

Rearming for the next war: the battle of the dollar

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The great design: finance, technology, power

- "There's nothing wrong with America's Foreign Defense Policy that a little backbone can't cure," **open letter from Donald J. Trump**, addressed "to the American people... on why America should stop paying to defend countries that can afford to defend themselves" **The NYT September 2, 1987**
- "if the reserve asset is the lifeblood of the global trade and financial systems, it means that whoever controls the reserve asset and currency can exert some level of control [on] trade and financial transactions. That allows America to exert its will in foreign and security policy **using financial force instead of kinetic force.**" (Stephen Miran 2024)

Tariffs (coercion), and the technology-military-finance triangle

Three objectives:

- ensuring that foreign investors finance the public deficit,
- reducing the trade deficit through the depreciation of the dollar,
- and safeguarding its international role.

It involves "persuading" American allies to cooperate in weakening the dollar and reducing the cost of public debt through the purchase of very long-term, low-interest Treasury securities.

Tariffs play a multiple role - financing the public deficit, improving competitiveness, threatening retaliation for unruly countries – and are applied to a wide variety of situations-

Those who fail to cooperate risk higher tariffs or the closure of the American defense umbrella.

In the new context of "extractive power," the primacy of the dollar must not only be maintained but also monetized.

The international role of the dollar

- The exorbitant privilege
- In times of financial turmoil, the Fed must act as the world's lender of last resort, extending swap lines to other central banks, enabling them to funnel dollar liquidity to commercial banks facing shortages.
- As the 2008 and 2020 crises demonstrated, **the stability of the international financial system depends on the certainty of the Fed's safety net.**

A formidable blackmail weapon

- “America can, and does, sanction people all over the globe in a variety of ways. From freezing assets to cutting nations off from SWIFT and restricting access to the U.S. banking and financial system that is critical for any foreign bank doing global business, the U.S. exerts its financial might to achieve foreign policy ends of weakening enemies without having to mobilize a single soldier. Economists cannot evaluate whether America’s national security goals are worthy, only note that it can achieve them far more cheaply because of America’s control of the international trade and financial systems by virtue of our reserve currency status.” (Miran 2024).
- In 2018, Trump imposed sanctions on Iran and bullied other countries into compliance with US policy by threatening severance from dollar-based finance for any entity dealing with Teheran
- Secondary sanctions that deny foreign firms and financial institutions access to U.S. financial markets and payments system may constitute the most important U.S. economic weapon not only against adversary states such as Russia, North Korea, and Iran, but also against allies.

Investors' and foreign governments' nightmares

- Could Trump's attack on free trade also lead to attacks on free capital flows? That is, could tariffs on goods be the prelude to tariffs on money? Miran's vision of a Mar-a-Lago deal includes a possible restructuring of US debt, which would force some Treasury holders to swap them for perpetual bonds.
- The Trump administration's aggressive foreign policy has increased fears that the dollar could be used as a tool of pressure or sanctions, giving rise to attempts to replace the dollar in international payments and as a reserve currency.

Cryptomercantilism

- Scaring the markets (and foreign governments) can backfire, causing a flight from the dollar
- Donald Trump's strategy: merging neo-mercantilism with digital finance to reinforce the international dominance of the US dollar.
- This policy promotes stablecoins—cryptocurrencies backed by US dollars—to maintain the dollar's supremacy while pushing for the development of crypto finance. This approach balances monetary control with crypto expansion, ensuring stablecoins serve US interests without threatening the dollar.

Sticks and carrots

- “The US Administration, writes Schaaf (2025), has made it clear – through executive orders, congressional testimony and social media – that its support for stablecoins goes beyond just encouraging technological innovation.
- The goal is twofold: to protect the US dollar’s global dominance by expanding its use on digital platforms worldwide; and to reduce borrowing costs by increasing demand for US Treasuries through stablecoin reserve holdings.
- Through stablecoins, Trump could extend American financial and monetary influence, potentially increasing global dependence on the US dollar. Financial, technological and military weapons are used together.

Three questions

1. Will digital currencies become the new money and are dollar based stablecoins effective in strengthening the dollar and US dominance?
2. What are the implications for the stability of the international financial system?
3. What are the consequences for Europe and is the creation of a Central Bank Digital Currency (CBDC) an adequate and timely response?

1. From cryptocurrencies to stablecoins: a game changer

- Stablecoins currently account for a relatively small share of the total US dollar-denominated monetary instruments in circulation globally—less than 0.5% of the over \$45 trillion (Gensler 2024).
- They are virtually all dollar based, primarily used in the cryptocurrency trading and lending ecosystem.
- However, they have the potential to grow rapidly: market analysts predict that the stablecoin supply could grow from \$230 billion in 2025 to \$2 trillion by the end of 2030, boosted by the US's crypto-friendly legislation.
- To encourage the widespread circulation of dollar-pegged and dollar-backed stablecoins the US is leveraging the strength of its fintech industry and its dominance in digital platforms, notably through its US big-tech companies.

Financing of public debt and reinforcing the techno-military apparatus

Trump promises to make the United States “The crypto capital of the world” (The White House, 2025).

In the new context of geo-political conflict, the development of stable coins serves the dual function of

- protecting the US dollar’s global dominance by expanding its use on digital platforms worldwide and
- supporting demand for US securities, essential for financing the technological-financial-military complex, critical to asserting US international dominance.

