



The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance

By Eswar S. Prasad

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The U.S. dollar's dominance seems under threat. The near collapse of the U.S. financial system in 2008-2009, political paralysis that has blocked effective policymaking, and emerging competitors such as the Chinese renminbi have heightened speculation about the dollar's looming displacement as the main reserve currency. Yet, as *The Dollar Trap* powerfully argues, the financial crisis, a dysfunctional international monetary system, and U.S. policies have paradoxically strengthened the dollar's importance.

Eswar Prasad examines how the dollar came to have a central role in the world economy and demonstrates that it will remain the cornerstone of global finance for the foreseeable future. Marshaling a range of arguments and data, and drawing on the latest research, Prasad shows why it will be difficult to dislodge the dollar-centric system. With vast amounts of foreign financial capital locked up in dollar assets, including U.S. government securities, other countries now have a strong incentive to prevent a dollar crash.

Prasad takes the reader through key contemporary issues in international finance—including the growing economic influence of emerging markets, the currency wars, the complexities of the China-U.S. relationship, and the role of institutions like the International Monetary Fund—and offers new ideas for fixing the flawed monetary system. Readers are also given a rare look into some of the intrigue and backdoor scheming in the corridors of international finance.

The Dollar Trap offers a panoramic analysis of the fragile state of global finance and makes a compelling case that, despite all its flaws, the dollar will remain the ultimate safe-haven currency.

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Review

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"In his authoritative new book on the dollar, Eswar Prasad . . . argues that China and other foreign countries that own around half the outstanding US federal government debt are trapped in a risky game where the US may be tempted to renege on its debt obligations by printing more dollars."--**John Plender, *Financial Times***

"A lively and compelling analysis on currency wars in the wake of the financial crisis--and the likely persistence of the U.S. dollar as the world's pre-eminent currency."--**Harold James, *Central Banking Journal***

"Highly recommended especially for those interested in understanding the paradigm shifts that happened in the international monetary regime in the 1970s and 1980s."--**Mehmet Kerem Caban, *Asian Journal of Public Affairs***

From the Back Cover

"As Eswar Prasad points out, there is something paradoxical about a world where the dollar strengthens with the U.S. financial crisis, capital flows from poor countries to rich ones, and more sophisticated finance often leads to greater risk. Prasad's book unpacks these paradoxes in a provocative and challenging way. It deserves the attention of all those who care about the future of the dollar and the international monetary system."--**Lawrence H. Summers, Harvard University**

"Combining history, modern analysis, and practical examples, this elegant book counters conventional wisdom and brilliantly documents why it's so hard to escape the dollar trap. Prasad describes an increasingly unstable equilibrium that begs for better international policy coordination and he sets out fascinating and important alternatives that will particularly interest policymakers and investors. A must-read for all concerned about the dollar's global role."--**Mohamed A. El-Erian, author of *When Markets Collide* and CEO of PIMCO**

"At a time when the global repercussions of U.S. monetary policy are being closely examined, *The Dollar Trap* takes an authoritative look at the dollar's role in the international economy. The discussion of capital flows and the historical rise and fall of reserve currencies provides insights into the turbulent post-financial-crisis era and serves as a roadmap for thinking about the dollar's future. A must-read for anyone interested in how the wheels of international finance spin."--**Carmen M. Reinhart, Harvard University**

"Prasad tackles one of the toughest and most important implications of the 2008 financial crisis--the exorbitant privilege that has long been accorded the almighty U.S. dollar as the world's dominant reserve currency. While he argues convincingly that this status is unlikely to change in the years immediately ahead, he plants seeds that make the reader ponder when--not if--the dominant role of the greenback might start to change."--**Stephen Roach, Yale University and former chairman of Morgan Stanley Asia**

"This book makes a compelling case against the conventional wisdom that the dollar's dominance is drawing to an end. Prasad provides an elegantly written and provocative account of the various paradoxes that beset the global financial system, and shows how the United States holds many trump cards that will secure the dollar's primacy for a long time to come."--**Nouriel Roubini, coauthor of *Crisis Economics***

"Giving an insightful look at a problematic international monetary system, *The Dollar Trap* draws conclusions that may comfort some but disturb others. To those caught in the trap there remains a strong desire to find a safe way out. The guardians of the dollar should have the time and the political will to act, in order to demonstrate that this is all unnecessary."--**Joseph Yam, former chief executive of the Hong Kong Monetary Authority**

"Scholarly and yet eminently readable, this outstanding book should be compulsory reading for Indian policymakers, market participants, and all those concerned with the Indian economy. I fully endorse the masterly analysis, clear conclusions, and elegant articulation in this book on a subject critical for India's future. This provocative, informative, and incisive book fills a huge void in our understanding of the future of the dollar and indeed of the global economy."--**Yaga Venugopal Reddy, former governor of the Reserve Bank of India**

"Adopting a contrarian view to the idea that the dollar's role as a global reserve currency will diminish, *The Dollar Trap* makes a compelling argument for the continuing relevance of the dollar even in the wake of the global economic dynamics witnessed after 2008 and the rise of emerging markets. Dr. Prasad makes an important contribution to the discussion on the international monetary order. I am sure this book will be of great interest to anyone wanting to understand the forces shaping the global economy, trade, and financial markets."--**Chanda Kochhar, managing director and CEO of ICICI Bank**

About the Author

Eswar S. Prasad is a professor in the Dyson School at Cornell University and senior fellow at the Brookings Institution.

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