US policies intensify world currency, trade conflicts

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In the wake of the fractious International Monetary Fund (IMF) meeting held October 9-10 in Washington, the descent into global currency and trade war has accelerated, with the United States playing the role of instigator-in-chief.

The US is deliberately encouraging a sell-off of dollars on international currency markets in order to raise the relative exchange rates of its major trade rivals, increasing the effective price of their exports to the US while cheapening US exports to their markets.

While largely responsible for the growing financial disorder, Washington is accusing China, in particular, of jeopardizing global economic recovery by refusing to more quickly raise the exchange rate of its currency, the renminbi (also known as the yuan). By working to drive down the value of the dollar, the US government and the Federal Reserve Board are placing ever greater pressure on the Chinese to revalue, ignoring warnings from Beijing that a rapid rise in its currency will harm its export industries, leading to mass layoffs and social unrest.

The protectionist cheap-dollar policy has an important domestic political function as well. It aims to divert growing public anger over the refusal of the government to provide jobs or serious relief to the unemployed away from the Obama administration and Congress and toward China and "foreigners" more generally. Among its most enthusiastic supporters is the trade union bureaucracy.

The US Commerce Department report Thursday that the US trade deficit widened nearly 9 percent in August, primarily due to a record $28 billion deficit with China, will be used to justify further trade war pressure against China.

The US policy and the growth of international tensions were on full display at the IMF meeting in Washington. US Treasury Secretary Timothy Geithner declared China's currency to be undervalued and demanded that the IMF take a harder line against surplus countries, such as China, that fail to revalue their currencies and accept a reduction in their exports.

China's central bank governor, Zhou Xiaochuan, charged that expectations that the US Federal Reserve would pump yet more dollars into the markets through quantitative easing were compounding imbalances and swamping emerging economies with destabilizing capital inflows.

With the representatives of the world's first- and second-largest economies at loggerheads, the IMF failed to arrive at any agreement on the currency crisis. Washington's allies such as Germany and Japan indicated support for a revaluation of the renminbi, but they balked at lining up behind a US-led diplomatic offensive against Beijing.

This, in effect, postponed the US-China confrontation until the upcoming G20 summit of leading economies, to be held November 11-12 in Seoul, South Korea.

The ensuing week saw an escalation of Washington's cheap-dollar policy, as the Federal Reserve Board gave further indications that it plans to resume the electronic equivalent of printing hundreds of billions dollars, so-called "quantitative easing," perhaps as soon as its next policy-setting meeting November 2-3. While it is doing so in the name of stimulating job creation, the main effect of a renewal of Fed purchases of US Treasury securities will be to increase the supply of virtually free credit to the major US banks and corporations and fuel a further rise in stocks and corporate profits.

Since August, when the Fed took the first steps toward the large-scale resumption of debt purchases, the Dow Jones Industrial Average has risen by more than 10 percent despite continuing declines in US payrolls.

In a much-anticipated speech Friday at the Federal Reserve Bank of Boston, Fed Chairman Ben Bernanke broadly hinted that he favored an early resumption of quantitative easing. Speaking of the Fed's policy-making Federal Open Market Committee (FOMC), he said, "Given the Committee's objectives, there would appear—all things being equal—to be a case for further action."

Bernanke took the highly unusual step of declaring that the present inflation rate is too low and making clear that the Fed's policy going forward will be to raise the rate of inflation to around 2 percent by means of monetary stimulus. "Thus, in effect," he said, "inflation is running at rates that are *too low* relative to the levels that the Committee judges to be most consistent with the Federal Reserve's dual mandate [to maintain price stability and contain unemployment] in the longer run." [Bernanke's emphasis].

The call for an inflationary monetary policy is not driven, as Bernanke would have the public believe, by a desire to significantly bring down the jobless rate. The Fed would not declare that inflation is too low unless it was confident that continued high unemployment will enable big business to proceed with its wage-cutting drive and prevent a rebound in wages.

In giving his speech, Bernanke was well aware that simply talking of quantitative easing and a policy of reflation would spark a further sell-off of US dollars. In the event, the renewed decline in the dollar, which began after the IMF meeting, accelerated on Friday.

On a trade-weighted basis, the dollar dropped 0.7 percent to a new low for the year after Bernanke spoke, and the Australian dollar reached parity for the first time since it was freely floated in 1983. The US greenback also fell to parity with the Canadian dollar.

In addition, the dollar fell to a new low against the Swiss franc. Virtually all Asian currencies rose versus the dollar, gold hit a new record high, and other commodities such as silver, copper and corn continued their upward spiral.

The dollar is now at 15-year lows against the yen and nine-month lows against the euro.

The *Wall Street Journal* on Saturday published a scathing editorial bluntly summing up the currency- and trade-war implications of Bernanke's speech. It began: "Amid the dollar rout of the 1970s, Treasury Secretary John Connally famously told a group of fretting Europeans that the greenback 'is our currency, but your problem.' If you read between the lines, that's also more or less what Federal Reserve Chairman Ben

Bernanke said yesterday as he made the case for further Fed monetary easing."