Interconnection between money and data shape the boundaries of sovereignty.

In a letter dated 1 March 2021 to the EC President, the leaders of four EU countries noted with concern that “Data has become a new currency that is mainly collected and stored outside Europe”.

2. Implications for financial stability

- Stablecoin issuers must invest their proceeds largely in safe assets. Currently, their investment in US Treasury markets equals large jurisdictions and government money market funds (MMFs).
- Implications for monetary policy and financial stability:
 - Should the Fed raise interest rates, markets could tank, larger redemptions could trigger fire sales of safe assets and a fall of their price.
 - Financial institutions (including any number of shadow banks) holding crypto on their balance sheets could then run into trouble, causing credit markets to freeze (Foroohar 2025).
 - Moreover, blurring the lines between cryptocurrency and traditional finance carries implications for monetary policy, transparency of stablecoin reserves and financial stability – particularly during periods of market stress.
- A liquidity crisis could easily turn into a solvency crisis, so much so as SC do not have access to the CB as a lender of last resort

Banks' disintermediation

- To ease opposition from banks, the Senate bill [Genius] passed the prohibition on nonbank stablecoin issuers from paying interest on stablecoin holdings, thus carving out a competitive niche for banks, enabling them to protect their deposit base by issuing their own .
- For this same reason, the digital euro is capped at 3000 euros

Regulatory arbitrage and race to the bottom.

- In April 2023 the EU adopted the Markets in Crypto-Assets Regulation (MiCA), which enables European actors to issue euro-denominated stablecoins with robust consumer protections, particularly regarding reserve composition and regulatory oversight .
- The United States passed the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act, on 18 July.
- Both require that issuing institutions hold sufficient high-quality, highly liquid assets to back stablecoins fully.
- The US forbids the FED from emitting a digital currency, not to compete with private markets

3. Europe in the new monetary order: monetary sovereignty

- ECB fears that increased use of dollar-based stablecoin will unleash currency substitution effects. A large part of domestic payments is already facilitated by non-European players, such as major credit cards. (13 countries in Europe fully depend on non-European card providers and there are only 9 national card schemes remaining in Europe).
- **Monetary sovereignty.** Domestic monetary and financial conditions are determined by the authority that issues the unit of account. CBs influence interest rates across the financial system, thereby affecting monetary conditions across the economy. Without positive demand for central bank money, the link with interest rate would weaken or disappear, undermining the ability of the central bank to guide monetary conditions (Lane 2025, 9). Monetary sovereignty is lost and domestic monetary policy becomes powerless.
- Taking a forward-looking perspective is crucial” because network and lock-in effects “heavily influence how money and payment systems evolve”. The dynamic could entrench sub-optimal developments that can become exceedingly difficult to reverse. The larger their footprint, the harder these would be to unwind.

Currency competition and the euro's international role

- Given stablecoins' borderless nature and their potential role in trade and finance, the euro's international role is also at stake.
- Dominance of the US dollar would provide the United States with strategic and economic advantages, allowing it to finance its debt more cheaply while exerting global influence.
- For Europe, this would mean higher financing costs relative to the United States, reduced monetary policy autonomy and geopolitical dependency.” (Schaaf 2025).
- Geopolitical considerations are of increasing importance: consider the possibility of using the Fed's swap financing facilities in the event of a liquidity crisis as a pressure tool.
- The ECB increasingly sees itself as competing with privately issued stablecoins backed by the US dollar. Timely response to this challenge could provide an opportunity for the euro to emerge stronger.

3. Obstacles to develop a euro-based SC

- Need for huge platforms. Network economies and lock-in effects play a key role in determining the success of a stablecoin. The ability to create the necessary digital and network infrastructure is another challenge, which the creation of the digital euro could help alleviate. Without European regulatory support, Europe's heavy dependence on American fintech firms severely jeopardizes European companies' success.
- Overcome banks' opposition. Banks' disintermediation can be a concrete risk (financing of investment).
- Develop a huge market of EU secure assets. The lack of a unified European capital market and a broad and liquid supply of safe securities represents a further serious obstacle to the development of euro-based SC. Although current international economic and geopolitical conditions require urgent unity of action in the economic, political, and financial fields, the proposal to create Eurobonds, that has returned to prominence (Blanchard and Ubide 2025). continues to encounter opposition from the 'virtuous' countries.

Summing up

- The US government might give stablecoins a bigger role, making it a staple of banking and monetary policy. This development is closely connected with the Administration's strategy of strengthening the American fintech military complex.
- The US plan will have serious consequences not only on the ECB's financial and monetary policy, but also on the development model that the EU wants to pursue. Whether the EU will succeed in following a different path, in strengthening its nascent fintech industry for purposes other than the war economy, in gaining autonomy from the politics and dominance of the US economic-financial-military complex is a possibility that is becoming less and less real, given the political division of its member countries.

- And yet, in the new context of geopolitical rivalry and currency competition, an international role of the euro could respond to several objectives, including strengthening Europe's commitment to the energy transition, promoting agreements with producers of critical raw materials, offering an alternative source to dollar and (increasingly) yen-denominated loans. Many emerging countries are already implementing a process of replacing dollar-denominated loans with renminbi. The euro could represent an alternative to both.
- a replacement for the dollar is unlikely to be seen, at least in the medium term. If nothing replaces the dollar, we are moving towards a system of multiple digital currency areas, in which it would be good if the euro could carve out a place for itself.