Currency wars hang over G20 meeting

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The meeting of G20 finance ministers and central bankers in Moscow over the next two days is being held amid a deep contradiction in the global capitalist economy.

On the one hand a certain stability has returned to financial markets, at least temporarily, with stock markets on the rise, while, on the other hand, economic growth continues to stagnate. Large sections of the world are at or near recession and the developed countries are now fighting over what the *Financial Times* described as “slivers of economic growth”.

This mounting contradiction is the driving force behind the renewed warnings of a global “currency war”—an issue which will almost certainly dominate proceedings.

The danger of a global currency war was first raised in 2010 by the Brazilian finance minister Guido Mantega, who warned that the US Federal Reserve Board’s policy of “quantitative easing” (printing money) was cutting the value of the US dollar, thereby undermining the economic position of other powers and opening the way for possible retaliation.

The issue has again come into prominence following the change of government in Japan last December and the decision of the incoming Abe administration to demand that the Bank of Japan pursue its own version of “quantitative easing” in order to try to boost the stagnant Japanese economy. Further fuel was then added to the fire by the statement by French president François Hollande earlier this month that the high value of the euro was damaging the economy.

The extent of the tensions over currency issues was highlighted on the eve of the G20 meeting when the G7—Britain, the US, Japan, Germany, France, Italy and Canada—issued a statement insisting that currency levels should be determined by market forces and not central banks. The statement was initially interpreted as supporting Japan, but markets were thrown into turmoil when an official said that it was intended as a criticism of recent Japanese actions.

In its statement the G7 said its central banks were not targeting their respective currencies. “We reaffirm that our fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives using domestic instruments, and that we will not target exchange rates.”

But the very interconnectedness of the global economy and financial system means that this statement is as ludicrous as an assertion that increased carbon pollution in one country would not contribute to global warming because it would be merely a “domestic” measure.

Since the eruption of the global financial crisis in 2008, the US Federal Reserve has increased its holdings of financial assets some threefold. It is now adding to its balance sheet at the rate of $80 billion a month or almost $1 trillion per year. These purchases of financial assets add to the supply of dollars and work to push down the exchange rate against other currencies, thereby benefiting American exporters at the expense of their rivals.

Furthermore, whether or not US interests directly benefit, the role of the US dollar as the paramount global currency means that its fall increases the relative value of all other currencies and worsens the position of these countries in the fight for export markets, while opening up their domestic markets to increased international competitive pressures.

At a certain point those pressures provoke demand for retaliation. This is why the Japanese measures are regarded as significant, leading to increased tensions and renewed warnings of currency wars.

There are other, longer-term, consequences that point to the fact that the financial crash of 2008 represented a breakdown in the global capitalist order.

The Fed’s quantitative easing program and

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consequent devaluation of the US dollar is unprecedented. While the dollar has been devalued in the past—for example, under the so-called Plaza Accord of 1985—that was done at least with the formal agreement and collaboration of the other major capitalist powers.

Now the US pursues its economic agenda unilaterally and completely recklessly. Its undermining of the foundations of the global monetary system carries with it the threat of a collapse of confidence in paper currencies and a return to the economic blocs that characterised the 1930s, with incalculable consequences for world trade and investment.

An even more immediate threat is that the ongoing purchases of financial assets by the Fed and other central banks will recreate, on an even broader scale, the conditions that led to the crash of 2008. Since the beginning of 2008 the Fed has expanded its balance sheet by 220 percent, the Bank of England by 350 percent and the European Central Bank by about 98 percent.

In the absence of any policies to enhance economic growth, the reliance on financial manipulation is creating new and explosive contradictions at the very centre of the world economy—a fact recognised by at least some of those in charge of the financial system. In a recent speech, the head of Britain's Financial Services Authority Adair Turner warned that "exclusive reliance" on monetary and credit policy "carries significant long-term risks—a danger that, in seeking to escape from the deleveraging trap created by past excesses, we may build up future vulnerabilities."

In the crisis of 2008, central banks around the world were able to act as "lender of last resort" and bail out banks and other financial institutions that would have gone bankrupt had they not received assistance. The central banks could perform this function because they themselves were not directly involved in the afflicted financial markets.

That situation has changed dramatically. The banks themselves now hold trillions of dollars' worth of government bonds and other forms of debt. A collapse in these markets would see the central banks attempting to bail out the major banks and investors while their own financial viability was being undermined.

In other words, the measures taken over the past five years have not only created the conditions for escalating currency wars, they have ensured that the next major financial crisis will involve the central banks themselves.

Some of those attending the G20 meeting will recognise, at least in their behind-the-scenes discussions, these looming dangers. But they will be powerless to advance any policies to meet them because the crisis is rooted in the very foundations of the profit and nation-state system they defend. The only answer to the enormous dangers posed by the ongoing capitalist breakdown is the initiation of a political struggle by the working class for the program of international socialism and the replacement of the anarchic profit system by conscious economic planning.

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