What next in the growing dollar crisis?

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When the major imperialist powers, led by the US, imposed economic and financial sanctions against Russia at the start of the Ukraine war, they believed these measures would quickly cripple the Russian economy, leading to a capitulation or a move for regime change from within the ruling oligarchy.

That has not taken place. Russia has found ways of getting around the sanctions, at least so far. But the US-imposed measures have had some unintended consequences. They have led to efforts to shift away from dependence on the dollar as the preeminent global currency, which, if continued, will have major consequences.

In an interview with CNN's Fareed Zakaria last month US Treasury Secretary Janet Yellen raised this danger.

"There is a risk when we use financial sanctions that are linked to the role of the dollar that over time it could undermine the hegemony of the dollar," she said.

The most significant decisions were to cut Russia out of the SWIFT global payments system and to freeze the $300 billion worth of financial assets held by the Russian central bank.

These measures were able to be undertaken because of the role of the dollar as the world's global reserve currency. Freezing the assets of the Russian central banks sent a shock wave throughout the global financial system—going well beyond Russia—because it was recognised that such an action could be taken against other countries that crossed the US path.

Over the past year, Russia, China, Saudi Arabia and Brazil among others have been seeking to make trade deals which are carried out in their own currencies, rather than the dollar. The moves made so far fall well short of replacing the dollar, but there is no doubt about the trend of development.

Another expression of concern is the increase in the price of gold and, most significantly, the increase in gold purchases by central banks.

In the aftermath of World War 2, the dollar become the major global currency and store of value. It was able to play this role because of the vast economic supremacy of US capitalism and the decision taken at the Bretton Woods conference of 1944 that the dollar would be redeemable for gold at the rate of $35 per ounce.

That system was ended in August 1971, when—because of the relative decline of the US vis-à-vis its major competitors, reflected in the emergence of a balance of trade deficit, replacing the surpluses of the immediate postwar years—President Nixon unilaterally closed the gold window.

Since then, the dollar has functioned as a fiat currency, that is, without the backing of a material commodity, such as gold, embodying value. Rather, it rested on the financial and political power of the US.

In a recent comment in the *Financial Times* (FT) dealing with the global position of the dollar, financial analysist Mohamed El-Erian noted its role as the global reserve currency rested on three US attributes. These have been "its status as the world's largest economy, the depth and breadth of its financial markets, and the predictability stemming from institutional maturity and respect for the rule of law."

The three conditions for dollar stability he lists have been shaken to their foundations.

The US will soon be overtaken as the world's largest economy by China, and, according to some measures, it already has been.

Its financial markets have been subject to ever increasing shocks, threatening the entire global financial system.

In 2008, growth of financial parasitism over the previous period of 20 years – following the turn by the US Federal Reserve to pump money into the financial system in response to the October 1987 stock market crash – resulted in the most serious banking crisis since the Great Depression of the 1930s.

In March 2020, at the start of the COVID-19 pandemic, the $22 trillion US Treasury market, the basis of the US and global financial system, froze, meaning that for several days there were no buyers for US government debt, supposedly the safest financial asset in the world. The disintegration of the entire financial system was only averted by a massive intervention by the Fed, buying up a further $4 trillion of financial assets.

Then, starting in March, the Fed's interest rate hikes of the past year set off three of the four largest bank failures in US history, demonstrating that the post-2008 regulatory measures were essentially worthless as government authorities had to step in again to prevent a "systemic" breakdown.

And the notion that the US enjoys "institutional maturity" and "respect for rule of law" has been shattered by the January 6, 2021 attempted coup by Trump. It has suffered another blow due to the conflict over the US debt ceiling—the mechanism by which extreme right-wing and outright fascist forces in the Republican Party are seeking to impose the demands of powerful sections of the financial oligarchy for a frontal attack on what remains of the social services system.

In addition to the factors listed by El-Erian, there is another he did not mention but which is no less decisive as workers strive to combat the highest inflation in four decades.

The ability of the government and the capitalist state to regulate the class struggle is crucial because there is nothing more destabilising to the financial system if it gets out of control and the working class breaks out of the straitjacket imposed by the trade union bureaucracy.

The growing lack of confidence in the US dollar is reflected in the gold market, where not only speculators and traders are making increased purchases but central banks.

A recent report in the FT on what it called "the new gold boom" noted that last year central banks bought 1,079 tonnes of bullion, the most since records began in 1950.

