Dollar Imperialism, 2015 Edition

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March 6, 2015 by Michèle Brand - Rémy Herrera
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"The dollar is our currency, but it's your problem." This is what US Treasury Secretary John Connally said to his counterparts in the Rome G-10 meeting in November, 1971, shortly after the Nixon administration ended the dollar's convertibility into gold and shifted the international monetary system into a global floating exchange rate regime. The world has been suffering from this "problem" ever since the US obtained the "exorbitant privilege" of issuing the world's reserve and trade currency under the Bretton Woods system after WWII.

The Fed effectively acts as the world's central bank, but sets monetary policy only in its own interest. Under the pressure and the orders of financial oligopolies, it fixes interest rates and prints money to suit itself, sending economies across the globe into tailspins. When the Fed wanted to halt the decade-long decline in the profit rate and to pull the US out of stagflation in the late 1970s, it raised its rates sharply – the Volcker shock of 1979-1981, when the federal funds effective rate jumped to more than 20% at the beginning of the 1980s – throwing many developing countries into freefall, default and debt servitude. As their debts were denominated in dollars and rates jumped, suddenly they were paying drastically heavier debt service burdens, which they could only cover by taking out more debt under the draconian conditions of the IMF. In 1997, the US interest rate hike of only a quarter of a point was one of the main reasons for the "Asian crisis," as hot money fled South-East Asia. Today in 2015, the end of QE, a strengthening dollar and an anticipated rise in US interest rates could wreak havoc in developing economies. Since 2009, trillions of dollars hot off the printing press or borrowed at near zero rates have been flooding into the global South and East. But today's monetary tightening is already leading to an exodus of hot money that is destabilizing these countries, with the effect of keeping the United States' rivals in the "emerging" world down.

Like the Volcker shock, these policies aren't enacted with the express goal of kicking the global South in the stomach, but this outcome is a necessary and predictable result of the domination of the global financial order by a sole country whose interest is to keep its hegemonic status. Other measures are taken precisely toward this end. This latest round of financial warfare has to be seen in the context of financial imperialism in general. Countries struggling for sovereignty are also being hit by sanctions, speculative currency attacks, commodity price manipulation, biased evaluations from US ratings agencies, massive fines on some banks for what the US has deemed inappropriate practices, and the prohibition of certain banks from participating in the international banking system. All of these weapons – like their lethal counterparts – are used toward weakening rivals (whether US allies in the global North or competitors in the global South and East) and maintaining dollar hegemony.

Not only does the dollar enable the US empire, but also protecting the dollar's status is a major reason for US imperial wars. American financial and military strength is based upon the fact that the dollar is the world's reserve and international trade currency, creating a global demand for dollars which allows the US to print as many greenbacks as it likes. It then pumps them into the overbloated finance capital system and uses them to fund its criminal wars. Global demand for dollars is so strong that the key to keeping the system from collapsing during the 2008 financial crisis was the US Fed agreement to allow the central banks of core countries and certain Southern countries to have "unlimited" access to dollars through its "swap lines." The dollar is vastly overvalued in relation to the real US economy, which consumes much more than it produces and makes up the difference with debt. The combined deficits of the federal budget and the current account come to around one trillion dollars per year. No other country could live so much above its means with impunity. Without this international demand for dollars, the dollar would "correct," and US hegemony would eventually, inevitably, come to an end.

Therefore the US pressures and attacks countries that attempt to free themselves from the dollar's yoke, not only because they're guilty of lese majesty, but in order to force the world to maintain the status of the dollar and thus preserve US domination. Russia, whose president has been outspoken about the unfair dollar system, has been hit by sanctions, currency attacks, artificially low oil prices (recently manipulated by the US with the complicity of Saudi Arabia), ratings agency downgrades, color revolution destabilisation attempts, and military threats. The BRICS in general, especially since the crisis of 2008, have been trying to break free from the dollar's dominance. In return China has become the target of the US military "pivot" to Asia, has been subjected to political destabilization in Hong Kong and the Western provinces, and has suffered the US attempt to isolate it economically from its neighbors through the Trans-Pacific Partnership.

In 2009, after the US exported its home-grown financial crisis throughout the globe, China and Russia proposed that the world wean itself from the dollar and replace it with a reserve currency that would not be controlled by a single country. They suggested that the IMF's Special Drawing Rights (SDRs) be used as the neutral world currency. The proposal was immediately shot down by the US. SDRs are in fact a unique outgrowth of the currency crisis of the late 1960s and early 1970s. The IMF, pushed by the Europeans, responded to the crisis by creating a fiat currency in 1969 to be used as the world's reserve currency, but the US didn't like the idea that SDRs should replace the dollar in that role and torpedoed it, and soon thereafter ditched the gold standard. SDRs now make up a tiny fraction of world reserves. The US has also shot down any proposed changes to the SDR system since then, with its de facto veto in the IMF: such rules can be changed with an 85% majority, but the US has a quota of 17%, which makes it the only country with a veto. The IMF itself, despite its strong ties to the US Treasury, has expressed criticisms of the current dollar-based monetary system and has promoted the SDR or a new world reserve currency as an alternative.

