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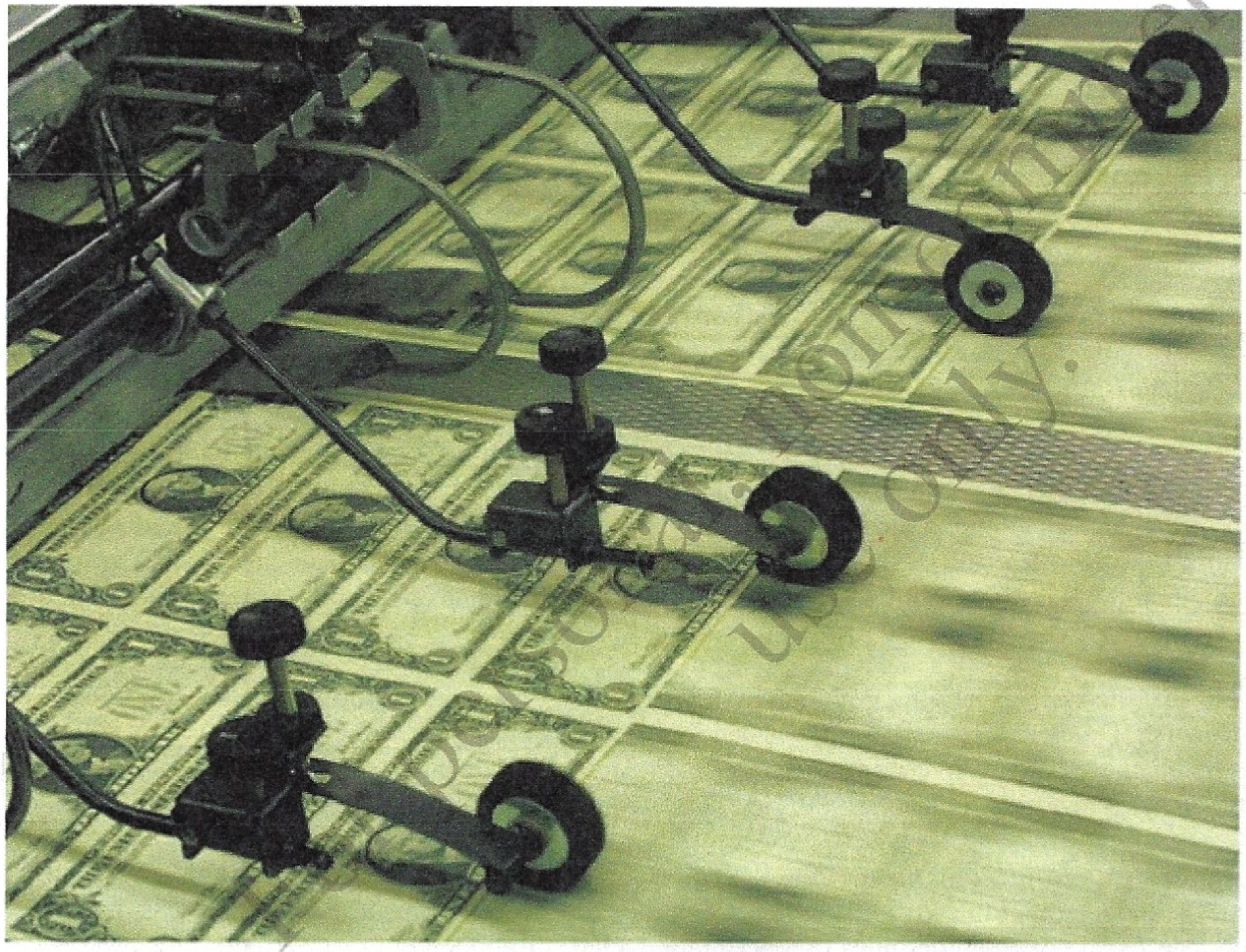
The dominance of the dollar depends on the government not shooting its currency, or itself, in the foot.

Nine out of every 10 foreign-exchange transactions involve the dollar on one of the sides.



ALEX WONG/ GETTY IMAGES

Doubts About the Dollar

The world has long grudgingly relied on the greenback. Now the U. S. is inviting it to reconsider.

