Currency war: A new stage in capitalist breakdown

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The decision of the Trump administration to label China a “currency manipulator,” taken in response to the decision by Beijing on Monday to slightly devalue the renminbi by allowing it to fall in value below the level of seven to the US dollar, has implications that go far beyond the trade war launched by the US.

The immediate impact of the decisions taken in Washington and Beijing was to send financial markets spiralling downward around the world, including in the US, where Wall Street experienced a significant decline. The downturn was the recognition that economic warfare has entered a new and even more dangerous phase.

While the initial financial turbulence has subsided, with the markets experiencing something of a rebound in light of a slight shift upwards in the value of the renminbi (also known as the yuan), currency war has been firmly placed on the agenda.

Since the global financial crisis of 2008, all the major international economic organisations have continually warned that protectionism and competitive currency devaluations must be avoided at all costs. These warnings have been based on the understanding that such measures played a crucial role in the 1930s in deepening the Great Depression and creating the conditions for the eruption of World War II.

The proscription against protectionist tariff measures has well and truly gone by the board as far as the US is concerned. Not only has the Trump administration imposed tariffs on hundreds of billions of dollars’ worth of Chinese goods—the latest tariff threat against China will mean that virtually all Chinese exports to the US will be covered—it has made it clear that tariffs will be used as a crucial instrument in advancing its economic agenda everywhere.

The European Union is at present involved in negotiations with the US over a trade deal under the threat that if it does not accede to Washington’s demands, particularly on agriculture, then a 25 percent auto tariff will be imposed on “national security” grounds. That threat extends to Japan, which is also involved in bilateral trade negotiations with the US, a situation Prime Minister Shinzo Abe sought to prevent, rightly fearing it would give Washington the whip hand.

Furthermore, in its dealings with Mexico, the Trump administration threatened a tariff on its exports to the US unless it acceded to demands for action to curb the flow of refugees and immigrants. While that conflict has been settled—at least for the moment—it sent out a global shock wave because it involved the use of economic measures to enforce a political agenda.

The same modus operandi has been employed, albeit in a slightly different way, with regard to Iran. Exploiting its command of the world’s major international currency, the dollar, Washington has threatened with financial penalties companies and countries that refuse to adhere to its sanctions, imposed after its unilateral withdrawal from the 2015 nuclear agreement with Iran.

Now, whatever the immediate twists and turns in events, the threat of a currency war means a new stage in the ongoing breakdown of the world capitalist order has been reached.

Under conditions of a marked slowdown in the global economy—the signs of which are already apparent in Europe, China, Southeast Asia and in the US itself, where business investment and manufacturing are in decline—it will set off a dog-eat-dog struggle for markets, with no end in sight.

On top of the labelling of China a “currency manipulator,” there are other clear indications of the shift to such a policy. Trump has railed against the US Federal Reserve for not lowering interest rates fast enough in order to counter the effects of a fall in the value of the euro and the renminbi, saying the Fed’s actions have placed him at a disadvantage in dealing with the European Union and China.

The shift towards currency warfare is not confined to the administration. Last week, a piece of legislation was introduced in the US Senate, jointly sponsored by a Republican and a Democratic senator, aimed at lowering the value of the US dollar.

According to its sponsors, the legislation was necessary because for “two decades” foreign countries, including China, had “manipulated their currencies to boost their exports while making American products more expensive abroad” and foreign purchases of US financial assets had “also led to an overvalued American dollar.”

The proposed *Competitive Dollar for Jobs and Prosperity Act*, the sponsors declared, would “manage the US dollar exchange rate” and bring it into alignment by placing a “market access charge” on foreign purchases of US stocks, bonds and other assets.

At this stage it is not clear how much support this specific piece of legislation may attract. But it is a clear indication of which way the economic winds are blowing.

There is another crucial aspect to the shift towards competitive devaluations and the eruption of a currency war that goes far beyond the sphere of trade, significant as that is. In the capitalist economy, money does not function solely as the means of exchange for trade and investment, it is also a store of value. But if the value of paper currencies, that is, fiat money created by central banks and not backed by gold or some other store of value, is continually driven down in a global conflict, then this vital function is called into question.

This issue is now attracting greater attention in financial circles. It is rooted in the vast changes that have taken place in the operation of the US economy over the past three decades and more.

Starting in the 1980s under the Reagan administration, there was a significant shift in the mode of US profit accumulation as it increasingly began to depend, not on investment in new plant and equipment and the expansion of production, but on the development of what has become known as financialisation—the accumulation of profits through speculative operations in shares and other financial assets.

Beginning with the stock market crash of October 1987, there were a series of financial storms—the bailout of Long Term Capital Management in 1998, the tech-wreck at the turn of the century, to name but two, which pointed to the growing instability of the entire financial system.

However, these storms were weathered because of monetary interventions by the Fed—the so-called "Greenspan put" as it became known. While these operations were "successful" in that they overcame immediate problems, they increased the underlying instability of the financial system. In the final analysis, their short-term success rested on the boost to global growth and profits resulting from the exploitation of cheap labour resources first of the so-called Asian tigers and increasingly, from the mid-1990s, of China.

But in 2008 the chickens came home to roost and the growing rot at the heart of the US and global financial system was exposed in the financial meltdown.

The Fed, together with other central banks, responded by pouring trillions of dollars into the global financial system, lowering interest rates to record lows and purchasing financial assets—so-called quantitative easing. The official mantra was that this would eventually bring about a restoration of economic growth, making possible a return to "normal" monetary policies.

That has not taken place. So addicted has the financial system become to the inflow of cheap money that any return to "normalisation" threatens to spark a new financial meltdown. The trillions of dollars pumped into the system have not disappeared. Rather they continue to circulate, seeking profit through speculative operations. Unable to find profitable outlets in the real economy, this ocean of money has poured into government debt, lifting bond prices and driving down yields, such that some 13.74 trillion dollars' worth of bonds are now trading at negative yields.

The move towards currency warfare, through the devaluation of paper currencies, means that a new crisis is in the making, rooted in the global monetary system. The signs are already beginning to be noted.

In a recent blog post, Ray Dalio, the head of the Bridgewater hedge fund, one of the largest in the world, pointed out that under conditions where central banks are printing ever-increasing amounts of paper money, there will be a shift to alternative forms of money, gold, for example, or other forms of wealth. He posed the question of what would function as a store of wealth "when most central bankers want to devalue their currencies in a fiat currency system."

It is not possible to predict exactly how this crisis will unfold. But one thing is certain: there is no solution through some changes or adjustment to the financial system. The only way the financial oligarchy can put value back into its mountain of cash is by intensifying the attacks on the working class, whose labour is the sole source of real wealth in the capitalist economy.

The clear shift towards currency warfare, therefore, not only signifies the development of a crisis for entire global economy and financial system. It also portends the eruption of class struggle on a global scale, the first indications of which are already apparent, in which the working class will more and more be confronted with the necessity to fight for political power as the means to end the profit system and reorganise the world economy on socialist foundations.