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Global investors ponder implications of US dollar collapse

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The world bourgeoisie is beginning to consider the consequences of the huge deficit spending and money-printing operations that the Obama administration is using to fund its bailouts of Wall Street and major banks. As these policies increasingly raise questions about the value of the US dollar, commentators are in particular pondering the desirability and implications of a diminished international role for the American currency.

At his March 24 press conference, President Obama made his first public comment on recent Chinese proposals for an international currency overseen by the International Monetary Fund. Obama said: "As far as confidence in the US economy or the dollar, I would just point out that the dollar is extraordinarily strong right now. And the reason the dollar is strong right now is because investors consider the United States the strongest economy in the world, with the most stable political system in the world. So you don't have to take my word for it."

Asked again about a global currency, Obama said only: "I don't believe there's a need for a global currency."

Less than 24 hours later, Obama's comments were disavowed by his own treasury secretary, Timothy Geithner. In a panel yesterday morning at the Council on Foreign Relations (CFR), Geithner praised Chinese central banker Zhou Xiaochuan as "thoughtful" and described Zhou's proposal for an international currency based on the International Monetary Fund's Special Drawing Rights (SDRs) as deserving "some consideration."

A wire service dispatch reported: "[CFR] moderator Roger Altman told Geithner that it would be 'useful' to return to the question, and asked if he foresaw a change in the dollar's centrality. 'I do not,' Geithner said, adding several forceful promises, including, 'We will do what's necessary to say we're sustaining confidence in our financial markets.'"

As the US dollar began to fall on currency markets, Geithner was quickly invited to give a noontime interview to financial news television channel CNBC. Asked about concern that foreign investors might not buy dollars, Geithner affirmed that he supported a "strong-dollar policy" and denied there was any lack of confidence in the US dollar. He announced a strong commitment to a "responsible fiscal policy" that would see the US budget deficit fall rapidly.

In fact, the administration's printing or borrowing of trillions of dollars that it hands out to Wall Street and major US banks has undermined confidence in the dollar, the currency in which most international trade is conducted. Administration claims that the dollar is strong are a glaring falsehood: the US dollar is already below historic benchmarks against other major currencies. At 97.71 Japanese yen, the dollar is well below the ¥100 mark. Six years ago, $1 traded at €0.9386l; today it is worth €0.7387.

Geithner's commitments to a "responsible fiscal policy," under conditions where trillions of dollars are being lavished on the banks, can only mean massive cuts to social programs such as Medicare and Social Security. This is the significance of Obama's repeated reference to cutting health care costs at the March 24 press conference.

Even more startlingly, the Obama administration's statements fail to address or explain the growing calls for new currency systems, and particularly the rapidly escalating tensions between the US and China. China owns currency reserves worth $2 trillion, two thirds of which are held directly in US dollars, making it the largest foreign holder of US currency. These funds are largely invested in US Treasury bonds and government-guaranteed debts of mortgage agencies Fannie Mae and Freddie Mac.

Two weeks ago, Chinese Premier Wen Jiabao warned, "We have lent huge amounts of money to the United States. Of course we are concerned about the safety of our assets." On March 18 the Federal Reserve, the US central bank, announced it would loan the US government $300 billion and mortgage holders $850 billion, effectively printing $1.15 trillion. This is on top of US government borrowing to fund last year's $700 billion bailout of the financial system, and the March 23 announcement of massive government payouts to private investors to encourage them to pay top dollar for $1 trillion in failed mortgage assets.

These moves, by vastly increasing the supply of US dollars on international markets, all tend to push down their value and that of China's dollar holdings. On March 23, Zhou made his proposal to end the US dollar's role as the global reserve currency.

Concern was not limited to China, however. Czech Prime Minister Mirek Topolanek, whose government holds the EU presidency, baldly labeled US policy "a road to hell." Washington is forecasting a $1.75 trillion budget deficit in 2009 and a $1.17 trillion deficit in 2010. Topolanek noted that US government borrowing takes up so much of globally available funds that other borrowers, such as European governments, would not be able to raise funds on global capital markets.

Corporations are also facing a shortage of dollars to pay for international transactions as US dollars are brought back to the US to stem losses arising from the mortgage and economic crisis. In a program announced on March 11, the Chinese central bank has proposed to get around this dollar shortage in Asia by setting up a yuan-denominated system for international trade payments in Hong Kong.

Sections of the global bourgeoisie find themselves openly considering the implications of a collapse in the current, US dollar-dominated system, trying to assess how it could serve their interests.

In its March 24 editorial, "China's plan to end the dollar era," the Financial Times writes that Zhou's plan "would, of course, make it more difficult for the US to finance its deficits. But America should not want the world to be yoked so tightly to its willingness to generate demand."

In other words, continuing the situation where the US prints money to finance spending runs the risk of raising calls for this money to be spent to help working people. Such claims on wealth by the working class would be fundamentally unacceptable to the American and world bourgeoisies.

As US business journal Barron's explains in a recent article, "Is the Floating Dollar Sunk," "We can effectively print dollars and the rest of the world takes them. Imagine what you'd do with a money-printing press in your basement. You'd spend like crazy on stuff…. Extend that notion globally. Since the rest of the world takes our paper money, we get to acquire their products or assets in exchange."

This was how the US financed large trade deficits over the past decade: mountains of cash—generated as the US bourgeoisie laid off workers, cut their wages, and deindustrialized the economy—went abroad. These dollars were loaned back to finance US imports, and exporters of oil or manufactured goods like China, Japan, Venezuela or Russia together accumulated trillions of US dollars in their foreign currency reserves.

Barron's now views this situation as a dangerous threat and looks to impose "discipline" on US spending. It continues: "For the first time since the early 1970s, America runs the risk of being constrained by international considerations. America's main creditors could impose the discipline on the US that [the pre-1971 gold standard] couldn't."

The very fact that Barron's is imagining such a scenario indicates the power of the objective tensions building up inside world capitalism. It is considering a situation in which major US creditors such as China refuse to lend to the US government, forcing Washington to cut spending. The result would be a truly explosive social situation, as the US government told the population it no longer had money to fund social spending, after trillions of dollars had already have been handed out to the banks and the super-rich.