. Today, the U.S. dollar is recognized as the world’s *de facto currency* (Corporate Financial Institute).

However, some economists believe that the dollar’s dominance is waning. They argue that China’s economy will surpass America’s due to the outsourcing of American manufacturing, leading to increased control of international production and global monetary transactions by other countries (Mohamed). Current events signal that rival countries are attempting to diminish the dollar’s influence. In fact, in March 2023, Vladimir Putin and Chinese President Xi Jinping signed 14 economic agreements, mentioning specifically to use “the Chinese yuan for settlements between Russia and the countries of Asia, Africa, and Latin America” (Lasarte).

Others disagree. Despite ongoing discussions about challenging the legitimacy of the dollar, it has maintained its strength. In 2023, the dollar accounted for approximately 60% of global currency reserves, a significant rise from its share of 50% three decades ago as shown in

the CITI graph (Brusuelas). Currently, there is no immediate risk to the dollar’s dominance (NPR).

But is it necessarily *good* that the dollar remains strong?

The US dollar’s strong influence has fueled global economic growth for many years, ensuring low interest rates and crucial liquidity in dollars across the globe. In crises like the 2008 recession, the Federal Reserve’s provision of dollar swap lines to trusted foreign banks injected crucial liquidity without significantly affecting the value of the dollar (Luo). Dollar liquidity is vital for the global economy, with studies showing its link to improvements in mortality rates (Schoenherr).

The Federal Reserve, with its Board of Governors, Federal Reserve Banks, and committees, operates independently from political influence, ensuring that decisions are made in the best interest of the economy (Federal Reserve). The Federal Reserve has the authority to set monetary policy and regulate banks without interference, leading to better economic outcomes.

Indeed, studies have shown that central bank independence is associated with lower inflation rates without harming growth and employment goals (Saylor).

However, there are negative aspects to consider. The US uses economic policy as a primary tool in global affairs, particularly through foreign direct investment (FDI). While FDI can benefit resource-rich but economically disadvantaged countries, multinational corporations often exploit tax loopholes and divert funds (UNCTAD). This can create dependency and result in an unequal trade balance and environmental degradation in developing nations. It perpetuates a cycle where economic growth comes at the expense of well-being (Caycedo).

The expansion of supply chains driven by FDI in these countries contributes to environmental harm and resource depletion. This reflects the ‘treadmill of production’ theory, which suggests that the relentless pursuit of economic growth sacrifices well-being for unattainable goals (Gould et al.). This theory is evident in U.S. involvement in foreign economies, leading to rapid but unsustainable growth in Africa and Mexico. Forced development disrupts established progress and creates economic instability.

For instance, in West Africa and Sub-Saharan Africa, rapid urbanization strains economies, as the population is expected to double in 25 years (Saghir). Similarly, U.S. actions, such as interest rate hikes in the late 1970s, caused economic turmoil in Mexico, leading to currency devaluation and reliance on IMF bailouts (Musacchio). This intervention perpetuates economic harm and wage inequality.

Overall, with the dominance of the U.S. dollar, income inequality has thrived, reaching the highest level in the past fifty years, with a GINI index of .485 (Schneider).

While the dollar has its faults, other options are worse. The euro does not offer a strong alternative to the dollar in terms of macroeconomic policies. The eurozone has enormous deficit spending, and the euro is also subject to monetary inflation (McMaken). Indeed, European sovereign debt is not as secure as that of the US.

As for the yuan, it still has a long way to go. China benefits from its extensive size and scope, but concerns about openness and convertibility persist—mainly because of capital controls. Chinese government debt markets are not as liquid or sophisticated as those in the United States and are therefore not considered as safe as US government bonds (Mises). Furthermore, China’s macroeconomic policies pose a potential geopolitical risk. Moreover, the reliability of China’s commitment to not seize foreign capital is questionable.

So, while the strong dollar may have negative consequences for foreign countries, it also provides essential stability that other potential reserve currencies cannot offer. In conclusion, despite its drawbacks, the dollar is still the better option among alternatives.

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