Global currency, trade conflicts dominate IMF meeting

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8 October 2010

The semi-annual International Monetary Fund and World Bank meeting, being held this weekend in Washington DC, has become the focus of mounting currency and trade conflicts between the major imperialist powers and the so-called emerging economies of Asia and Latin America, and among the great powers themselves.

Warning of the danger of currency wars, IMF Managing Director Dominique Strauss-Kahn told the *Financial Times* Monday: "There is clearly the idea beginning to circulate that currencies can be used as a policy weapon. Translated into action, such an idea would represent a very serious risk to the global recovery."

The IMF implicitly put the onus for the spread of government intervention into the currency markets on so-called emerging economies, above all, China. Deputy Managing Director John Lipsky in an interview said the Chinese renminbi (also known as the yuan) remained "significantly undervalued."

The growth of anti-Chinese protectionist sentiment in the US and Britain was summed up by *Financial Times* economics columnist Martin Wolf, who wrote in a column published Wednesday: "Has the time for a currency war with China arrived? The answer looks increasingly to be yes. The politics and economics of an assault on Chinese exchange rate policy are increasingly convincing. The idea is, of course, deeply disturbing. But I no longer believe there is an alternative."

Wolf, a liberal, concluded with a proposal that, if implemented, would signify China's return to its former semi-colonial status: "Adopting a set of policies that would turn China into a net importer would benefit both its own people and the rest of the world. The time has come to move beyond rhetoric. Action is urgent."

Against the backdrop of slowing growth, especially in the advanced economies of North America, Europe and Japan, and continuing turmoil in the financial markets, the efforts at international coordination in response to the economic crisis have given way to beggar-thy-neighbor exchange rate and trade policies that recall the economic wars of the 1930s.

The global currency system itself, and the entire network of economic relations built upon it, is breaking down under the weight of what is clearly proving to be a systemic crisis of the capitalist system. The various measures taken since the collapse of Lehman Brothers in September of 2008 by governments around to world to rescue the banks and cover the bad debts of the international financial elite have not addressed the underlying causes of the crisis. Rather, they have heightened the contradictions of world capitalism and intensified tensions between nations and the social crisis within them.

The United States is aggressively exploiting the crisis, which was centered on Wall Street, to assert its national interests against its major economic and geo-political rivals, most immediately and prominently, China.

The Obama administration is seeking to use this weekend's IMF meeting, attended by the central bankers and finance ministers of the IMF's 187 member states, to corral Europe, Japan and other Asian countries behind its drive to strong-arm China into more rapidly and sharply raising the value of the renminbi.

Administration officials this week called on the IMF to adopt a tougher anti-Chinese posture and take a harder line as well against other countries with trade and reserve surpluses—such as Japan and Germany—that are resisting US efforts to push up their currencies relative to the dollar. The US is pursuing a cheap dollar policy to lower the relative price of its exports and give it a competitive advantage against its rivals.

The IMF, in its World Economic Outlook and its Global Financial Stability Report released this week, generally adheres to the US line—calling for a rebalancing of the world economy in which the US and other deficit countries increase their exports and China, Japan, Germany and other export-centered countries reduce theirs. But the US, which dominates the IMF by virtue of being its biggest shareholder and donor, wants the organization to pursue this line more aggressively.

Under conditions of anemic growth and stagnant markets, however, every country fights to increase its share of export markets. *Financial Times* commentator John Plender wrote in a column published Tuesday: "As in the 1930s, everyone is looking to export their way out of trouble, which everyone, by definition, cannot do. So global imbalances are on the rise again, as is the risk of protectionism."

A series of events this week have signaled an intensification of what is widely described as a global currency war. On Monday, Brazil doubled a tax it levies on foreign investors who purchase Brazilian bonds. This was done to stem an inflow of speculative capital that has pushed Brazil's currency, the real, 39 percent higher against the dollar since the beginning of 2009.

Brazil is one of a number of emerging economies—including India, Thailand, South Korea and Taiwan—whose currencies have risen sharply as a result of an influx of capital seeking higher returns than are available in the advanced economies, where interest rates are hovering around zero. Many of these countries are intervening repeatedly in the currency markets to hold down the value of their currency.

On Tuesday, the Bank of Japan announced it was lowering its benchmark interest rate to between zero and 0.1 percent and was planning to launch a $60 billion program to purchase Japanese government bonds and other securities. This so-called "quantitative easing" policy amounts to printing yen.

It has been initiated in an attempt to lower the yen's exchange rate, up 12 percent this year against the dollar, so as to cheapen Japan's exports. On September 15, the Japanese government for the first time in six years, acting unilaterally, sold some 2 trillion yen for the same purpose.

