A question on currency contradictions

Nick Beams
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To the *WSWS*,

If Japan added liquidity to their economy, would that let the US talk the dollar down? It appears to me Japan needs to inflate its economy any way possible.

JF

Dear JF,

The point I was seeking to establish in the article [US downturn deepens trend to world recession] is that an increase in liquidity in the Japanese economy makes it more difficult to bring down the value of the US dollar.

An increase in liquidity in Japan, which has been advocated as part of the "restructuring" plan, would help end deflationary tendencies, thereby taking some of the pressure off the banks. At present the banks face a situation where as fast as they write off bad debts new ones arise because the value of the asset-backing of these loans has fallen.

But increased liquidity in Japan would have international effects. Given the depressed state of the Japanese economy much of it would find its way into international financial markets, tending to push up the value of the US dollar.

Viewed from the US side, policymakers face a growing dilemma. On the one hand, exporters, import-competing firms and companies with overseas branches and affiliates favour a fall in the value of the dollar. This would have two effects. It would make such firms more competitive, both in the international and domestic markets, and it would increase the dollar value of profits accrued overseas. In other words, a fall in the dollar's value would help reverse the recessionary trends in the US economy.

On the other hand, however, financial authorities favour a continuation of the strong dollar policy in order to maintain the inflow of foreign capital into the US. At present in order to finance its balance of payments deficit, currently running at about 4.5 percent of gross domestic production, the US has to suck in more than $1 billion a day from the rest of the world. Any sudden drop in this inflow could see a fall in the dollar, accompanied by higher interest rates, a further fall in the stock market and the emergence of outright recession.

Besides tending to push up the dollar, a fall in the value of the yen brought about by increased liquidity in the Japanese economy would have other international consequences, some of them potentially severe.

As Ken Courtis, vice-chairman of the investment house Goldman Sachs Asia, noted in an Australian television interview last Thursday, a fall in the value of the yen would be accompanied by a drop in the currencies of Taiwan, Thailand, Singapore and Korea. Faced with such a movement, the Chinese would not be able to maintain the value of the yuan against the dollar and would be forced to devalue.

According to Courtis: "We could end up with a period of huge global currency market and then trade instability, and I think we would be very unwise just to close our eyes to that."

In examining these processes and the various policy options my purpose is not to speculate on what may or may not take place.

The more significant issue is the following: as soon as we think through the consequences of any one of the various policy initiatives undertaken to resolve one problem we find that it exacerbates equally serious problems elsewhere. This indicates that the problems gripping the world capitalist economy have deep structural roots and that the capacity of governments and financial authorities to resolve them is becoming ever more limited.

Yours sincerely,

Nick Beams

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