

Will “Sell America” End the Dollar’s Hegemony?

di Erin Lockwood

It has long been reasonable to assume that central banks’ incremental diversification of their reserve holdings would erode the US dollar’s hegemonic position only over the long run. But with the addition of heightened market skepticism about the greenback, we could find ourselves in uncharted waters.

IRVINE – Questions about the future of the US dollar have swirled in recent weeks, with a headline in the *New York Times* [proclaiming](#) that, “Sell America is the New Trade on Wall Street.” Following US President Donald Trump’s escalatory threats against Greenland, the greenback [fell sharply](#), only to rebound somewhat on the announcement that Kevin Warsh has been nominated to serve as the next chair of the Federal Reserve. Meanwhile, gold and silver prices have [soared and then crashed](#), a Danish pension fund has announced its [divestment from US Treasury bonds](#), and all eyes have turned to the \$8 trillion in US assets held by Europeans.

Two factors are [at play here](#): the perceived risk attached to holding US dollars and dollar-denominated assets has increased, and many observers have noted that foreign holdings of US debt and assets are a [potentially potent weapon](#) against Donald Trump’s imperialism. Both have forced investors to look at US assets in a newly critical light, raising four big questions about the future of dollar hegemony in an era of geopolitical turmoil.

First, is there a viable challenger to the dollar in international markets? The conventional wisdom has long answered no, “there is no alternative” (TINA). The dollar is unique among global currencies in that its value is driven not just by supply and demand, but also by its structural power. Dollars are necessary to engage in cross-border commerce. Just [over half](#) of foreign trade is conducted in dollars, [90% of](#)

[foreign currency swaps](#) involve the greenback, and [58% of foreign central-bank reserves](#) are denominated in it.

True, central banks have significantly diversified their foreign reserves in recent years. But definitively abandoning the dollar would require an alternative reserve currency, and the possible successors are limited.

Because fiscal policy in the eurozone remains the purview of member states, the European Central Bank cannot issue sovereign debt, limiting the euro's attractiveness to investors. Likewise, China maintains high capital controls to manage its exchange rate, which renders the renminbi comparatively illiquid. A third possibility, currency multipolarity, would mean increased transaction costs and exchange-rate risks, which might be viewed as an acceptable price to pay for moving out of US dollars.

A second, related question is: Who is supposed to be on the other side of the sell-America trade? Could holders of US assets wishing to flee en masse find buyers for US debt and equities, and at what price? Many commentators have suggested that Europe might gain leverage over the US by weaponizing its [\\$8 trillion in US assets](#). But since European holdings of US assets are mostly [concentrated in the private sector](#), it would be politically and economically costly for governments to force their sale.

Even if it could be done, it still isn't clear who the buyers would be. US domestic investors might be willing to absorb some of the market for unwanted US debt and assets, but the US is a net debtor; there is a limit on just how much capacity it has, even with a badly devalued dollar.

Nor is it obvious that a European sale of US assets would be enough to weaken the dollar's structural power. On one hand, demand for dollars depends crucially on shared belief in the relative stability and liquidity of US assets. If investors start running for the exits, this source of credibility may be jeopardized.

On the other hand, however, Europe holds [only about 10% of total US government debt](#), which raises doubts about whether the blow from a strategic fire sale would overcome the powerful incentives for the rest of the world to continue transacting in dollars. The structural power of the greenback will not last forever, but it must be reckoned when considering a new era of monetary politics.

A third question is whether current holders of US debt would be willing or even able to bear the costs of selling it, given the logic of mutual assured destruction (MAD). If de-dollarizing governments were to coordinate a mass sale of US Treasuries and other assets, the damage to their own central banks and private financial institutions' balance sheets would be twofold. A mass sale of dollar assets would drive down their price, forcing banks to take a hit; and their remaining dollar assets would also fall sharply in value.

Moreover, currency values are always relative, and a coordinated European campaign to sell dollar-denominated assets in exchange for euro assets would cause the euro to appreciate sharply, damaging eurozone member states' [substantial export sectors](#). Still, if markets start to lose faith in the stability of the dollar, we could see a growing receptiveness to state-led pressure to de-dollarize.

Ultimately, the answer to these three questions hinges on a fourth: How much is this a political, rather than an economic, issue?

The economic case for dislodging dollar dominance is weak, given the dollar's structural position and foreign economies' deep reliance on the US financial sector and US dollar reserves. But markets are also [social and political constructs](#), and as Daniel McDowell of Syracuse University [argues](#), “politics – not just economic fundamentals – is central to the dollar's appeal as an international currency.”

The implication is that a combination of diminished US monetary credibility and geopolitically driven state pressure to ditch US assets could well overcome the familiar TINA and MAD arguments. Previous analyses of US dollar hegemony have primarily focused on the resilience of the dollar's structural position in the face of central banks' diversification of currency reserves, and the potential for China, especially, to weaponize its Treasury holdings. But today's world is different, because those targeted by US sanctions are no longer the only ones viewing the dollar skeptically.

Incremental diversification by the world's central banks of their reserves might erode the dollar's hegemonic position only over the long run. But with the addition of heightened market skepticism about the greenback, we could find ourselves in uncharted waters, where state- and market-led pressure to de-dollarize become mutually reinforcing, accelerating the process.