

Macro Roundup Article

Headline: [Top Dollar](#)

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Tweet: .@EswarSPrasad argues that there isn't a viable alternative to the dollar as a reserve currency. "The story of the dollar is, ultimately, less about the United States' strength than about the rest of the world's weaknesses."

Summary: Foreign investors hold more financial assets in the United States than American investors hold abroad, meaning the United States is a net debtor to the rest of the world. U.S. liabilities to the rest of the world are denominated in dollars, with many foreign investors willing to accept low returns in exchange for the safety of the dollar. American investors, by contrast, have been willing to bet on foreign assets that are mostly denominated in foreign currencies because those assets yield higher returns even if they are riskier. If the world turned away from the dollar and sent its value plummeting relative to other currencies, foreigners would take a beating on the value of their dollar-denominated assets when converted back to their home currencies. In light of this scary scenario, countries around the world should surely have reduced their exposure to the "dollar trap." But they have done just the opposite. From 2014 to the beginning of 2024, U.S. foreign liabilities grew from \$30T to more than \$51T, while U.S. assets grew from \$24T to just \$33T. In other words, the United States was a net debtor to the rest of the world to the tune of \$6T in 2014—and that amount has tripled over the last decade. The United States now has the rest of the world in an even tighter chokehold.

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