

Letter

Letter: Why the dollar is the world's reserve currency

From J Paul Horne, Alexandria, VA, US



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YESTERDAY

Nouriel Roubini describes various threats to the dollar's "exorbitant privilege" as the world's leading reserve currency ([Opinion](#), February 6). But he neglects to mention some of the basic reasons why the dollar has been, and is likely to remain, the principal reserve currency and unit of exchange for a long time.

The fundamental reasons for the dollar's role are that the US remains the world's largest and most open economy at market exchange rates; that the country respects and enforces the rule of law; that its financial markets are the largest, most liquid and least controlled and that the dollar is freely convertible. To suggest that China, Russia or Saudi Arabia can hope to replicate these attributes in the foreseeable future is to ignore political and economic reality.

Roubini suggests the US's current account deficit, virtually continuous since 1981, is a major negative for its reserve role. The reality is that the current account deficit has been regularly financed by the voluntary inflow of foreign capital from investors and savers who believe the dollar's fundamentals are preferable to those offered by alternative currencies. It is notable that the voluntary capital inflow continues despite US economic cycles and policy shifts by the Federal Reserve.

While it is likely that bilateral trade and settlement in non-dollar currencies will expand over time, this is more likely to lead to a multipolar currency regime

expand over time, this is more likely to lead to a multipolar currency regime dominated by the dollar rather than a bipolar one as Roubini predicts.

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