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Global currency wars and US imperialism

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*cc J M R*Samir Amin speaks to Pambazuka News on the misleading rhetoric over the so-called currency war. The real problem, he argues, is the disequilibrium in the global integrated monetary and financial system in which the US insists legitimately on the right to control their currency, but denies the same rights to others, such as China, who seek to do the same. The countries of the global South need to leave the US and its allies to sort out their own problems and concentrate on developing regional currencies and exercising strict control over capital flows, Amin argues.

PAMBAZUKA NEWS: There has been much publicity about the so-called 'currency war' arising from the discussions at the recent G20 meeting. Can you explain what is meant by currency war?

SAMIR AMIN: The discourse, the rhetoric, on the currency war is very superficial and even misleading. As everybody knows, what is being said is that the Chinese Yuan is undervalued and that is bad for the global equilibrium. It is as if China is mainly and exclusively responsible for what is bad in the system. Everyone keeps saying that the Yuan is undervalued. Now this is not the real problem. The real problem is the imbalance between the power of the US - that is of the US dollar - and the non-power of the other so-called partners (and therefore are really non-partners) in the integrated global monetary and financial system and market as it presently exists.

The real question is that imbalance. That is obvious when you hear the US establishment speaking. They say, and they repeat it with arrogance: the dollar is our money and your problem. That is, the US keeps in its own hands the tools for managing its own currency according to its own needs and targets, good or bad. That is indeed what the US Federal Reserve does, which is its central bank - state - ruled by the treasury. The US Federal Reserve has the tools in hand for running its monetary policy as it considers it should be, with no regard to anyone else.

So, the Federal Reserve fixes the rate of interest; it is not the banking system that does that. Whether they fix it high or low in order to serve their targets, whether this is effective or not, they have this right, and they keep hold of that right. And they keep also the right of the Federal Reserve to buy treasury bonds that is to cover, eventually, a budget deficit of the US by inflation, by printing money.

These are the normal rights of a sovereign state, and they keep those rights. Whatever they decide freely and independently has of course effects upon the other partners. It can be damaging, in many cases, on the others. But they don't care. They say, well this is our money. If you have difficulties with it, this is your problem and you should deal with your own problems.

If this principle is acceptable for the US, then it has to be acceptable for all other countries. There is a basic and fundamental principle of international law which is equal sovereignty of states. That is, if the US keeps for itself those rights, then the same holds for other countries. And that is exactly what China is doing. China behaves exactly like the US, it has kept hold of the tools to manage its monetary policy according to its own targets and needs. It is the central bank of China, which is state controlled, which decides the rate of interest in China and which decides also - which it is allowed by law to do - to buy Chinese treasury bonds that is to cover by inflation an eventual deficit of the Chinese state budget.

There is no deficit at the moment, but the point is that they keep that right. China is not doing anything different from the US. It is doing exactly the same. It has kept all its sovereign rights, just as the US has also kept its sovereign rights.

So the Chinese would be absolutely right to say to the Americans: if the dollar is your currency and our problem, so equally the Yuan is our currency and your problem! So, you (the US) have to solve your problem, and not to put the blame on us.

Additionally the problems of the US are not the result of China's doing, they are the result of the failures of the US in many areas related to the governance of corporations, education and R and D, financial management etc. And therefore there is no reason why China should accept the dictates of Washington, and frankly it is not accepting them. But the propaganda continues incessantly - it is China, it is China, it is China.

What is very curious in the present state of affairs is that, unfortunately, no other country other than China retains those rights. No other major partner (of the G20) has fully retained those rights, although some of the emerging countries such as India and Brazil have done something to that effect. Instead, they have generally accepted the dictates of the US.

Indeed, ‘Euroland’ has castrated itself by the Maestricht and Lisbon agreements. It has adopted for itself curious rules for the running of its so-called European Central Bank - which in effect is not a Central Bank (since there is no European state which has the responsibility to run it). It is not allowed to lend to the state, whereas the US Federal Reserve and Treasury is indeed allowed to lend to the state, just as the Chinese central bank is allowed to lend to the state.

The reason for that unbelievable attitude, again, is that there is no European State and that the Union does not trust the National European States. The decision not to lend to the States therefore proceeds from the curious belief that the exclusive role of the Central Bank is to prevent at any cost any dose of inflation! The rule of ‘no inflation’ has been made an absolute principle - which is absolutely silly.

Prodi, the former chair of the European Union, said this was idiotic. And indeed it is. Similarly, the European Central Bank does not decide on the interest rate. It leaves it to the so-called ‘market’. Effectively this means leaving it to the major banks, which are the European as well as American, and even Japanese banks operating in Europe. Thus the European Central Bank has in effect castrated itself. So, the Europeans are not in a position to tell the Chinese that it is their fault. It was not the Chinese who set the rules of the European Central Bank! If the rules are silly, idiotic, that is the fault of the Europeans.

As for the other partners, that is Great Britain and Japan, they have accepted, and continue to accept, to align themselves behind the US, and to leave to the US the management of the global integrated monetary and financial system. In other words, they have accepted the fundamental imbalance in favour of the US. This is also their problem: if they have decided to follow the dictates of the US, why should they complain that China does not! The Europeans and Japanese have the right to manage their own currency just as the US and China do. But they have made a political decision to align themselves with the US. Therefore any consequences of this choice of theirs is not the responsibility of China.

It is important to understand that this is the central problem. The problem is the global integrated monetary and financial system, ruled as it is by the dollar, that is ruled by the exclusive prerogative of the US Treasury and Federal Reserve, of the US state. This is not acceptable. That is the problem. The problem is not the exchange rate of the Yuan or that of the Rupee or any other currency. Absolutely not.

PAMBAZUKA NEWS: So what are the solutions possible?

SAMIR AMIN: There are three sets of possible answers to the real problem - not the false problem of the exchange rates of currencies - but the real problem of the global integrated monetary and financial system.

First, for those who assume that the system is not so bad, and who accept that the US dollar should continue to be effectively the major, if not absolutely the exclusive international currency, the idea would be to restore the system as it was before the 2008 financial breakdown along with, perhaps, some minor regulatory reforms (most of which are essentially more cosmetic and rhetorical than real).

This is exactly what the Stieglitz Commission and the Stieglitz report aim at. It accepts that the US dollar should remain the almost exclusive international currency (with some minor concessions). But it also accepts the right of the US government to manage the currency exclusively and on its own. As for everyone else, they have to adjust to the US dictates. This is, of course, not acceptable, especially for the South.

If the Europeans, the British, the Japanese accept it that is their business. But I don't see why the Asians, the Latin Americans, the Africans should accept it. And it is not accepted, certainly not by China and some of the emerging states - India and Brazil in particular. Although it is not accepted morally by African states, in practice they have completely accepted to submit to its consequences - they have done nothing to respond to the challenge.

So, that is the Stieglitz style solution. And it has completely failed. Nobody pays attention to the Stieglitz report, which has been dropped in the waste-basket, and nobody really cares about it. It has not convinced the partners, especially from the South. Even the North does not give any consideration to the recommendations of Stieglitz.

The second set of solutions is theoretically ideal. This would involve establishing a new, integrated global monetary and financial system not ruled - as it is at the moment - by the US dollar and under the control of Washington. A different system should be imagined instead. That would mean inventing or creating a new international currency unit which would, of course, be clearly defined by a basket of major currencies - the dollar, the Euro, the Sterling, the Yen, the Yuan, and possibly some other currencies.

The proportions for each component would be that which corresponds to the contribution of each State or group of States to the global trade. That is, close to the SDR (Special Drawing Rights) and even closer to the 'bancor' that Keynes imagined in 1945. That would be a realistic international currency, that of course would need to be properly managed. New rules would have to be invented to that effect.

Among those rules needed, a relation to gold cannot be avoided. That is to say, the system cannot be stabilised if there is not a fixed stabiliser. The new international currency unit has to be defined as equivalent to a precise quantity of gold. The gold exchange standard is needed, but not the gold standard as it has been in the Bretton Woods period, that is from 1945 until 1971, when the convertibility of the dollar into gold was suppressed by unilateral decision of the US. During these 30 or so years, in effect it was correct to say that the dollar was as good as gold. But since the 1970s, this is no longer the case.

This of course would be the 'ideal'. But this ideal is impossible. It is impossible because it is rejected by the US and by its subordinate allies - Europe and Japan. In other words, it is rejected by the Triad. They don't want it. And if they don't want it, there is no global consensus possible. And if there is no global consensus, there can be no ideal solution. So running after an ideal solution would mean writing endless papers with almost no effect. It is politically rejected from the very start by the US, Europe and Japan.