Although it has so far been unsuccessful, the idea of rebalancing the world monetary system is extremely threatening to the US, and goes a long way toward explaining recent US wars and warmongering, which may otherwise seem irrational. The line of NATO bases in Eastern Europe and the coup d'etat in Ukraine are attempts to split Europe from Russia, trying to keep a subordinated Europe in the US sphere, prevent a single Eurasian economic area, and isolate and destabilize Russia. The Transatlantic Trade and Investment Partnership has the same goal. Weakening Russia and China (and the BRICS in general) on a military, economic and political level, with a regime change in mind, is a fundamental part of the US strategy for maintaining dollar hegemony. The US therefore has surrounded them with bases and continues to try to destabilize them. The US presence in the Middle East serves not primarily to gain access to its oil and gas (the US has its own, especially since the fracking boom) or even to control access to them (the Chinese are already there), but first and foremost to protect the petrodollar, to ensure that the global fossil fuel markets continue to be denominated in dollars. Iran has been talking about wanting to de-dollarize its oil and gas trade for years – thus, it and the Shia crescent are in the US line of fire.

So beyond this proposal, the BRICS have been stepping up their efforts toward de-dollarization. The BRICS New Development Bank, formally created in July 2014, is intended as an alternative to the IMF and World Bank. Theoretically it could issue a currency at some point in the future, a rival to the dollar which could have disastrous effects on the US economy. The Asian Infrastructure Investment Bank was established in Beijing in October 2014 with 21 members, in order to invest in infrastructure in Asia without recourse to the World Bank or the Asian Development Bank which is controlled by US and Japanese interests. The BRICS have been increasing their trade with each other in their own currencies, rather than dollars. The yuan is being promoted as a regional currency for reserves and trade in Asia, and the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia and soon Kyrgyzstan) has plans for the creation of a common currency within 3-5 years, the altyn. Russia and China have signed massive energy deals and are cooperating militarily. They are also dumping US treasury bonds from their reserves, and buying massive amounts of gold. In November 2014, China announced a financial reform plan, including redeployment of its currency reserves: instead of recycling them into US Treasuries, they should go "to support the domestic economy and the development of an overseas market for Chinese high-end equipment and goods." In February 2015, Russia announced the creation of its alternative to the SWIFT system, in response to Western threats to disconnect it from SWIFT and to revelations that the NSA monitors SWIFT transactions. All these steps are being taken for the countries of the global South and East to be able say definitively to the US: "the dollar is your currency, and it's your problem."

But for the moment, the dollar is still their problem too. The Fed's policies are again creating a nasty mess for the developing world. For six years the Fed has flooded the world with dollars, giving $4.5 trillion of free money to banks and investors via QE, and promising to keep interest rates low. Dollars have been flowing into emerging markets: corporations and governments in these countries have borrowed dollars at a low rate, and global speculators

borrowing cheap dollars have staked them in developing countries where they return a much higher yield (for example in dollar carry trades). Incidentally, it's astounding that so few of these new dollars have actually reached the US real economy, which is anemic, though they have certainly blown the US stock market into the stratosphere.

According to the Bank of International Settlements in early December, at mid-2014 non-bank borrowers outside the US owed $9 trillion of dollar denominated debt, a 50% increase since 2008. Of this $9 trillion, $5.7 trillion is in emerging markets, mainly in the form of corporate bonds and international bank loans to companies. This includes $1.1 trillion of dollar debt in China, more than double its amount at the end of 2012. Most of emerging market dollar debt is corporate and not sovereign, but states' reserves could be tapped if major bailouts are needed.