King Dollar

By Paul Blustein *Yale, 320 pages, $35*

Our Dollar, Your Problem

By Kenneth Rogoff *Yale, 360 pages, $35*

BY JAMES GRANT

YEARS usually separate an author's first keystroke from his book's first sale. Kudos, then, to the authors of "King Dollar" and "Our Dollar, Your Problem" on their improbably excellent timing. They've hit today's headlines on the wing.

What's wrong with the dollar? The world is clamoring to find out. In troubled times, investors usually fly to it, not from it. But gold and German government bonds are displacing the dollar and U.S. Treasurys as preferred destinations for the world's frightened money.

Reading Paul Blustein, a former reporter at The Wall Street Journal and the Washington Post, and Kenneth Rogoff, a professor of economics at Harvard and a former chief economist of the International Monetary Fund, it is easy to conclude that the dollar will survive its current sinking spell. Neither author predicts a collapse of the longestablished monetary order, though each is alert to the risks to the currency of a chronically overindebted government and of a central bank that's prone to print too much of a good thing.

Note

Americans are lucky, as we often forget. Producing a quarter of the world's gross domestic product, the U.S. boasts no less than 65% of the world's stockmarket value. Consuming much more than we produce, we borrow the difference. And the currency with which we run up the tab is the very one that we alone may lawfully print. It's an "exorbitant privilege," as Valéry Giscard d'Estaing, a finance minister of France, noted half a century ago, intending no approval of the lopsided arrangement that persists to this day.

Can it last? Certainly, replies Mr. Blustein in "King Dollar": "Whether you approve of dollar dominance or not, doubts about its durability should be put to rest." Mr. Rogoff is not so sure: There are many reasons "to believe the Pax Dollar era has peaked," he tells us in "Our Dollar, Your Problem."

The question has recurred since 1971, which marked, simultaneously, the close of the Bretton Woods goldexchange standard and the opening of its successor: Let's call it the Ph.D. standard. The first was balanced on the convertibility of the dollar into gold, the second on the judgment of the doctors of economics who had come to dominate monetary policymaking. In the subsequent half century, the econo-mists, the interest rates they manipulate and the currencies they manage have had their ups and downs. But the currencies remain untoppled, even if moth-eaten in purchasing power, thus confounding their critics, one of whom is writing these lines.

Mr. Rogoff's volume features a table of the interest-bearing government securities that, beginning about 500 years ago, took turns as the world's safe haven. Spanish, Dutch and British, each was denominated in a currency defined as a weight of gold or silver. The metals were the defining characteristic of investment solidity—you couldn't just print the money. The post-1971 10-year U.S. Treasury note makes the list as a historical interloper: the first "global safe asset" denominated in paper money.

At a dinner party in 2006, Paul A. Volcker, a former chairman of the Federal Reserve, marveled that the dollar should continue to hold its value with no collateral behind it except the world's confidence in the country that prints it. Now the U.S. is inviting the world to reconsider. The American fiscal position continues to deteriorate, DOGE or no DOGE, according to the latest bulletin from the Congressional Budget Office, while members of the Trump administration have openly speculated on how they might cajole America's foreign creditors into accepting lower returns on their Treasury holdings in exchange for American military protection or a better tariff deal. It's not for no reason that foreign central banks are buying gold hand over fist. *

The very title of Mr. Rogoff's book alludes to the coercive element in the dollar's dominance. At about the time that the Nixon administration abandoned the gold convertibility of the dollar, John Connally, the pugnacious U.S. Treasury secretary, brushed away the concerns of the alienated European dollar holders, saying, "the dollar is our currency but your problem."

The title of Mr. Blustein's book is the tipoff to his bullish conclusion about the dollar and its future, but he is no monetary flag-waver. Yes, he observes, the dollar is the "king of currencies"— there's no obvious alternative, he insists—but the greenback's continuing dominance depends on the government not shooting its currency or itself in the foot—no trivial caveat, all of a sudden.

"King Dollar" begins with a short history of how dollars, once deposited in a bank account, are cleared and settled. Before many readable pages are turned we encounter Chips, the Clearing House Interbank Payments System, which "processes over 540,000 transac-

tions worth $1.8 trillion on an average day," along with Fedwire and Swift, the Society for Worldwide Interbank Financial Telecommunication. Together, the three constitute an unsung source of titanic American financial power.

"Plumbing it may be," Mr. Blustein writes of these digital dollar conduits. "But when the stuff flowing through the pipes is the bulk of international movements in the dollar, and the pipes are located in a jurisdiction subject to U.S. law, foreign banks and even whole governments need to take care lest they lose access to that plumbing. The clout the U.S. government gains as a result is incalculable."

