GlobalResearch
Center for Research on Globalization

Dollar Dominance and the Third World

By Enzo Calandra
Global Research, February 21, 2019

Theme: Global Economy, History

The history of international political economy has consisted of several monetary regimes, each corresponding to a particular stage of capitalist development and possessing traits which reflect said stage.

In order to illuminate the dynamics of the dollar regime, I will compare its unipolar nature to that of the Gold Standard (1870-1914). I will analyze the key political/historical events which led to the establishment of dollar dominance, such as the Second World War and the 1973 Oil Crisis. Finally, in this paper I argue that the tendency to de-dollarize is inevitable due to internal contradictions within the neoliberal political economy, and that Third World nations under the leadership of China are laying the foundations for a multipolar monetary regime at last free from Western colonial domination.

The brutal and crusading barbarism of the US has claimed the lives of millions in the interest of maintaining dollar dominance. In terms of power polarity, the dollar "non-system" of today differs little from the Gold Standard of the late 19th and early 20th centuries, in which Britain, as the leading imperialist country, imposed upon the world a favorable economic regime controlled by its Central Bank:

> "Britain's singular position in the world economy protected her balance of payments from shocks and allowed sterling to anchor the international system" (Eichengreen 41).

Similarly, the US position as global hegemon anchors the dollar as fiat currency and prevents it from feeling negative fluctuations of the world market. An important distinction can be drawn here, however, in that US power actually extends further than Britain's ever did as Britain could not (despite the best efforts of centuries of alchemical experiments) produce gold, or create value *out of thin air,* where the US, due to the nature of the dollar regime, can.

The Gold Standard was established and maintained through violent conquest over smaller nations. Similarly, the US regularly conducts imperialist wars to maintain dollar dominance.

Iraq and Libya stand as the most quintessential example of countries brutally destroyed on the altar of the dollar.

These wars, disguised as attempts to “spread democracy,” are rather directly related to questions of international political economy. In the lead up to the invasion of Iraq, Saddam Hussein declared his intention to trade his oil using Euros instead of dollars. Later on, when discussing the petrodollar, I will show why the idea of oil being traded in anything but dollars was considered such a huge threat to US hegemony. Suffice to say, the “Iraq war is mostly about… the unspoken but overarching macroeconomic threats to the U.S. dollar from the euro” (Clark 3).

The US-French war on Libya was provoked after Gaddafi announced his intention to trade Libya’s oil using a Gold-based African currency. Hillary Clinton’s own emails show grave concern at “the huge threat that Gaddafi’s gold and silver reserves, estimated at ‘143 tons of gold, and a similar amount in silver,’ posed to the French franc (CFA) circulating as a prime African currency” (Hoff).

These examples serve to show the deeply unequal distribution of power under the current international system, in which peripheral countries are brutally exploited and destroyed if they refuse to conform. All capitalist world market systems have been predicated upon the ruthless exploitation of the Third World, and the realities of capitalist exploitation have remained fundamentally unchanged throughout the centuries, from the discovery of silver in South America, to the Gold Standard, through Neoliberalism. De-dollarization efforts led by China represent a possibility of breaking this oppressive historical pattern of monetary policy as a tool of colonialism and imperialism.

Now that we have situated the dollar regime alongside past monetary systems, let us take a deeper look into its origins and functions. The US was the only Western country who did not have fighting on its homeland during WWII. As a result it was in the unique position to aid the recovery in Europe, and was the key founder of the IMF and World Bank which provided liquidity to reawakened international markets.

During the Bretton Woods conference, John Maynard Keynes advocated for the creation of an international bank with its own currency called a “Bancor” to serve this aim. “But there was one country – at the time the world’s biggest creditor – in which his proposal was less welcome. The head of the American delegation at Bretton Woods, Harry Dexter White, responded to Keynes’s idea thus: ‘We have been perfectly adamant on that point. We have taken the position of absolutely no’” (Monbiot).

This intransigence on the part of the US led the dollar to be pegged to gold at $35 an ounce and serve along with gold as the world’s reserve currency. While Third World nations were allowed to participate in Bretton Woods, they were still relegated to a second class status:

> “Not unlike their experience under the gold standard, (developing countries) were subject to exceptionally severe balance-of payments shocks, which they met by devaluing more frequently than was the practice in the industrial world” (Eichengreen 48).

Robert Triffin predicted the demise of the Bretton Woods system. The Triffin Dilemma asserts a contradiction between confidence and liquidity inherent to a world reserve currency. This dilemma contributed to the “Nixon shock”of 1971. Underlying this move by

Nixon were both geopolitical and economic pressures. In the realm of foreign policy, the US had just conducted the brutal destruction of Vietnam which cost $141 billion USD[1]. European countries began to resent a “monetary system that… facilitated US adventures abroad, particularly, of course, in Vietnam” (Gowa 28).

