

US Federal Reserve stokes global currency war

Barry Grey**5 November 2010**

The Federal Reserve Board's announcement Wednesday of a second round of "quantitative easing"—the printing of hundreds of billions of US dollars—is an aggressive and unilateralist move, widely—and legitimately—perceived by America's economic rivals as a hostile act.

The US central bank is pursuing a deliberate policy of devaluing the dollar in order to cheapen the price of US exports and make foreign imports more expensive. Under conditions of stagnant markets and negligible economic growth in the US, Europe and Japan, such a policy inevitably fuels countermeasures by America's competitors. They seek to defend their export industries by intervening to halt the rise in their exchange rates and contain waves of speculative investments pushing up their currencies and overheating their economies.

The fact that the Fed announced its plan to purchase nearly \$1 trillion in US Treasury securities barely a week before the G20 summit of leading economies in Seoul, South Korea underscores the provocative character of the action.

Washington is seeking to establish a bloc of European and Asian countries at the summit behind its demand that China allow its currency to appreciate more rapidly. There is an element of blackmail in the Fed's move—an implicit threat to Germany, Japan and other exporting nations of what they will face if they do not fall in behind the US anti-Chinese campaign.

The US cheap-dollar policy has already led to countermeasures. In September, Japan intervened into the currency markets for the first time in six years in a bid to halt the rise of the yen. This was followed by a lowering of its key interest rate and the announcement of its own program of quantitative easing.

Brazil, whose finance minister accused the US of sparking a global currency war, announced the

doubling of a tax on foreign purchases of Brazilian bonds in order to contain the flood of speculative dollars driving its currency higher and creating the danger of asset bubbles and inflation.

Similarly, Thailand announced a 15 percent withholding tax on the interest payments and capital gains earned by foreign investors in Thai bonds. Other countries, from South Korea, to India, to Taiwan, have intervened in currency markets in an attempt to halt the rise in their exchange rates.

In essence, the United States, the world's biggest debtor nation, is seeking to leverage its massive trade deficits and debt—expressions of the decline of American capitalism—using them as weapons against its economic rivals. It is exploiting the privileged position of the US dollar as the world's primary trading and reserve currency to offload its crisis onto the rest of the world.

This is a reckless and incendiary policy with catastrophic implications. Economic nationalism breeds chauvinism, xenophobia and militarism.

All of this is leading to the type of currency and trade warfare that erupted after the Wall Street crash of 1929 and immensely deepened and lengthened the Great Depression. The world market was fractured into competing currency and trade blocs, and economic war inexorably gave rise to military conflict.

Similar tensions are emerging today. Chinese Central Bank adviser Xia Bin responded to the Fed announcement by accusing it of "uncontrolled" money-printing that could spark another global crisis. He suggested that China would counter Washington by forging regional currency alliances to speed up international use of the yuan.

He was not alone. Japanese Prime Minister Naoto Kan accused the US of pursuing a "weak-dollar

policy."

The logic of the increasingly embittered currency and trade conflicts was summed up bluntly on Wednesday by the president-elect of Brazil, Dilma Rousseff, who told a press conference: "The last time there was a series of competitive devaluations... it ended in World War Two."

Recent events have made clear that a new global conflagration is not some distant or improbable prospect. The United States has for two decades, since the collapse of the Soviet Union, pursued a policy of using its military supremacy to offset its economic decline. Behind its aggressive trade and currency posture is the omnipresent threat of military violence.

Of the many potential flashpoints of global war—the Balkans, Central and South Asia, the Middle East—East Asia is among the most explosive.

Hillary Clinton has devoted her current 13-nation Asian tour to asserting US dominance in Asia and seeking to consolidate a coalition of countries directed against China. Clinton has demonstratively inserted the US into long-standing disputes between China and other East Asian nations over islands in the South China Sea and the East China Sea, lining up behind Japan, Vietnam, Malaysia the Philippines and other countries against Beijing.

Over the same period, Russian President Dmitri Medvedev visited one of the Kuril islands that are claimed by both Russia and Japan—the first ever such visit by a Russian head of state.

As the *Eurasia Review* wrote on Thursday: "In a six-day span the US State Department has bluntly affirmed unequivocal backing for Japanese territorial claims against both Russia and China, even invoking a defense treaty provision that could lead to direct military intervention and war with the world's most populous nation."

The journal noted that at the beginning of her trip, Clinton declared US support for Japan's claim to what it calls the Senkaku Islands, in opposition to China's claim to what it calls the Diaoyu Islands. It was in the vicinity of these islands that a Chinese trawler collided with two Japanese coast guard ships in September, sparking a bitter diplomatic dispute between the two powers.

Clinton explicitly cited Article 5 of the 1960 Treaty

of Mutual Cooperation and Security between the United States and Japan, which declares that "Each Party recognizes that an armed attack against either Party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger."

She added that the position of the United States is that "the Senkakus fall within the scope of Article 5" of the treaty. "This is part," she continued, "of the larger commitment that the United States has made to Japan's security... we are committed to our obligations to protect the Japanese."

This was an unvarnished threat of US military action against China.

As happened twice in the last century, the insoluble global contradictions of world capitalism—between social production and private ownership of the means of production, and between world economy and the nation-state system—are once again driving mankind toward the abyss of world war, this time with the prospect of nuclear annihilation.

No less today than when Leon Trotsky wrote in the 1930s, the alternatives facing humankind are socialism or barbarism.

Barry Grey



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact