Currency wars: Another phase in the capitalist breakdown

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The semi-annual meeting of the International Monetary Fund and the World Bank which convenes in Washington today is marked by the most serious breakdown in global economic relations since the trade wars and competitive devaluations that characterised the Great Depression of the 1930s.

As their economies continue to stagnate and the risks of further global financial turbulence increase, the major powers, spearheaded by the United States, are waging an increasingly open economic war against China, demanding that its currency, the renminbi (the yuan) rise significantly.

The ever-worsening global economic situation and the descent into the kind of conflicts not seen since the 1930s underscores the fact the collapse of Lehman Brothers in September 2008 did not set off a conjunctural downturn, from which there would be a "recovery", but was the start of a breakdown of the entire economic framework set in place after World War II.

One fact alone points to the extent and depth of this process: the calls by so-called liberal economic commentators for trade and currency war measures. In the wake of the Great Depression, the Smoot-Hawley Act, passed by the US Congress in June 1930 to impose a series of tariff barriers, was anathema in liberal economic circles. It was regarded as one of the principal causes of the downward spiral in world trade from 1929 to 1932 and the division of the world into antagonistic trading blocs, leading eventually to world war.

Two weeks ago *Washington Post* economic commentator Robert Samuelson invoked Smoot-Hawley as he called for trade war against China. Ten days later *Financial Times* economics commentator Martin Wolf, who has issued many warnings in the past about the consequences of a lack of economic co-operation, declared that the time for a currency war against China had come as there was "no alternative". What was unthinkable yesterday has become necessary today.

The mounting global economic tensions have sparked a call from the Institute of International Finance (IFF), representing more than 400 of the world's leading banks and financial institutions, for a new currency pact to be agreed by the world's leading countries by the time of the G20 meeting scheduled in Seoul, South Korea, next month.

A letter from the IIF's managing director Charles H. Dallara issued on Monday warned that the world economy faced a situation as critical as that confronted in the early months of 2009. At that time industrial production, world trade and stock markets were contracting at a faster rate than the corresponding period following the October 1929 share market crash.

"As countries struggle to cope individually with the lack of upward momentum in global growth—and in many cases unacceptably high unemployment—urgent action is needed to arrest the disturbing trend towards unilateral moves on macroeconomic, trade and currency issues," he wrote.

Calling for policymakers to engage in "multilateral negotiation" to deliver a set of consistent and mutually-reinforcing measures to address the problems, Dallara warned that a “communiqué of platitudes” from the G20 only risked further undermining market confidence.

Billionaire financier George Soros added his voice to the calls for China to take action over its currency in a comment published in today’s *Financial Times*. “The chances of a positive outcome are not good,” he wrote, “yet we must strive for it because in the absence of international cooperation the world is heading for a period of great turbulence and disruptions.”

However an examination of the origin and development of the currency wars shows why such co-operation is impossible.

In the early months of 2009, when governments around the world were carrying out stimulus packages aimed at boosting their economies, there was talk of global collaboration. But it was short-lived. By the end of 2009 new contradictions had emerged as the near-bankruptcy of Dubai and the Greek financial crisis pointed to the emergence of the so-called sovereign debt crisis.

By May of this year the European banking system faced collapse and was only propped up through the provision of a €750 billion bailout. The crisis effected a policy reversal as financial markets dictated their agenda to national governments. Henceforth, they demanded, fiscal stimulus packages had to be ended and a program of sweeping spending cuts initiated, aimed at wiping out social gains won by the working class over the entire post-war period.

At the same time, the economic stimulus provided by the lowering of interest rates had run its course. In both the US and Japan short-term interest rates set by the central bank are so low that monetary authorities have resorted to “quantitative easing”—the purchase of government bonds—in a bid to lower long-term rates.

But these measures have failed to boost economic growth. In six of the world’s major economies—the US, Japan, Germany, France, the UK and Italy—gross domestic product in the second quarter of this year still had not returned to where it was in the second quarter of 2008. Moreover, these economies are estimated to be operating at about 10 percent below their past trends.

With stimulus packages and interest rate cuts either ruled out or ineffective, national governments are seeking to expand exports, by reducing the value of their currencies, as the sole remaining measure available to provide an economic boost. But, by its very nature, an export stimulus cannot boost the world economy as a whole. Rather than providing a life raft, competitive devaluations are, as a comment in the *Wall Street Journal* recently noted, more like shipwrecked sailors trying to stay afloat by climbing on each other’s shoulders.

At present the conflict takes an economic form. But other, even more deadly consequences, are certain to follow.

A review of the present situation brings to mind the words of Leon Trotsky in the founding program of the Fourth International written in 1938.

“The bourgeoisie itself,” he wrote, “sees no way out … it now toboggans with closed eyes toward an economic and military catastrophe.”

The only way to avert the disaster being prepared is through the building of the independent political movement of the working class in the fight for a program of socialist internationalism—the overthrow of capitalist property relations and the reactionary system of rival nation-states and the reconstruction of the world economy to meet social needs. This is the perspective of the International Committee of the Fourth International.

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