Investors and borrowers assumed that the Fed would maintain its easy money policy for a long time, allowing borrowers to roll over their bonds easily because borrowing in dollars has cost almost nothing. But the Fed started tapering out QE in early 2014, and ended it at the end of last October. Also last fall, it began talking seriously about raising rates sometime in 2015, after several years of heated discussions about whether to continue the zero interest rate policy. The end of easy money (and a perceived US recovery) means a rise in the dollar and a corresponding drop in many world currencies, which means higher debt service payments and probably fewer dollars available for the borrowers in emerging markets as they try to roll over their debts. As this instability sets in, increasingly risk-averse international investors and speculators are seeking dollars in order to cover their dollar bets in emerging markets (as they hedge, the dollar is seeing a short-covering rally), thus increasing dollar demand and sending it higher. On top of this, new euro and yen QE are further fuelling the strong dollar. A stronger dollar means that it's becoming suddenly much more expensive for companies and governments in the global South to service their dollar debts. If international speculators start dumping emerging market corporate bonds, these companies would be forced to acquire dollars to pay off their debts, thus accelerating the dollar's rise. If there is a wave of defaults, contagion could set in (since speculators are herd animals) and capital flight could take off. There is the risk for a sell-off in emerging market bonds, leading to conditions like in 1997. The multitrillion dollar carry trade may be on the verge of unwinding, meaning capital fleeing the periphery and rushing back to the US. Vast amounts of capital are already leaving some of these countries, and the secondary market for emerging bonds is beginning to dry up. A rise in US interest rates would only put oil on the fire.

The World Bank warned in January against a "disorderly unwinding of financial vulnerabilities." According to the *Financial Times* on February 6, there is a "swelling torrent of 'hot money' cascad[ing] out of China." Guan Tao, a senior Chinese official, said that $20 billion left China in December alone and that China's financial condition "looks more and more like the Asian financial crisis" of the 1990s, and that we can "sense the atmosphere of the Asian financial crisis is getting closer and closer to us." The anticipated rise of US

interest rates this year, even by a quarter point as the Fed is hinting at, would exacerbate this trend and hit the BRICS and other developing countries with an even more violent blow, making their debt servicing even more expensive.

The dollar is rallying less because of any supposed US recovery than because of higher global demand for dollars due to investors' risk aversion, in the wake of the Fed pulling the plug on QE. Parenthetically, the US economy is definitely not recovering. According to Jim Clifton, chairman of Gallup, for the first time in 35 years, more businesses are closing than starting up. He also reports that the official unemployment rate of 5.6% is "misleading," and that only 44% of working-age Americans have a job at least 30 hours per week for an organization that provides a steady paycheck. Shadowstats puts real US unemployment at 23.2%. A survey done for the Fed says that 48% of Americans don't have savings enough to cover an emergency $400 expense. The Pew Research Center reports that Americans are 40% poorer than in 2007. And, completely unrelated, the dollar is indeed rallying: talk among US conservatives about a dollar crash and hyperinflation because of QE, and their comparisons with Weimar Germany, are entirely off: they haven't understood that Weimar Germany was not the hegemonic power controlling world monetary policy. It's not the quantity of dollars in circulation but its demand that establishes its "value." This demand is still extremely strong, related to the fact that the dollar's status as international currency is based on the only remaining way in which the US is superior to other countries, that is, its military hegemony – despite the weakness of its economy and monetary policy.

While a stronger dollar will not hurt the consumption-based US economy, the rising dollar and US monetary tightening are about to give the developing world a severe blow. Ambrose Evans Pritchard of the *Telegraph* wrote on December 17:

> "The stronger the US boom, the worse it will be for those countries on the wrong side of the dollar. […] The US Federal Reserve has pulled the trigger. Emerging markets must now brace for their ordeal by fire. They have collectively borrowed $5.7 trillion, a currency they cannot print and do not control. This hard-currency debt has tripled in a decade, split between $3.1 trillion in bank loans and $2.6 trillion in bonds. It is comparable in scale and ratio-terms to any of the biggest cross-border lending sprees of the past two centuries. Much of the debt was taken out at real interest rates of 1pc on the implicit assumption that the Fed would continue to flood the world with liquidity for years to come. The borrowers are 'short dollars', in trading parlance. They now face the margin call from Hell…. Stephen Jen, from SLJ Macro Partners said that 'Emerging market currencies could melt down. There have been way too many cumulative capital flows into these markets in the past decade. Nothing they can do will stop potential outflows, as long as the US economy recovers. Will this trend lead to a 1997-1998-like crisis? I am starting to think that this is extremely probable for 2015.'"

This is exactly in the interests of US financial imperialism: to economically undermine any rivals that question dollar hegemony. It is absolutely unacceptable that one country should arrogate to itself the right to set a wildly loose money policy for years and then tighten it at whim, giving the rest of the world a violent thrashing. It is unacceptable that any one country

control the world's reserve currency. As the above quote says, because of the circumstances created by QE and the zero interest rate policy, today if the US economy does well, the global South suffers. It's a zero-sum equation. This is throwing burning obstacles in front of their process of de-dollarization, and making them suffer. On purpose? Again, it would be difficult to impute too much individual agency behind these effects, but they are predictable, necessary and not unprecedented consequences of the imperial monetary policy waged by the US for years. The question of agency in this case is moot: these policies serve the empire. They go along with and have similar effects to the more obvious forms of financial imperialism such as sanctions. The US should be held accountable for the disasters it sows, and the world should remove its imperial privileges, through the creation of a neutral world reserve currency.

