AN EXORBITANT PRIVILEGE
The History of Global Reserve Currencies

By Peter C. Earle

With Donald Trump's return to the White House in January 2025, renewed focus has been placed on a set of policies informally known as the "Mar-a-Lago Accord"—a loosely defined framework aimed at revitalizing American industry by confronting what it identifies as the corrosive effects of a chronically strong US dollar. Central to this diagnosis is the United States' role as issuer of the global reserve currency. The dollar's use in international trade, debt issuance and commodity pricing ensures an almost constant level of global demand, irrespective of US export competitiveness. To facilitate trade, defend exchange rates and manage reserves, foreign governments and multinational firms stockpile dollars—often in the form of US Treasury securities. This persistent demand for Treasuries has helped suppress interest rates and enabled the United States to accumulate nearly $37 trillion in federal debt since 1980. While this has financed decades of consumption and borrowing, the Mar-a-Lago camp argues that it has also hollowed out domestic manufacturing and skewed incentives toward financialization and services over the production of goods.

A global reserve currency is the backbone of international commerce and finance. It is the currency held in large quantities by central banks and international institutions for settling cross-border transactions, pricing commodities, facilitating debt issuance and maintaining currency pegs. Reserve currencies enable trade stability and liquidity across nations that may not share political alignments or economic similarities. Historically, the currency of the world's leading economic power has tended to dominate this role, but the rise of multipolar geopolitics, technological disruption and macroeconomic imbalances is calling the current system into question. With the US dollar still commanding a dominant share of global reserves, questions are emerging from both critics abroad and observers at home: Does the United States still benefit from this role? If so, is it sustainable?

What Is a Global Reserve Currency?

A global reserve currency is a national currency that is used internationally for trade, finance and reserves. It must satisfy multiple criteria: liquidity, convertibility, trust, legal stability and widespread use in transactions and investment. Most importantly, it must be backed by the economic and institutional strength of its issuing country. A reserve currency is not only used by private actors, but by governments and central banks as well to manage exchange rates, settle trade imbalances and build financial reserves that offer safety and flexibility.

These currencies serve several functions simultaneously. They act as units of account for global pricing (especially for commodities like oil, gold and agricultural exports), as media of exchange in international payments and as stores of value in bank accounts and vaults. The most dominant reserve currencies are used in the issuance of sovereign and corporate bonds, denominating debt that circulates across global capital markets. The central, singular reserve currency today—the US dollar—satisfies all of these functions and more.

How Reserve Currencies Arise

Reserve currency status does not emerge by fiat, nor is it conferred by a multilateral decision. Instead, it arises organically from a combination of a country's economic size, commercial reach, geopolitical power, financial market depth and institutional trustworthiness. Typically, a reserve currency emerges when a nation becomes a center of trade and finance, creating a network effect in which other countries find it convenient—or essential—to conduct business in that currency.

The path to reserve currency status tends to begin with trade dominance. When a country is a primary exporter of goods and services, its currency becomes naturally entwined with global commerce. But that alone is insufficient. The country must also maintain deep and liquid financial markets that provide global investors and governments with a reliable store of value and risk-adjusted returns. A well-managed monetary policy regime and transparent institutions underpin trust in the value of the currency over time.

Critically, once reserve status is attained it tends to be self-reinforcing. The more actors use a currency, the greater the incentives for others to do the same, reinforcing its dominance through familiarity, habit and infrastructure. Dislodging a currency from that position is rare without systemic upheaval.

Historical Reserve Currencies

Reserve currency issuer status has historically been held by the dominant economic and financial power of an era. Examining past reserve currencies reveals the conditions that enable monetary leadership—and the vulnerabilities that ultimately lead to its decline.

Gold

Gold is often considered the first *de facto* global reserve asset, as it was universally accepted across civilizations for trade and settlement. While it lacked a central issuing authority or formal monetary framework, it functioned effectively as a neutral, trusted medium held by states and empires to back currency and ensure financial credibility. Though not a reserve currency in the modern fiat sense, gold's role as a universal store of value and strategic reserve gives it a foundational place in the history of international finance.

The Roman Denarius/Solidus (circa 211–700 CE)

During the height of the Roman Empire, these coins functioned as a trans-regional reserve and trade currency across Europe, North Africa and the Near East. As the empire fragmented and debased its currency, the denarius lost credibility and gave way to localized coinage systems across successor states and rising medieval powers.

The Venetian Ducat and Florentine Florin (circa 1252–1600 CE)

In the late Middle Ages and Renaissance, these gold coins were trusted and widely accepted across Europe and parts of the Middle East for trade and banking, thanks to the financial sophistication and credibility of the issuing city-states. They eventually declined as Italian political power waned and were supplanted by the currencies of emerging nation-states like Spain and the Netherlands.

The Spanish Silver Dollar (circa 1550–1800 CE)

Due to Spain's vast empire and silver mines in the Americas, the silver dollar circulated widely across Europe, Asia and the Americas and was effectively a global medium of exchange—particularly in trade with China. Over time, it was displaced by the Dutch guilder and later the British pound as Spain's imperial dominance faded and newer financial centers rose.

The Dutch Guilder (circa 1600–1800 CE)

In the 17th century, the Dutch Republic was the world's preeminent trading and maritime power. Its currency, the guilder, became the dominant international medium of exchange, backed by the credibility of the Bank of Amsterdam. The guilder was widely accepted across Europe and parts of Asia due to its stable value, rigorous minting standards and the Netherlands' role in global trade. However, as Dutch power waned and the British Empire expanded, the guilder gradually fell out of favor.

The British Pound (circa 1815–1945 CE)

From the 19th century through the early 20th century, the British pound sterling served as the dominant global reserve currency. This coincided with the British Empire's peak, when it controlled trade

14th century Florentine florin.

Medieval Venetian ducat.

routes, industrial production and financial markets across five continents. The Bank of England operated with credibility, and London became the global center of banking and commerce. Sterling was the anchor of the classical gold standard, which ensured exchange rate stability. However, two world wars, economic stagnation and imperial decline undermined Britain's fiscal capacity and the pound's credibility. The transition from sterling to the dollar was slow but inevitable, completed in the aftermath of World War II.

The US Dollar (circa 1945–present)

The dollar's rise began during World War I when the United States became a major lender to Europe. After World War II, the 1944 Bretton Woods agreement established the dollar as the global reserve currency, pegging it to gold while other currencies were pegged to the dollar. This gave the US extraordinary influence in global finance and established the Federal Reserve as the *de facto* central bank of the world. Although the United States abandoned gold convertibility in 1971, the dollar's dominance persisted due to the depth of US capital markets, the liquidity of US Treasury securities and the sheer size of the American economy. Petrodollar arrangements with oil-producing countries further reinforced dollar centrality by pricing crude oil exclusively in US dollars.

Other Currencies

The euro, introduced in 1999, was designed in part to rival the dollar. It quickly became the second most held reserve currency, peaking at nearly 25% of global reserves in the early 2000s. However, the eurozone debt crisis, lack of fiscal integration and divergent member economies limited its further ascent. The Japanese yen and British pound are widely held but restricted by the relative economic size and institutional limits of their issuers. The Chinese renminbi, despite the economic scale of China, faces major hurdles such as capital controls, limited transparency and

Dutch guilder, dated 1763.

geopolitical mistrust that constrain its rise to reserve status.

The Triffin Dilemma

A unique paradox faces the issuer of the global reserve currency: it must supply enough liquidity to the world, typically by running current account deficits, yet those very deficits undermine confidence in the long-term value of the currency. This is the Triffin dilemma, named after economist Robert Triffin, who first articulated it in the 1960s.

In the US case, satisfying global demand for dollars means importing more than it exports, thus running persistent trade deficits. While this provides the world with the liquidity it needs to transact, it tends to increase external debt. Over time, the accumulation of liabilities can prompt questions about fiscal sustainability, inflationary risk and the political will to honor obligations. The contradiction is fundamental: global monetary stability depends on a national policy path that may become politically or economically untenable.

The dilemma deepens when global shocks occur. In every major crisis—from the 1997 Asian financial crisis to the 2008 global financial crisis and the Covid-19 pandemic—demand for dollar liquidity surges. The Federal Reserve often responds with swap lines and emergency lending to other central banks, reinforcing the dollar's role but also deepening dependency upon it.

Issuing the global reserve currency confers substantial advantages to the issuing nation, most notably through financial, monetary and geopolitical channels. First, because global institutions—including foreign central banks and sovereign wealth funds—demand dollar-denominated assets such as US Treasury securities, this steady appetite lowers the yield the United States must offer to attract buyers. As a result, the federal government can finance budget deficits at lower interest rates than other countries with comparable debt levels. Second, the United States enjoys "monetary sovereignty": it can issue debt in its own currency, thereby avoiding the exchange-rate and rollover risks that burden countries reliant on external (foreign currency-denominated) borrowing. That further reduces the likelihood of currency crises or capital flight.