All this military spending began to exceed the gold reserves held by the Fed, prompting European countries (most notably France under De Gaulle) to try to get their gold back. This confluence of factors led Nixon to float the US dollar and end convertibility, destroying the Bretton Woods system. Being that the dollar was still the reserve currency, the US gained the “exorbitant privilege” of being able to print dollars without having to back them up with gold. The suspension of convertibility caused a crisis of confidence in the dollar. In order to reinvigorate use of the USD it was pegged (in a loose sense) to barrels of oil provided by Saudi Arabia in a secret agreement that would shape American foreign policy for the next 40-50 years.

The petrodollar system is the means by which the US is able to control the world oil market. Oil is to the globalized neoliberal market what stone was to the Stone Age. By controlling oil trade through the petrodollar the US is able to further dominate the world market and weaponize it to its aims. In 1973, several OPEC countries declared an embargo on trading oil with the US due to its support of Israel. As a response to this crisis, “the (Nixon) administration hatched an unprecedented do-or-die plan that would come to influence just about every aspect of U.S.-Saudi relations over the next four decades. The basic framework was strikingly simple. The U.S. would buy oil from Saudi Arabia and provide the kingdom military aid and equipment. In return, the Saudis would plow billions of their petrodollar revenue back into Treasuries and finance America’s spending” (Wong). This agreement for the Saudis to price their oil exclusively in USD led to the creation of the petrodollar. All nations need oil for the functioning of their economies, so by tying the USD to Middle East oil, the US has effectively guaranteed a high demand for USD after the loss in confidence provoked by the Nixon shock.

Another crucial part of this arrangement is that the surpluses of oil producing countries be reinvested in western banks. This is a peculiar characteristic of the petrodollar regime in which capital flowed fully back into US treasury securities, then to developing nations in the form of loans. “Commercial banks were eager to make profitable loans to governments and state-owned entities (as well as private companies) in developing countries, using the dollars flowing from the Middle Eastern countries. Developing countries, particularly in Latin America, were also eager to borrow relatively cheap money from the banks” (Carrasco). This process led to the debt enslavement of much of the Third World as these loans became increasingly too large to pay off. In response, the IMF stepped in and restructured the debt while introducing structural adjustment policies. As I mentioned earlier, this process of "petrodollar recycling" bears the fundamental characteristics of traditional colonialism, with power centers in the West creating unequal and oppressive conditions in Third World nations in order to extract wealth. "IMF stabilization programs typically included drastic reductions in government spending in order to reduce fiscal deficits, a tight monetary policy to curb inflation, and steep currency devaluations in order to increase exports" (Carrasco). While it sounds benign in the quote above, "drastic reductions in government spending" during this period undoubtedly led to great human suffering. Contrast the position of Third World debt peonage and immiseration to that of the US, *who merely has to print dollars* (worth pennies) to pay for its oil and to manage itsbalance of payments.

In 1917, Lenin declared the development of monopoly capitalism to be a new stage of capitalist development which he called *"Imperialism*." In contrast to traditional colonialism, in which raw materials flowed from periphery countries to the core for manufacturing, imperialism functioned by core countries exporting *finance capital* and not commodities. Lenin spoke of monopoly capitalism as whole of a nation's capitalist system of production being harnessed by the will of one or several capitalists:

> "Scattered capitalists are transformed into a single collective capitalist… When these operations grow to enormous dimensions we find that a handful of monopolists control all the operations, both commercial and industrial, of the whole of capitalist society" (Lenin 35).

Despite the optimism of Lenin that imperialism is the highest stage of capitalism, it would seem that an even higher stage has been reached, that of Late stage capitalism (Neoliberalism), centered in the US around the US-Saudi petrodollar and enforced by the US military, and that *this* is the final expression of capitalism's abstracting, centralizing tendencies.

The condition of imperialism contained 3 major contradictions. I will first outline these contradictions, and afterward attempt an analysis of the contradictions of the neoliberal political economy rooted in Lenin's analysis of imperialism. This list of contradictions comes from the CPGB website.[2] The explanations are my own.

1. *The contradiction between labor and capital*

This is a fundamental contradiction in the capitalist mode of production. In the age of imperialism, "the concentration of production and capital developed to such a high stage that it created monopolies which play a decisive role in economic life" (Lenin 89). In other words, financial and banking oligarchies have come to dominate every facet of domestic society within the imperialist nation.

2. *The contradictions within imperialist factions*

We can see this in the Scramble for Africa, in which the "territorial division of the whole world among the great capitalist powers is completed" (Lenin 89). This concept explains the origins of the First World War.