Japan acted Tuesday to preempt an expected revival by the US Federal Reserve Board of the quantitative easing policy it ended last March. Over the past week, prominent Fed officials have made public statements urging the resumption of Fed purchases of Treasury bonds and arguing that the US inflation rate is too low. These and similar indications by Fed Chairman Ben Bernanke are intended to encourage a sell-off of the dollar on currency markets and a further fall in the greenback's exchange rate.

Such moves amount to a policy of competitive devaluation and inevitably fuel similar actions by Washington's major trade competitors.

Also on Tuesday, eurozone finance ministers at a European-Asian economic summit in Brussels confronted Chinese Premier Wen Jiabao and called on him to speed up the appreciation of the renminbi in relation to the euro. Wen rejected their demands, leaving the two sides at loggerheads.

Speaking to a business conference in Brussels the following day, the Chinese prime minister warned of the implications of US and European demands that Beijing raise the renminbi at a double-digit pace. "If we increase the yuan by 20 percent or 40 percent, as some people are calling for," Wen said, "many of our factories will shut down and society will be in turmoil."

He continued, "Many of our exporting companies would have to close down, migrant workers would have to return to their villages. If China saw social and economic turbulence, then it would be a disaster for the world."

Later on Wednesday, US Treasury Secretary Geithner delivered a provocative speech calling on the IMF to single out China for censure. Speaking at the Brookings Institution, a Democratic-leaning think tank in Washington, Geithner said, unmistakably referring to China, "When large economies with undervalued exchange rates act to keep the currency from appreciating, that encourages other countries to do the same. This sets off a dangerous dynamic" as nations compete to keep their currencies undervalued.

Maintaining the pose of the aggrieved party, he declared that instead of the "competitive devaluations" of the 1930s, which exacerbated the Depression, the world faces a threat of "competitive non-appreciation." This is a sophistic formula that places the blame for currency warfare entirely on surplus countries like China—and implicitly Germany and Japan—which resist US pressure to allow their currencies to appreciate, and absolves Washington and its cheap dollar policy.

The increasingly protectionist policy of the US was underscored last month when the House of Representatives passed a bill openly directed against China that would enable the Commerce Department to impose punitive damages on countries deemed to be undervaluing their currencies.

In the midst of US complaints about currency manipulation by its competitors, the dollar this week fell to an eight-and-a-half-month low against a basket of currencies and neared a 15-year low against the yen.

The general crisis of the world currency system has found a stark expression in the explosive rise in the price of gold. Comex gold for October delivery rose $23.50 per troy ounce on Tuesday to $1,338.90, a new record settlement high.

Meanwhile, in both its World Economic Outlook and its Global Financial Stability Report, the IMF painted a grim picture of the economic situation and the prospects for the coming year. All told, the IMF predicted that the world economy will expand 4.8 percent this year, and next year growth will slow to 4.2 percent.

The organization downgraded its US growth forecast for 2010 from the 3.3 percent it projected last July to 2.6 percent. For 2011, the IMF expects the US economy to expand by an anemic 2.3 percent, down from its previous estimate of 3 percent.

The projections for the eurozone countries and Japan are even worse. For the former, the IMF predicts 1.7 percent growth this year and 1.5 percent in 2011. For the latter, the organization forecasts 2.8 percent expansion in 2010 and a sharp falloff to 1.5 percent next year.

Combined, the advanced economies are expected to grow by only 2.7 percent this year and 2.2 percent in 2011. Global growth is largely the result of more rapid expansion in the emerging and developing economies, which are expected to grow 7.1 percent this year and 6.4 percent next year.

"The result is a recovery that is neither strong nor balanced and runs the risk of not being sustained," chief economist Olivier Blanchard wrote in an introduction to the IMF's World Economic Outlook. With as many as 210 million people worldwide officially counted as unemployed, an increase of more than 30 million since 2007, Blanchard told a press conference Wednesday that the jobless rate will remain "very high," in the area of 9.6 percent in the US and 10 percent in the eurozone.

At the same time, the world financial system remains highly fragile and could well suffer another breakdown, according to the Global Financial Stability Report. "The global financial system is still in a period of significant uncertainty and remains the Achilles' heel of the economic recovery," the report states. It adds, "The recent turmoil in sovereign debt markets in Europe highlighted increased vulnerabilities of bank and sovereign balance sheets arising from the crisis."

The report notes that nearly $4 trillion of bank debt will have to be rolled over in the next 24 months.

What is common to all of the prescriptions laid down by the IMF is a ruthless assault on the working class. For the advanced countries, the organization demands "fiscal consolidation," which "needs to start in earnest in 2011."

The World Economic Outlook makes clear that such adjustments should target the living standards of the working class, not the corporate elite. It declares, "Such plans would have to include reforms to rapidly growing spending programs, notably entitlements, and tax reforms that favor production rather than consumption."

For the emerging economies, the IMF prescribes currency appreciation and a reduction in exports, which can only mean mass layoffs and the impoverishment of broad sections of the population.