Thus, there is only the third alternative. We - that is, the countries of the South, emerging as well as the others - should seek to establish arrangements between ourselves. It would be nice if we can achieve an arrangement across the global South, but this is difficult for the time being. But we could construct regional arrangements independently from the rules governing the global system. We leave the global system as it is, we leave it to the Americans to complain with the Europeans - we don't care about their problems. The idea of such a regional arrangement has already been initiated but actual achievements in keeping with that idea are still extremely limited.

This is what the Chinese had in mind when they established the Organisation of Cooperation known as the Shanghai group, as well as the initiatives that China took in the area of financial and monetary arrangements with some of the countries of the ASEAN region in South-East Asia. This is also what some of the Latin American countries have imagined when they established the ALBA project and the 'Sucre' currency unit.

Much more needs to be done and must be done. This is the solution and the only viable solution. These various arrangements in different parts of the South could eventually be inter-related at the level of a global South. We have to move independently.

We have to accept that since no global consensus is possible, we in the South have to act independently and as far as possible together. The last meeting of the G20 has proved once more that there is no possible global consensus. The attempt of the G7 to co-opt first the

Russians into the G8, and then some of the emerging countries -China, Brazil, India and some others - into the G20 has essentially failed. We are polite. Our governments go to these G20 meetings, but there is no consensus produced out of its meetings. So, we have to take independent initiatives.

PAMBAZUKA NEWS: What are the dangers for Africa of the current influx of capital?

SAMIR AMIN: The dangers are enormous. What we see is the plunder of our resources, just as we saw with the financial crisis of Asia in 1997/8 and as we now see it in the current financial crisis.

Our response to this challenge should be effective, and to that effect we have to re-establish national control of the financial flows, just as the Chinese are doing - they are controlling the flows of finance to China. So, depending on what we think is important in order to meet our needs, we may accept foreign direct investment (perhaps with reservations and conditions for which it is up to each country to decide) - but we must reject speculative financial flows. There is no reason why we should accept in Senegal, in Indonesia, in Kenya that foreign banks are allowed to throw in money, finance a financial bubble, plunder our resources and then run away. We should reestablish exchange control of capital flows. That is the only answer to the challenge.

PAMBAZUKA NEWS: So what is the possibility of an African currency being developed?

SAMIR AMIN: We are in a miserable position. No country in Africa seems to have the means to act. We have accepted the full range of structural adjustment programmes. We have completely opened our economies. We are the weakest economies, yet we are the most open. We are open to any plunder, not only of our natural resources, but also the plunder of our savings by foreign banks. There is only one solution, and that is to establish national control over transfers. They say that if we do so, foreign capital will not come. But the reality is that it is not coming. It is coming only to plunder natural resources. If we had control over foreign flows, we would be in a position to negotiate the conditions for the access to our resources, which they need.

PAMBAZUKA NEWS: Many people say that Chavez in Venezuela has been able to negotiate and drive certain reforms because he has a strategic natural resource - namely oil. But in Africa, we too have huge natural resources. So why is it that we have not been able to do what Venezuela has?

SAMIR AMIN: The difference is essentially political. The progressive social forces in Latin America have been able to grow and they have grown large. They have developed programmes which are essentially nationalist - and I consider that as positive - along with progressive social content. This has led to political changes of a variety of types. That political change has created favourable conditions for another pattern of management of their natural resources such as oil.

The problem in Africa is that the struggle of the peoples for social progress associated with the reinforcement of national independence, which was the programme of the movements for national liberation, has been discontinued, and that consequently our ruling classes have turned comprador. These ruling classes are benefiting from the system as it is, while social movements remain fragmented and exclusively on defensive positions. They have democratic and socially legitimate demands, but they have to integrate in their programmes national policies, political alternatives which take care of the need to control capital flows.

At the forthcoming World Social Forum in Dakar in February 2011, the World Forum for Alternatives will be actively engaged to connect with the social movements with a view to have them including into their programmes political targets. In that frame the issues related to the management of macro policies, the issue of management of the national and regional financial systems will be raised. We will also be raising the issue of the military as well as other international issues which are obviously related.

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