The "dollar weapon" figures prominently in Mr. Blustein's fast-moving narrative, as it does in Mr. Rogoff's. When the Paris-headquartered BNP Paribas entered a guilty plea in 2014 to conspiring to break the law (U.S. law, mind you) against dealing with the sanctioned likes of Sudan, Iran and Cuba, it forked over a fine of almost $9 billion.

"With great power comes great responsibility," the Spider-Man adage, doubles here as Mr. Blustein's selfdescribed narrative arc. "For all of America's faults," the author sums up, "its ability to use the dollar weapon is welcome, especially at times when deploying military force would be worse." And because "there is no serious rival to the dollar's reign as top global currency . . . America's financial sanctions will continue to pack a wallop for a long time to come." Still, he adds, watch out for MAGA.

Mr. Rogoff, born in Rochester, N.Y., displayed early brilliance in chess, left high school to compete on the European professional circuit, returned to America to make a star-studded academic career and to travel the world, writing, teaching and lecturing. His "Our Dollar, Your Problem" might almost have been titled "The Dollar and Me." The autobiographical element nicely enhances the sometimes technical (but always accessible) monetary story.

That story takes us from the nearsimultaneous 1557 "Trinity Default" of Spain, France and the Netherlands to such contemporary topics as the Federal Reserve's deployment of "swap lines" to provide temporary dollar balances to foreign central banks in need (a mystery, which, thanks to both authors, is no longer so mysterious).

Like Mr. Blustein, Mr. Rogoff stands in awe of the dollar's position at the top of the currency hierarchy: "A remarkable 90% of all foreign exchange transactions involve the dollar on one side or the other"—not a bad market share considering that more than 149 other world currencies are jostling for acceptance. And like Mr. Blustein, Mr. Rogoff asks how long the greenback's dominance can last.

His doubts on this point are part of a wide-ranging skepticism, not least toward the profession of which he stands almost at the summit. "It is surprising," Mr. Rogoff observes, "how many academic and policy economists have come to believe that controlling inflation is a purely technocratic problem that has been thoroughly solved. The assumption of low inflation is hardwired into the modern New Keynesian models that fill the pages of the top academic journals and that are now extensively used by central banks."

The "models" seem not to read the newspapers, Mr. Rogoff proceeds, since they "take as given that on average, the central bank will always achieve its inflation target over the long run. They take this as a matter of faith." *Still?* Yes, still.

Differ though they do on the probability of a Hollywood ending for the greenback, the authors are as one in their disdain for gold: Mr. Rogoff: "Even today, goldbugs will tell you that the pre-war gold standard was oh-so-much better than the current regime."

Mr. Blustein: You'll favor the dollar system unless you're partial to the regimes ruling Russia and Iran, or if "you're a radical libertarian, or belong to the cults of hard (gold-backed) money or crypto, or if you're an adherent of theories that the Fed is manipulated by exploitative 'globalist' bankers."

Or perhaps the crisis of America's public credit, facilitated at every step by the immense paper emissions of the Federal Reserve, is reason enough to undertake a clear-eyed re-examination of the nature of the dollar and of the dollar's place in the world.

A proposition, not to be found in either book: Money is work, work is heartbeats and heartbeats are finite. Inflation, therefore, to adapt a line from Milton Friedman, is always and everywhere a moral phenomenon.

Seen in this light, the next step in mankind's monetary evolution might be a corrective step backward to a system of monetary fixedness and international integration: currencies defined as a weight of gold, exchange rates anchored to that weight, central banks relieved of manipulating interest rates to finetune business cycles.

Some years ago, to describe the range of ideas that meet the test of acceptability for mainstream discussion, the American political thinker Joseph Overton proposed the concept of a "window of discourse." Until about a month ago, around the time of President Trump's Liberation Day, the Overton window was closed to talk about the deficiencies of the dollar-centric financial system and to speculation about what might replace it. Perhaps the surge in the gold price, the unscripted weakness in the dollar exchange rate and the anomalous updraft in Treasury yields will crack the window open again. *Mr. Grant is the founder and editor of Grant's Interest Rate Observer. His next book, "Friends Until the End: Edmund Burke and Charles Fox in the Age of Revolution," will be published in August.*