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Is the US Dollar 'Finished'?

The sun may be setting on the dollar's global hegemony.

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In August 2005, a little-known financial analyst named Richard Bove issued an eight-page report for Punk, Ziegel, and Company, a boutique investment bank based in New York City.

The report, titled "[This Powder Keg Is Going to Blow](#)," noted that federal mortgage policies, including agencies like the Federal Housing Administration that "guaranteed the banks against any loss that would come from the new 20 year mortgages," had created a housing bubble.



“According to the Bureau of Census, 12.8% of the housing in this country is standing empty,” Bove wrote. “There is no precedence [sic] for this in the historical numbers. The percent of empty housing has simply never been this high.”

Bove was [accused of being](#) “nuts” after he published his report, but events soon proved his analysis right. The housing market was way over-leveraged, and would soon trigger the [2007–2008 Financial Crisis](#).

Nearly twenty years later, Bove has made another prediction.


“The dollar is finished as the world’s reserve currency,” the 83-year-old [told](#) the *New York Times* in a recent interview, days after he announced his retirement on Bloomberg TV.

Bove didn’t offer a lengthy explanation on why he believed the dollar’s days as the world’s favored reserve currency were numbered, though he cited the likelihood of China eventually surpassing the US economy and the decline of American manufacturing as catalysts.

Not everyone agrees with Mr. Bove (whose name is pronounced “boe-VAY”).

Earlier this year, Federal Reserve Chair Jerome Powell [said he expects the dollar](#) to remain the favored global currency for the foreseeable future, a position it has held since the 1944 Bretton Woods Agreement.

The agreement refers to Bretton Woods, New Hampshire, where delegates from more than forty countries met near the end of World War II. The goal of the meeting was to establish a new global financial framework, which is precisely what happened.

Instead of returning to the gold standard—an idea that was shunned ce most countries had spent their gold reserves during the war—the

dollar was essentially made the world's official currency.

Instead of each country holding and transacting with one another using gold, they switched to holding US dollars in their reserves (hence the term reserve currency).

At a surface level, there was a certain sense to the decision. The US had accumulated most of the world's gold—an estimated 70 percent, [according to](#) the International Monetary Fund—during the 1940s, since America had supplied the Allies with most of their weapons and supplies during the war.

So at Bretton Woods, leaders agreed to peg national currencies to the gold-backed US dollar instead of gold; and for the next quarter-century, central banks could redeem their US notes and securities in exchange for the precious metal.

That changed [in 1971](#), however, when President Nixon ordered an end to the dollar's convertibility to gold—most of which had been spent to finance the Vietnam War and LBJ's Great Society—as part of his wage and price control policy. This marked the end of the Bretton Woods Agreement and the beginning of the era of fiat money, legal tender by government decree that is not backed by a physical commodity like gold or silver.

Despite the poor historic record of fiat money (more on that in a minute), many would argue Nixon's experiment proved to be a success, even if the buying power of the dollar has steadily declined since (and resulted in a surge of income inequality and fueled the growth of the administrative state). After all, a half-century after Nixon's order, the US dollar is at least still the world's official reserve currency... for now.

But those last two words are key.