The dollar's dominance also grants the United States considerable geopolitical leverage. Because most international payments flow through systems like the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and rely on dollar-clearing infrastructure, the United States can enforce financial sanctions with global reach, compelling foreign banks and governments to comply with its regulatory framework. Fourth, strong foreign demand for dollars allows the United States to sustain persistent current account deficits without triggering immediate balance-of-payments crises—a luxury not afforded to most economies. Finally, the country benefits from a form of seigniorage: it earns what economists call "exorbitant privilege" by issuing a currency that others hold as reserves. This allows the United States to effectively import real goods and services in exchange for paper liabilities, generating economic rent from its unique monetary position

While the benefits of issuing the global reserve currency are considerable, they are accompanied by significant long-term and structural disadvantages that can undermine domestic economic health and global stability. The continuous inflow of foreign capital—seeking dollar-denominated assets—can inflate asset prices and distort credit markets. This often results in financial bubbles and unsustainable debt accumulation across both public and private sectors. Moreover, the fiscal space afforded by low borrowing costs may reduce the urgency for structural reforms, enabling political leaders to postpone difficult decisions on entitlement reform, tax policy or spending discipline. These dynamics can provoke political backlash: the concentrated gains of reserve currency status—seen in financial centers and multinational firms—are often not felt by working-class communities, fueling populism and skepticism toward the considerable benefits of global trade. Finally, reliance on the dollar's dominance to impose financial sanctions or exercise geopolitical influence carries its own risks. Overuse of this "weaponized finance" can incentivize rival states—and even disaffected allies—to develop alternative financial systems, accelerate de-dollarization and gradually fragment the international monetary order

Five British pounds, dated 1839.

Contemporary Challenges and De-dollarization

Since the early 2000s, the US dollar's share of official foreign exchange reserves has declined from over 70% to below 59%, signaling a gradual erosion in its dominance of the global financial system. While the dollar remains the primary reserve asset, this trend reflects a growing desire among nations to reduce their dependence on a single monetary hegemon. Several structural and geopolitical factors have accelerated this shift. US sanctions on countries such as Russia and Iran have motivated targeted nations to build alternative financial infrastructure, including Russia's SPFS and China's Cross-Border Interbank Payment System (CIPS), to circumvent dollar-based settlement networks. A growing number of countries—including China, India and Russia—are increasingly conducting bilateral trade in their own national currencies, reducing the dollar's role in invoicing and settlement.

Central banks, especially in emerging markets, have stepped up gold purchases as a means of hedging against dollar volatility and geopolitical risk, diversifying away from US assets. The growing exploration and development of central bank digital currencies (CBDCs) may, in time, allow cross-border payments to bypass the traditional dollar clearing system altogether. Technological advances in decentralized finance—ranging from blockchain platforms to private cryptocurrencies—present a long-term challenge to dollar primacy by offering alternative channels for capital flow, even if such tools remain on the periphery of mainstream finance for now.

No challenger presently has the scale, credibility or institutional robustness to fully replace the dollar in the short term. But the long-term trend points to greater multipolarity and increasing incentives for diversification.

The Future of Reserve Currency Leadership

What would a transition away from dollar dominance look like? Most likely, it would not involve a sudden collapse but a gradual diffusion of financial power. A more plausible future would involve a setting in which the dollar remains dominant but is accompanied by a rising share of euros, renminbi and other currencies. Gold and digital assets may also play a supporting role in a more diversified global reserve architecture.

If the US role as the issuer of the world's reserve currency is to be maintained, the key challenge for the United States is to manage its domestic affairs—particularly its fiscal path, monetary policy and institutional credibility—in a way that fosters global trust. Reserve currency status is not a birthright. It is earned and re-earned generation by generation, policy by policy and transaction by transaction. If the US fails to live within its means or abuses its financial power, a shift may become not only possible, but inevitable.

Global reserve currencies reflect the distribution of economic power and institutional strength at a given moment in history. The US dollar remains at the center of global finance due to its unmatched liquidity, deep markets and institutional trust. But history shows that no reserve currency lasts forever. The Dutch guilder and British pound were displaced not through sudden shocks, but through long processes of relative decline.

The United States today stands at a crossroads. Americans enjoy profound advantages from issuing the world's reserve currency but must now grapple with the structural imbalances and political strains imposed by that role. As global power disperses and alternative systems evolve, the durability of dollar dominance will depend not only on America's external rivals—but on our own internal discipline, reforms and capacity for renewal. $

Dr. Peter C. Earle is the director of economics and economic freedom and a senior research fellow at the American Institute for Economic Research (AIER). His research focuses on financial markets, financial market history, monetary policy, cryptocurrencies, the economics of games and problems in economic measurement. He has been a member of the Financial History *editorial board since 2022.*