Economic crisis threatens to unleash global currency wars

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Two events this week have highlighted the growth of global economic tensions and the slide toward international trade and currency wars.

On Wednesday, Japan unilaterally intervened in currency markets to drive down the exchange rate of its currency by selling an estimated 1 trillion yen (worth some $20 billion). The move, the first such intervention by Japan in more than six years and the country's biggest ever one-day currency action, breached a tacit agreement among the established industrial powers to avoid unilateral currency moves.

Japan had threatened such action after the value of the yen in relation to the dollar rose by more than 10 percent since May. The Japanese currency also climbed sharply in relation to the euro and the Chinese renminbi. Tokyo, heavily dependent on exports, had warned that it would take action to protect its industries from the negative effect of the yen's rise on its ability to sell goods abroad.

The following day, US Treasury Secretary Timothy Geithner testified in two separate congressional hearings on Chinese currency policy and demanded that Beijing allow its currency to rise faster and more steeply, tacitly threatening retaliatory action if the Chinese regime refused to do so. Congressmen and senators from both parties blamed China for the loss of American jobs and criticized the Obama administration for failing to officially declare China a "currency manipulator" and impose tariffs and other penalties on Chinese exports to the US.

The eruption of currency exchange conflicts is bound up with mounting signs that the global economic crisis is systemic, rather than merely conjunctural, and growing fears that a genuine recovery is not in the offing. The European sovereign debt crisis and the weakening of US economic growth have led governments around the world to seek to secure a greater share of export markets. Under conditions of slowing growth and stagnant markets, this inevitably heightens trade conflicts between competing capitalist nations.

In particular, the US and the European Union, spearheaded by the export power Germany, have aggressively pursued a cheap currency policy in order to gain a trade advantage against their rivals. Of the major economic powers, Japan has suffered the greatest damage from these policies, as investors and speculators have shifted from dollar- and euro-denominated investments to the yen, driving up the currency's exchange rate.

This has embittered relations between Japan and both the US and the EU. Japan has also denounced China for artificially keeping its currency low while bidding up the yen by increasing its purchases of Japanese government securities.

Japanese Prime Minister Naoto Kan ordered the selloff of yen one day after he survived a bid by rival Democratic Party of Japan leader Ichiro Ozawa to unseat him. The markets were taken by surprise, thinking that the defeat of Ozawa, who had called for stronger action to halt the appreciation of the yen, lessened the likelihood of an intervention.

The Japanese currency had hit a series of 15-year highs versus the dollar. By late Wednesday, the yen had dropped nearly 3 percent in relation to the greenback. On Thursday, Kan warned that additional interventions were possible, pledging to take "resolute action" to further reduce the value of the yen.

Japan is the first of the old-line economic powers to intervene in currency markets in response to the global crisis, but the practice is more general and it is spreading. South Korea, Thailand and Singapore have all seen their currencies rise some 30 percent versus the Chinese renminbi. They and Taiwan have been active in currency markets, purchasing dollars to slow the rise of their currencies.

Brazilian Finance Minister Guido Mantega said this week that his country was readying a dollar-buying strategy to curb the appreciation of his country's currency, the real.

While the US and European central banks and governments have not officially commented on the Japanese action, they have let it be known that they deem it to be hostile to their interests. Jean-Claude Juncker, who chairs the 16-member group of euro zone finance ministers, said, "Unilateral actions are not an appropriate way to deal with global imbalances."

US Congressman Sander Levin (Democrat from Michigan), who chairs the House Ways and Means Committee, suggested at Thursday's hearing on Chinese currency policy that Japan's intervention meant it had a "predatory exchange rate policy."

The Japanese move set off warnings of an outbreak of competitive currency devaluations, similar to those that contributed in the 1930s to a collapse in world trade. "It almost gives everyone else the right to intervene unilaterally and trigger a competitive devaluation process," said Noriko Hama of Japan's Doshisha University.

The Wall Street Journal quoted Denis Gould, AXA Investment Managers' director of investment for Asia, as doubting the long-term effectiveness of unilateral interventions in lowering the value of the yen. "To make this move stick," he said, "it needs the US to play, as well as the Chinese." He continued, "Nobody will do it in a coordinated manner because nobody wants their currency going up. Everywhere in the world there are problems with economic growth."

Ted Truman of the Peterson Institute in Washington said, "This action is symptomatic of the sense that at the moment it is every country for itself."

Thursday's testimony by US Treasury Secretary Geithner before the Senate Banking Committee and the House Ways and Means Committee was staged for the purpose of ratcheting up pressure on China. Treasury is required under law to report to Congress by October 15 on international currency relations, and name those countries deemed to be "currency manipulators." Any country so designated is subject to tariffs and other penalties on its exports.

The hearings became a forum for legislators of both parties to fulminate against China, assuming a populist pose of defending American jobs. They exemplified the reactionary use of economic nationalism to divert popular anger away from the American ruling class and government and scapegoat other countries--in this case China--for the social disaster produced by US capitalism.

Prior to the hearings, 100 members of the House of Representatives, the majority of them Democrats, sent a letter to House Speaker Nancy Pelosi calling on her to bring to a vote a bipartisan bill mandating the government to impose tariffs and other penalties on countries that undervalue their currency.

Earlier in the week, the United Steelworkers union filed a complaint with the US trade representative against Chinese practices in the renewable energy field.

The Obama administration, for its part, announced on Thursday the bringing of two cases against China before the World Trade Organization. One accuses China of blocking imports of a specialty steel product and the other of denying US credit card companies access to its markets.

In opening the Senate Banking Committee hearing, Chairman Christopher Dodd (Democrat of Connecticut) declared China a currency manipulator and said its "economic and trade policies" present "roadblocks to our recovery." He went on to accuse China of stealing intellectual property, violating international trade agreements and dumping goods. He also denounced China for acquiring national resources in developing countries and building up its military.

In his opening statement, the ranking Republican on the committee, Richard Shelby of Alabama, declared, "There is no question that China manipulates its currency in order to subsidize Chinese exports. The only question is: Why is the administration protecting China by refusing to designate it as a currency manipulator?"

Senator Charles Schumer, a New York Democrat, said, "China's currency manipulation is like a boot on the throat of our recovery and this administration refuses to try to get China to remove that boot."

In his statement to the committee, Geithner dismissed as inadequate China's moves since June to allow the renminbi to appreciate versus the dollar. The Chinese currency has risen about 1.5 percent since then. On the day of the hearings, it had its strongest close on Shanghai markets since it began trading in 1994.

Geithner indicated a reluctance to officially declare China a currency manipulator and he did not take a position on the anti-Chinese bill in the House. But he stated categorically that the renminbi was undervalued.

"We are concerned," he said, "as are many of China's trading partners, that the pace of appreciation has been too slow and the extent of appreciation too limitedâ€¦ China needs to allow significant, sustained appreciation over time to correct this undervaluation and allow the exchange rate to full reflect market forces."

The treasury secretary suggested that China should raise its exchange rate by at least 20 percent and issued a thinly veiled threat, noting that "China has a very substantial economic stake in access to the US market."