3. *The contradiction between the imperialist core and the exploited masses Funneling finance capital into the Third World has created a proletariat where there wasn't one before. This contradiction was negated by the heroic national liberation movements of the 20th century.*

Since 1917, however, we have seen several developments in the relations of production within the international political economy. The centralization of the national bourgeoisie observed by Lenin has began to take place transnationally, coinciding with the rise of the USD as a transnational currency. National capital, around which Lenin centers his analysis, has largely been supplanted by a new form of transnational capital and a transnational capitalist class which rose in tandem with the weakening of the nation state's economic influence. This denationalization of financial capital is one of the most salient aspects of our new neoliberal stage, with transnational institutions such as the IMF and World Bank serving as economic imperialists in the form of structural adjustment policies on the behalf of the transnational bourgeoisie.

Exploitative finance capital no longer comes from national monopolies but supranational organizations. The US military, as demonstrated in the first part of this paper, serves as the armed wing of the transnational bourgeoisie. The dollar is its means of financial control, particularly over oil, which is the basis of the global economy. The monopolization and financialization which took place in the era of imperialism laid the foundation for the totally abstract neoliberal market we see today in which the dollar can be printed ad infinitum by the US for its balance of payments deficits while Third World nations toil in cyclical debt, superexploitation, and Lumpen proletarianization. Following Lenin, we can see the internal contradictions of imperialism as having evolved in the following ways:

1. *The contradiction of labor and capital on a transnational scale*

> "In the United States, the size of the financial sector as a percentage of gross domestic product has grown from 2.8 percent in 1950 to 7.9 percent in 2012… Individuals working in the U.S. finance sector have experienced a 70 percent increase in their incomes relative to workers in other sector since 1980."3

The financial crisis of 2008 nearly wiped out the world economy, and a similar crisis now would likely do just that. In contrast to the total subjugation of the proletariat described by Lenin under monopoly capitalism, Western countries have entered a stage of Post-Fordism, in which authority has largely become diffused, and service, administrative, and part time labor have come to prominence. Horizontalization (visible in say, the "sharing economy") has provided unique opportunities to socialize these new means of production. It is clear that since Lenin's Imperialism this 1st contradiction has only deepened and evolved, from the creation of a monopoly in one nation, to monopolies in the form of supranational institutions such as the IMF which provide finance capital and commit economic violence on Third World nations through the gutting of their social services. The IMF provides the structural policies which lead to mass capital flows from the "Third World" or "Global South" to the West.

2. *The contradiction between a decaying West and a rising multipolar bloc Colonialism, imperialism, neoliberalism…These oppressive world systems, each rooted in the last, seem to have reached their final form, as the debt-ridden West appears to be on its last legs. Inter-imperialist conflict has largely been*

subsumed under the US hegemony. The US flag provides acommon enemy for oppressed people across the world. Acting on behalf of the transnational capitalist class they have given this apparitional figure a face, and placed a target firmly on its back. Therise of China and Russia point to the unseating of the West as world hegemon. Syria will be seen as a critical turning point in International Relations, as Russia, China, Hezbollah and the Syrian Arab Republic were able to check US power, multipolarity succeeding over unipolarity.

3. *The contradiction between supranational institutions and transnational proletariat*

Financial capital has expanded its influence, and the increase in global interconnectivity has permitted unprecedentedly large capital flows which have had a devastating impact on Third World workers. Now a capitalist can set up a factory, exploit a population, and abandon production when it becomes more profitable elsewhere. Capital is allowed to flow freely while labor migration is restricted by increasingly militarized national borders. This has led to an explosion in lumpen proletarianization, with much of the world living in slums and unemployed. The international division of labor has also become more pronounced, as a strike in a Amazon factory in Brazil would effect one in the US and vice versa. This new mode of production encourages transitional cooperation of the proletariat. Just as the export of financial capital to the Third World under imperialism created a proletarianized Third World capable of achieving national liberation, transnational finance capital has birthed for the first time a transnational proletariat capable of conducting intercommunal revolution. The neoliberal world order hasdeepened global inequalities to unprecedented levels and created a mass of lumpen proletariat will nothing to lose and everything to gain.

Related to contradiction #3, there seems to be a new contradiction at the heart of the international political economy, namely

4. *The contradiction of the USD as a national and international currency*

The US is able to create value out of thin air by printing dollars. This has been called the "exorbitant privilege" of the US. On a surface level this is clearly untenable, as value is created by labor, and the value of USD exists only at the level of abstraction. In terms of international political economy, the situation becomes even more precarious. Why would nations such as Russia and China, whom the US considers enemies, continue to accept and prop up the USD, especially when the use of the USD as reserve currency allows for military intervention in, say, Syria, where Russia and China are fighting opposite the US? How long will the world pay for US imperialism? To further complicate the picture, the West is in huge amounts of debt, and is only able to continue its balance of payments by sliding further and further into it. This system cannot persist forever and will collapse under the weight of its own contradictions. De-dollarization has become imperative for Third World nations.