The editorial continued: "In a nearly 4,000-word speech, the Fed chief never once mentioned the value of the dollar. He never mentioned exchange rates, despite the turmoil in world currency markets as the dollar has fallen in anticipation of further Fed easing… The chairman's message is that the Fed is focused entirely on the domestic US economy and will print as many dollars as it takes to reflate it. The rest of the world is on its own and can adjust its policies as various countries see fit. If other currencies soar in relation to the dollar, that's someone else's problem."

Earlier in the week, *Financial Times* columnist Martin Wolf published a column similarly pointing to the unilateralist and nationalist essence of US policy. "In short," Wolf wrote, "US policymakers will do whatever is required to avoid deflation. Indeed, the Fed will keep going until the US is satisfactorily reflated. What that effort does to the rest of the world is not its concern…

"Instead of cooperation on adjustment of exchange rates and the external account, the US is seeking to impose its will, via the printing press… In the worst of the crisis, leaders hung together. Now, the Fed is about to hang them all separately."

The *Financial Times* on Friday gave some indication of growing anger within Europe over US monetary policy, quoting a "senior European policymaker" as calling the Fed's policy "irresponsible." The article cited Russian Finance Minister Alexei Kudrin as saying one reason for the exchange rate turmoil "is the stimulating monetary policy of some developed countries, above all the United States, which are trying to solve their structural problems in this way."

Following Bernanke's speech on Friday, the Obama administration announced two further moves in its confrontation with China. The Treasury Department delayed the release of its semiannual assessment of the currency policies of major US trade counterparts, saying it would withhold the statement until after next month's G20 summit in Seoul.

The administration is under pressure from leading Democratic lawmakers, backed by the unions, to declare China a currency manipulator in the currency assessment, an action that could lead to retaliatory duties and tariffs against Chinese imports. The administration, however, has resisted such an overtly hostile move that would, moreover, preempt G20 discussions on the currency issue. It prefers to build a coalition of European and Asian states against China.

At the same time, however, largely to placate protectionist hawks in the Democratic Party, the US trade representative announced that he was launching an investigation into a claim filed by the United Steelworkers union charging China with unfair and illegal subsidies to its green energy industry.

Global impact of US monetary policy

Washington's cheap-dollar policy increases the pressure on the major surplus countries—China, Germany and Japan—as well as the emerging economies of Asia and Latin America to respond by devaluing their own currencies to offset the trade advantage of rivals with falling currencies, first and foremost the United States.

This is the classic scenario of competitive devaluations and "beggar-thy-neighbor" policies that characterized the Great Depression of the 1930s and produced a fracturing of the world market into hostile trade and currency blocs, ultimately leading to World War II.

All of the major powers and rising economic nations solemnly foreswore precisely this course of action at international meetings following the outbreak of the financial crisis in September 2008. It has taken less than two years for this much-touted global coordination to collapse into mutual threats and outright economic warfare.

Germany and Japan, while more than happy to force China to raise its exchange rate and prepared to fire some shots across China's bow toward that end, are reluctant to fully enlist in Washington's anti-Chinese crusade since they know that they too are targeted by the Fed's cheap dollar policy.

Last month, Japan, whose currency has risen by more than 10 percent against the dollar over the past year, retaliated with a massive and unilateral one-day sell-off of yen, and this month the Japanese central bank announced a further lowering of its key interest rate and its own program of quantitative easing, through central bank purchases of $60 billion in Japanese government bonds.

Emerging economies such as South Korea, Thailand, India, Taiwan and Brazil are reeling from the upward pressure on their exchange rates fueled by waves of speculative dollars seeking a higher return through the purchase of government and corporate bonds of these faster-growing countries.

The Institute of International Finance, which lobbies for major banks, estimates that $825 billion will flow into developing countries this year, 42 percent more than in 2009. Investments in debt of emerging economies alone are expected to triple, to $272 billion.

Last month, the Brazilian finance minister warned of the outbreak of a global currency war and earlier this month his government announced the doubling of a tax on foreign purchases of Brazilian bonds in an attempt to stem the inrush of capital and the relative rise of the nation's currency, the real.

This past week, Thailand took similar steps, announcing a 15 percent withholding tax on the interest payments and capital gains earned by foreign investors in Thai bonds, in an attempt to arrest the appreciation of the baht, which has already risen by 10 percent against the dollar this year.

The eruption of currency and trade war is being driven by the general slowdown in economic growth to anemic levels that make impossible any genuine recovery from the deepest slump since the 1930s. Faced either with slumping domestic demand or stagnant foreign markets, or (as in the case of the US) a combination of the two, the major economies are all intent on increasing their sales abroad. As the prospects dim for a revival of economic growth to pre-recession levels, the system of multilateral currency and trade relations dating back to the agreements made at the end of World War II is collapsing. So too are the chances of genuine multilateral coordination.

Ultimately, global coordination of economic policy between the major powers in the post-war period was anchored by the economic supremacy of the United States, embodied in the privileged position of the US dollar as the world trade and reserve currency. This has irretrievably broken down, with the palpable decline in the world economic position of the United States.

The result is a struggle of each against all, combined with a general onslaught in every country against the working class, which is to be made to pay—in the form of wage-cutting and austerity measures—for the breakdown of the global capitalist economic order.