

The U.S. Dollar and Monetary Policy: Between Past Dominance and Future Challenges

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By: Samer Dahshi (Abu Omar)

Since the end of World War II, the U.S. dollar has held the position of the world's primary reserve currency, firmly tied to the international financial system under the rules of the Bretton Woods Agreement. When the United States abandoned Bretton Woods in the early 1970s, it introduced what later became known as the "petrodollar" by linking global oil trade to the dollar—ensuring continued worldwide demand and reinforcing its role as the dominant settlement currency.

Yet this privileged position has not been immune to pressure. Massive government spending and ballooning public debt—surpassing \$34 trillion in 2024—have raised serious concerns about the sustainability of the current model. Treasury data shows that U.S. GDP in 2024 averaged about \$28.83 trillion, while total federal debt reached \$35.46 trillion. That puts the debt-to-GDP ratio at roughly 123%, underscoring the scale of fiscal imbalance.

The global financial system has also repeatedly revealed the risks of its overreliance on the dollar. The 2008 global financial crisis, for example, exposed the fragility of markets and forced the Federal Reserve to activate currency swap lines with central banks in Europe and Asia to supply emergency dollar liquidity and prevent a worldwide banking collapse [Federal Reserve, 2009]. The same mechanism was reactivated during the COVID-19 pandemic in 2020, extending liquidity to more than 14 central banks across the globe [IMF, 2020].

Today, Washington is working to strengthen the resilience of the monetary system through three key strategies:

1. **Currency Swap Lines** – These have become a strategic instrument of international monetary policy, serving not only to protect the U.S. economy but also to preserve the dollar's role as the world's ultimate source of liquidity.

2. **Encouraging select trade partners to transact in local currencies** – While this somewhat eases direct pressure on dollar demand, it remains within a framework guided by Washington and does not truly threaten the dollar's standing. In fact, as of 2023, 58% of global reserves were still held in dollars [IMF COFER, 2023].

3. **Developing a U.S. Central Bank Digital Currency (CBDC)** – With China accelerating its rollout of the "digital yuan" and the European Union testing a "digital euro," the U.S. cannot afford to lag behind. The Federal Reserve is actively studying the introduction of a "digital dollar" to safeguard America's monetary dominance in the digital economy [Federal Reserve Board, 2022].

The Fundamental Alternative:

Some economists and thinkers argue that the true way out of recurring financial crises and declining trust in fiat dollars lies in a return to the gold and silver standard at the international level. Pegging currencies to precious metals—as was done for much of economic history—provided relative stability, restrained monetary inflation, and limited one of the root causes of modern financial crises. Since the abandonment of the gold and silver standard in the 1970s, unrestricted money printing has left the global economy far more vulnerable to cycles of recession and repeated financial blowouts.

These dynamics reflect Washington's awareness that dollar dominance is not inevitable; it must be continuously renewed to adapt to shifting geopolitical and technological realities. And while global initiatives—such as BRICS agreements to settle trade in local currencies or the expanding use of China's yuan—aim to reduce reliance on the dollar, the international financial system still lacks, at least for now, a viable alternative with the same depth, liquidity, and institutional trust.