The dollar index has gained around 18% since last July, when it started taking off and emerging currencies began to tumble. The Russian ruble, despite the sanctions enacted in the spring last year, didn't start plunging until July. The other BRICS currencies (apart from the floating-pegged yuan) as well as developing countries' currencies from Indonesia to Mexico to Algeria, also started dropping last summer, and began their freefall in November, just after the end of QE at the end of October. After years of US pressure to revalue the yuan higher, China may be forced to devalue it, which would spur further capital flight. The IMF and BIS have warned about the risk of massive defaults in emerging markets. This currency instability and capital flight comes on top of falling commodity prices and the threat of a US rate hike. Investors may be hoping to transfer the carry trade to euros, given the new euro QE, but the ECB can't supply dollars, which are what's in demand – in fact, euro QE will only strengthen the dollar more.

The *Financial Times* wrote on February 22:

> "History suggests that severe accidents are more likely when the Fed is tightening, and the dollar is rising. […] Whether it likes it or not, the Fed is the world's central banker, more than ever before. The dollar has become the unit of account in a foreign credit market that is half as large as US GDP. All of the major emerging markets are deeply embroiled, including China, Brazil and India. The market is plenty big enough to cause trouble in the US economy itself, should an accident occur. An accident certainly cannot be ruled out. […] Even in retrospect, it is not easy to identify viable policy options for the emerging markets (EM), other than extremely cumbersome capital controls, that could have insulated the emerging economies from the Fed's unconventional easing. […] Portfolio managers in the global bond market may dump EM debt very quickly as interest rates begin to rise, forcing some EM corporates to buy dollars to redeem maturing debt. This could push the dollar higher, tightening monetary conditions even more. And this would reduce capital investment in the EMs, raising the risk of recession and inducing bond managers to dump more EM credit into the market. The BIS is worried that the results could resemble the collapse of a traditional leverage bubble in the banking sector, even though the institutional components would be very different."

This situation creates obvious risks even for the core economies, which are not exactly stable. A strong dollar will hit US multinationals hard, which do much of their business abroad, and they may not tolerate it for long. Although all the US needs to do to make its BRICS rivals go into convulsions is to turn off the QE spigots (after flooding the world with dollars) and raise interest rates, a seemingly cheap solution, it may not end up being free of cost to the US in the end. According to Bloomberg on February 13, "the Fed's Open Market Committee in January added 'international developments' to a list of issues it takes into account to set policy, alongside domestic concerns such as inflation and the labor market. While the global environment is unlikely to stop the Fed from raising rates initially, the level of market turmoil may influence the pace and magnitude of subsequent moves, said Edwin Truman, a former head of the Fed's international-finance division." This sudden attention to the "rest of the world" should not be misinterpreted as real consideration or sympathy for its plight – as witnessed in the quote that it won't stop the Fed from raising rates. Rather, it probably signals fear of blowback. The predictable crisis sparked by the Fed's moves could have nasty repercussions on the US economy itself, if it precipitates a liquidity shock and global economic crisis. The world is much more interdependent and globalized than in 1979 or 1997, the economies of the "periphery" are now half the world economy, and the US economy is weakened and in uncharted territory, printing trillions of new dollars and still attempting to force the world to continue to submit to its domination. It's possible that we've entered an age when the US simply can't continue to export its crises with impunity.

With $5.7 trillion of dollar denominated debt, the BRICS still have a ways to go before liberating themselves fully from the dollar. If they enter into a full-fledged economic crisis (and Russia is already there), they could be forced to act more quickly toward creating a de-dollarized alternative financial sphere, in order to survive. This bipolar world, which seems likely, could at least offer some respite to those economies; however, if the world split into two rival spheres, it could lead to a new cold war – and possibly the risk of a new world war. A much preferable solution would certainly be the creation of a new global reserve currency – which would not replace national currencies but only take over the dollar's unfair hegemonic role – managed by an international institution, whether a reformed IMF (if that's possible) or another one which would be more "neutral" than such institutions are currently.

Liberating the world from the burden of the dollar, and from the hot and cold wars waged in its interest, will of course not relieve us from the world's true, insidious disease: capitalism. But it would allow some breathing room necessary for alternative experiences working toward the socialization of the economy, toward socialism, to survive and hopefully thrive.

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