United Nations report warns of dollar "collapse"

Andre Damon
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The world economy faces the “looming risk of a collapse of the dollar,” together with the dangers of rising commodity prices, continued high unemployment and the risk of sovereign debt default, according to a report published last week by the United Nations.

The report, a mid-year update to the 200-page conspectus of the world economy issued earlier this year, says that the precipitous fall of the dollar since the start of the new millennium portends the possibility of a destabilization and “crisis of confidence” of the world reserve currency.

The risk of a dollar collapse is just one of the economic pitfalls outlined in the report. The report's headline conclusion on economic growth, which is slightly improved from its earlier estimate, is overshadowed by the risks it outlines to every other aspect of the world economy—from rising food prices, falling living standards, the potential for sovereign debt defaults, and the destabilization of currency systems.

The report also warns that rampant unemployment, particularly among young people, is likely to trigger political upheavals similar to those seen in Egypt and Tunisia. It notes that, at the end of 2009, “there were an estimated 81 million unemployed young people, and the rate of global youth unemployment stood at 13.0 percent, having increased by 0.9 percentage points from 2008.”

It added, “Between 2007 and the end of 2009, at least 30 million jobs were lost worldwide as a result of the global financial crisis.” Thus, “The global economy will still need to create at least another 22 million new jobs in order to return to the pre-crisis level of global employment. At the current speed of the recovery, this would take at least five years.”

Food and oil prices grew significantly faster than the UN had expected in its earlier report. Over the past year, food prices have shot up by 36 percent. Gas prices have gone up 60 percent in the past 6 months alone.

The report notes that rising food and energy have greatly diminished the real incomes of the world's poor. If prices continue to rise at their current levels, this “could push 64 million people below the poverty income threshold of $1.25 per person a day.”

Likewise, the growth of food and energy prices at the present rate would significantly drag down economic activity. If prices continue to rise at their current level, this would, together with government measures to combat inflation, slow world growth by 0.7 percentage points in 2011 and 1 percentage point in 2012.

The UN report paints a bleak outlook for economic growth in the developed world, noting the recovery “remains weak” and is likely to “moderate.” It states, “Output growth... is feeble in many developed economies,” particularly those that, like Spain, Greece, and Portugal, are facing austerity measures under the whip of the sovereign debt crisis.

In 2010, government spending for the developed world grew at about 1 percent, or half the speed of economic growth in the region, according to the report. This year, the austerity measures are set to be even more severe and will “adversely affect global economic growth.”

Over the last ten years, the US dollar has lost 27 percent of its value against other currencies, although this process was interrupted by the global financial crisis, in which investors fled to the dollar for its relative safety. Since mid-2009, however, the dollar has lost 23 percent of its value and is even lower than the pre-crash level. In fact, the dollar is currently at its lowest level since the 1970s.

After this stark warning, the report called for “deeper reforms of the global reserve system” which would reduce “dependence on the dollar as the major reserve currency,” including “enhancing the role of special drawing rights (SDRs) as international liquidity, while expanding the basket of SDR currencies including with currencies from major developing countries.” This is essentially a call by the United Nations for a move away from the US dollar, a move that portends major international conflicts over the role of the dollar as the global reserve currency.

The report underscores the predatory and destructive character of the US ruling class's exchange rate policy, which is rooted in the interests of its oligarchic financial elite. Through a decade of lax monetary policy, the United States government succeeded not only in creating a catastrophic financial bubble that plunged the world into depression, but consistently devalued the dollar against other currencies. This process has intensified since the crisis, as the Obama administration seeks to subsidize American export businesses, which have utilized the fall of the dollar to bolster their competitiveness.

On a global scale, the report gives a blunt and revealing characterization of the 2008-09 bank bailout and its role in the present sovereign debt crisis. The report notes, “Given the large-scale government bailout programmes over the past two years, risks in the private financial sector, particularly banking, have been transferred to the public sector.”

Thus, the risk of banking is socialized, while the profits are privatized. Through a program of global austerity, the current round of budget cuts is being used to cut spending on social programs and funnel it into the coffers of the banks. And if this is not done to the satisfaction of the financial elite, they can take punitive measures, such as the most recent downgrade warning by Standard & Poor's of the United States' sovereign debt and the virtual dictatorship imposed by the European banks on Greece.

All of this portends not only explosive economic and financial crises, but a direct confrontation over austerity measures, fought between the working class on one hand and the banks and governments on the other.