U.N. panel says world should ditch dollar

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By Jeremy Gaunt, European Investment Correspondent

LUXEMBOURG (Reuters) – A U.N. panel will next week recommend that the world ditch the dollar as its reserve currency in favor of a shared basket of currencies, a member of the panel said on Wednesday, adding to pressure on the dollar.

Currency specialist Avinash Persaud, a member of the panel of experts, told a Reuters Funds Summit in Luxembourg that the proposal was to create something like the old Ecu, or European currency unit, that was a hard-traded, weighted basket.

Persaud, chairman of consultants Intelligence Capital and a former currency chief at JPMorgan, said the recommendation would be one of a number delivered to the United Nations on March 25 by the U.N. Commission of Experts on International Financial Reform.

“It is a good moment to move to a shared reserve currency,” he said.

Central banks hold their reserves in a variety of currencies and gold, but the dollar has dominated as the most convincing store of value — though its rate has wavered in recent years as the United States ran up huge twin budget and external deficits.

Some analysts said news of the U.N. panel’s recommendation extended dollar losses because it fed into concerns about the future of the greenback as the main global reserve currency, raising the chances of central bank sales of dollar holdings.

“Speculation that major central banks would begin rebalancing their FX reserves has risen since the intensification of the dollar’s slide between 2002 and mid-2008,” CMC Markets said in a note.

Russia is also planning to propose the creation of a new reserve currency, to be issued by international financial institutions, at the April G20 meeting, according to the text of its proposals published on Monday.

It has significantly reduced the dollar’s share in its own reserves in recent years.

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Persaud said that the United States was concerned that holding the reserve currency made it impossible to run policy, while the rest of world was also unhappy with the generally declining dollar.

"There is a moment that can be grasped for change," he said.

"Today the Americans complain that when the world wants to save, it means a deficit. A shared (reserve) would reduce the possibility of global imbalances."

Persaud said the panel had been looking at using something like an expanded Special Drawing Right, originally created by the International Monetary Fund in 1969 but now used mainly as an accounting unit within similar organizations.

The SDR and the old Ecu are essentially combinations of currencies, weighted to a constituent's economic clout, which can be valued against other currencies and indeed against those inside the basket.

Persaud said there were two main reasons why policymakers might consider such a move, one being the current desire for a change from the dollar.

The other reason, he said, was the success of the euro, which incorporated a number of currencies but roughly speaking held on to the stability of the old German deutschemark compared with, say, the Greek drachma.

Persaud has long argued that the dollar would give way to the Chinese yuan as a global reserve currency within decades.

A shared reserve currency might negate this move, he said, but he believed that China would still like to take on the role.