The dollar is essential to the neoliberal world market.

> "Today the US dollar is undoubtedly the top international currency. This is true for its public and private international roles… at least 37 of the 1461 currencies of IMF members are pegged to the dollar" (Williamson 75).

Therefore, for countries attempting to escape the cyclical crises and contradictions of the neoliberal world market, de-dollarization becomes a top priority. China is providing an example for other formally colonized nations to develop their productive forces and compete on the same level as the West, de-dollarization being an important step in this process. To quote Professor Cohen,

> "For many, the arrival of the dollar's new rivals is a welcome development. A broader multi-currency system, it is argued, will widen the range of choice for market actors, thus making it harder for the United States to act in arbitrary, unilateral fashion" (Cohen 44).

I consider myself one of the "many" mentioned by the Professor. I will now asses the petroyuan as a potential rival to dollar dominance.

As mentioned earlier, oil is the fuel of the international economy. For a nation to be able to undermine US domination in the world economy it would have to wrestle control over the trade of oil away from the dollar. We can see China taking steps in this direction by asserting the yuan as a medium of international trade, specifically in oil markets. One important step occurred in March of last year, when China announced the creation of an oil futures market on the Shanghai International Energy Exchange.

> "Since their launch… Shanghai crude futures have stolen market share from the incumbent benchmarks – Europe's Brent and U.S. West Texas Intermediate (WTI) – which trade oil derivatives worth trillions of dollars every year" (Gloystein).

While lagging far behind oil contracts in the US and Europe, in China we see a world historical milestone in which a formally colonized nation has risen to be able to challenge the West on every level— militarily, technologically, and financially. While the yuan remains weak, my hope is that the inevitable process of de-dollarization leads to the creation of a more just and equitable monetary regime, leaving past oppressive systems in the dustbin of history where they belong.

*

Note to readers: please click the share buttons below. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

Enzo Calandra is a student of Political Science at the University of California, Sta. Barbara.

Sources

Carrasco, Enrique R. "The 1980s: The Debt Crisis & The Lost Decade." *The University of Iowa Center for International Finance and Development*, University of Iowa Press, 2011, web.archive.org/web/20110606041529/http://www.uiowa.edu/ifdebook/ebook2/contents/part1-V.shtml.

Clark, William. *The Real Reasons for the Upcoming War With Iraq: A Macroeconomic andGeostrategic Analysis of the Unspoken Truth*. 2003,web.cs.iastate.edu/~prabhu/gmonpolitics/Clark.pdf.

Cohen, Benjamin. “Global Governance at Risk.” *Global Governance at Risk*, by David Held, Polity, 2013, pp. 31–50.

Eichengreen, Barry. *Globalizing Capital: a History on the International Monetary System*. Leuven University Press, 1996.

Gloystein, Henning. “Shanghai Crude Futures Eat into Western Benchmarks as China Pushes…” *Reuters*, Thomson Reuters, 30 Aug. 2018, www.reuters.com/article/us-china-crude-oil-futures-analysis/shanghai-crude-futures-eat-into-western-benchmarks-as-china-pushes-yuan-idUSKCN1LF2RE.

Gowa, Joanne. *Closing the Gold Window: Domestic Politics and the End of Bretton Woods*. 1980.

Hoff, Brad. “Hillary Emails Reveal True Motive for Libya Intervention.” *Foreign PolicyJournal*, Foreign Policy Journal, 28 Feb. 2018,www.foreignpolicyjournal.com/2016/01/06/new-hillary-emails-reveal-true-motive-for-libya-intervention/.

Lenin, Vladimir Ilyich. *Imperialism: The Highest Stage of Capitalism*. International Publishers, 1939.

Monbiot, George. “George Monbiot: Lord Keynes Really Did Propose the International Monetary Fund.” *The Guardian*, Guardian News and Media, 18 Nov. 2008, www.theguardian.com/commentisfree/2008/nov/18/lord-keynes-international-monetary-fund.

Williamson, John. Chapter three: The dollar and US power, Adelphi Papers, (2013)

Wong, Andrea. “The Untold Story Behind Saudi Arabia’s 41-Year U.S. Debt Secret.” *Bloomberg.com*, Bloomberg, 30 May 2016, www.bloomberg.com/news/features/2016-05-30/the-untold-story-behind-saudi-arabia-s-41-year-u-s-debt-secret.

Notes

1. https://www.nytimes.com/1975/05/01/archives/us-spent-141billion-in-vietnam-in-14-years.html

2. https://www.cpgb-ml.org/2004/10/01/news/theory/three-contradictions-of-imperialism-marxism-leninism/

3. https://www.investopedia.com/terms/f/financialization.asp