Dollar devaluation and the working class

Barry Grey
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There are growing signs of a major shift in world currency alignments. Since March, the US dollar has steadily declined, depreciating by 13.3 percent on a trade-weighted basis. Last week the decline accelerated, driving gold prices to record levels and prompting a number of Asian central banks to intervene on currency markets to slow the dollar's fall.

Rather than warning of the implications of this erosion in the value of the world's major trading and reserve currency, prominent financial publications and economic commentators are arguing that the trend should be welcomed and the long-term value of the dollar should be allowed to fall further.

On Saturday, the *Financial Times* of London published an editorial entitled "A Strong US Needs a Weakened Dollar." The newspaper wrote that "this fall in value, while large, should neither be feared nor obstructed. … It would actually be rather helpful if the dollar were to weaken further… the effect of a cheaper dollar would be to help American exporters while making imports to the US dearer.

"This is what America—and the world—needs. In the medium term, as Mr. Summers [Obama's top economic adviser Lawrence Summers] put it earlier this year, 'the rebuilt American economy must be more export-oriented and less consumption-oriented.' In short, the US must start living within its means, and the rest of the world must stop relying on its profligacy."

Monday's *Financial Times* carries a piece by economic columnist Wolfgang Münchau headlined "Making the Case for a Weaker Dollar." He advocates a rebalancing of the world economy in which the massive US current account deficit would be sharply reduced, the Asian surplus would be pared down, and the 16-nation eurozone deficit would grow "somewhat larger."

"In the long run," he writes, "such a world would require significant reform of the international monetary system. In the short term, a fall in the dollar's exchange rate would help get us there."

He suggests that the "strong-dollar pledges" by US officials are disingenuous and the US is encouraging a further decline in the dollar as part of an export-led recovery strategy.

Münchau goes on to say that the necessary long-term reform of the international monetary system involves a permanently reduced global role for the dollar. He predicts that the world is moving toward a "dual system in which the dollar and the euro act as the world's de facto reserve currencies."

These and similar commentaries evade the immense risks that would inevitably accompany a permanent devaluation of the dollar and dilution of its reserve currency status. Such a project contains the seeds of a breakup of the world market. The assumption that this change could be carried out in an orderly manner, without sparking competitive devaluations by Europe and Asia, the formation of currency and trade blocs, the eruption of trade war and, ultimately, military conflict between the major powers, is highly dubious.

Among the most shallow commentaries in favor of a weaker dollar is that provided by US economist and *New York Times* columnist Paul Krugman. In an op-ed piece published Monday, he dismisses those who worry about the long-term implications of the decline of the dollar as little more than cranks.

Without considering the international implications of a continued fall in the dollar, or its consequences for social relations within the US, he says of the "current uproar" over the declining dollar: "The truth is that the falling dollar is good news."

A lower dollar is "good for US exporters," Krugman writes, "helping us make a transition away from huge trade deficits to a more sustainable international position." He argues for leaving the benchmark interest rate, now effectively at zero, "on hold for the next two years or more." He says nothing about the consequences of a depreciating dollar for the US currency's status as the world reserve currency.

What is certain is that the loss of the dollar's status as the unchallenged world reserve currency has devastating implications for the American working class.

A strong and stable dollar was the bedrock of the international capitalist monetary system that was established at the Bretton Woods conference at end of World War II. The dollar has served for nearly seven decades as the world's supreme trading and reserve currency. The unique and privileged position of the dollar—which brought with it immense advantages for US capital—was based on the unchallenged economic supremacy of the US at the end of the war. That, in turn, was founded on the global dominance of American industry.

The long-term decline of American capitalism, reflected most importantly in the decay of its industrial base, resulted in the massive global imbalances between debtor nations—first and foremost, the US—and creditor nations, such as China, Japan and Germany, which led to the implosion of the world economy a year ago. It is the transformation of the US from the industrial powerhouse of the world to the center of global financial speculation and parasitism that, in the final analysis, underlies the erosion in the international position of the dollar.

To allow the dollar to continue to fall is to acknowledge the reality of America's decline and the necessity for world capitalism to find a new basis for growth. At the heart of such a global economic "rebalancing" is a fundamental restructuring of class relations within the United States.

The Bretton Woods framework gave the American bourgeoisie a huge advantage in managing social relations within the US. The US ruling class could utilize deficit spending and inflationary policies to make concessions to the demands of the working class because the world accepted the dollar regardless. Without that advantage, the US must adhere to onerous fiscal and monetary restraints, the burden of which is to be placed on the working class.

This process is already well underway. In the name of global economic rebalancing and reform at home, the Obama administration is seeking to cut the consumption of the working class, slash production costs and drive up US exports.

This amounts to subjecting American workers to the type of economic "shock therapy" that the US-dominated International Monetary Fund has prescribed for a host of indebted Third World countries over the past quarter century. Currency devaluation, accompanied by cuts in state expenditure for social services and the use of mass unemployment to drive down wages and increase exploitation—these are the methods that are now being employed against the American working class.

The process by which the US closed down its manufacturing facilities and farmed out production to cheap labor havens around the world—which produced the unsustainable reliance of the US on infusions of credit from surplus nations such as China and Japan—is to be reversed. Industry in the US is to be revived, but on the basis of the destruction of the wages, working conditions and living standards of the working class.

The US is to become a low-cost producer of goods for the world market. The American working class is to experience levels of exploitation which it hasn't faced in a century. Its wages and living standards are to be brought more closely in line with those faced by the super-exploited workers of Asia.

This policy of class war underlies Obama's assault on the jobs and wages of auto workers, his refusal to provide aid to bankrupt states and localities, and his drive to gut health care benefits for workers and attack entitlement programs, beginning with Medicare.

America will once again set an example for world capitalism—by serving as the model for similar attacks on the workers of every country.

The working class of the United States, however, has no intention of submitting to its own impoverishment. The stage is being set for a revival of the class struggle in the US and internationally on a colossal scale.

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