Back in January, Krishan Gopaul, senior analyst at the World Gold Council (WGC), pointed to “colossal” central bank buying and that since 2010 they had become net purchasers of gold, following two decades of net sales.

Gold is trading around $2,000 per ounce, close to its record high, its price having risen by more than a fifth since November last year.

As one would expect, various representatives of the gold industry, such as the WGC, are talking up the prospects for a further surge. But the issues to which they point are not mere hype.

Mark Bristow of Barrick Gold, the world’s second largest gold producer, noted the effects of inflation in a comment to the FT, saying the “genie was out of the bottle.”

“The harsh reality is when you have more debt than GDP, there’s only two ways to get out of it: have a major financial correction or grow your way out. We can’t grow out of this. The only way out is a hard global landing,” he said.

The warnings on debt are highlighted in findings by the global consultancy firm McKinsey, reported by FT columnist Gillian Tett.

According to the McKinsey analysis, “since 2000, the world’s stock of paper wealth (the speculative, unrealised price of all its financial assets) has jumped by some $160 trillion.”

Tett noted that while some of the rise reflected growth, “it primarily stems from a sharp rise in global debt and in the supply of money through quantitative easing.” For every dollar of global investment since 2000 some $1.90 of debt has been added and in the 2020-2021 period this rose to $3.40 for every dollar of net investment.

A dollar crisis, either because of some unexpected shock, such as a large withdrawal from the US debt market by a major investor such as China or Japan, or because of a steady erosion of confidence, would have far-reaching political implications. This is because in both its domestic and foreign policy, the US had become ever more dependent on global dollar hegemony.

In a *Washington Post* comment published last month, Fareed Zakaria said while there was not a single replacement for the dollar and there would not be one, the US currency could “suffer weakness by a thousand cuts.”

He explained that the ability of the US government to spend money seeming without any concerns about deficits, increasing public debt five-fold to $31.5 trillion today over the course of 20 years, and lifting the size of the Fed’s balance sheet 12-fold to deal with financial crashes, was only possible because of the dollar’s unique global status.

“If that wanes, America will face a reckoning like none before,” he concluded.

Over the course of many decades Marxist political economy has been engaged in a battle with the representatives of bourgeois economics over the inherent contradictions of the capitalist system.

Marxists have continually drawn out that, whatever the political and economic manoeuvres undertaken to try to alleviate them, these contradictions—between socialised production and private property and the world economy and its division into rival nation-states—fester and grow, leading, at a certain point, to a catastrophic breakdown of the capitalist economic order.

That argument has been settled not only theoretically but by the test of events. Anyone who is in any way economically literate is forced to the conclusion there is a deep-seated crisis of global capitalism.

Writing on the outcome of the G7 meeting in Hiroshima earlier this month, *Financial Times* economic columnist Martin Wolf noted that “hopes of a co-operative global economic order … have evaporated” and that “neither global cooperation nor western domination look feasible.”

“What might follow?” he continued, “Alas, ‘division’ might be one answer and ‘anarchy’ another.”

The crisis has arisen despite the efforts to counteract it, measures which, while they may have provided short-term fixes, have only intensified the basic trends.

For example, after the crisis of 2008 the major powers sought to prevent a total meltdown of the financial system through the injection of trillions of dollars of essentially free money. But as the escalation of debt indicates, this has only intensified the underlying crisis.

And even the so-called regulatory reforms in the US supposedly aimed at preventing a repetition of those events have failed—evidenced by the “systemic” banking crisis that erupted this March.

Moreover, it is widely acknowledged that the limited curbs on the activities of major banks have given rise to continuous liquidity problems in the existentially important $22 trillion US Treasury market.

The question which therefore arise is: What next?

On the one side the imperialist powers, with the US playing the central role, are being propelled by the insoluble contradictions of the profit system over which they preside onto the path of world war—as they were twice during the 20th century—accompanied by ever more frenzied efforts to make the working class pay.

There are no compromises waiting in the wings to be implemented if only a more rational outlook prevails. The refusal by the US to entertain any prospect of negotiations to end the bloodbath in Ukraine and the growing economic warfare against China, accompanied by military preparations, demonstrate that rationality has been cast aside.

The working class is therefore confronted with the task of making its preparations to deal with the unfolding catastrophe. They centre on the fight for a socialist program based not on “reforms”—they are impossible—but a struggle to take political power out of hands of the pyromaniacal ruling classes to establish international socialism.

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