The World Supremacy of the Dollar at the Rendering (1917-2008)

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The “double entry” accounting system by Luca Paciolii, that of the “patrimonial system”, (before the “revenue accounting system” began to give to the most talented accountants, to the most refined mathematicians and to the most clever financiers the possibility to let the destruction of assets pass for creation of profits), has finally rendered its arithmetic verdict on the end of the world supremacy of the dollar, which lasted for ninety years. Committed for trial for fraudulent bankruptcy. Waiting for the markets and the Courts to emit their respective judgements, it can be useful to go back over this currency in its two lives: currency of a creditor powerful country from the Twenties to the Sixties, currency of an “empire of debt” ii from the Seventies up to now.

Three different Keynes allowed us to preview its evolution: the young officer of the English Treasury, who in 1919 resigned from the financial delegation at the peace table in protest against the reparations imposed on Germanyiii; the aged professor who, in 1936, introduced in the economic science expressions as animal spirits, state of expectations, liquidity traps and other strange things corresponding to observable real behaviours and able to give theoretical explanations to the experience of massive and long lasting unemploymentiv; finally, the plenipotentiary who at Bretton Woods in 1944, old and sick, was defeated, together with the British Empire, in his extreme attempt to avoid, with his bancor, the predominance of the dollarv. In the post-war period, the goal indicated by Keynes, namely to create an international monetary base linked to a non-inflationary development of the world more than to the needs of a single powerful country, was pursued by Robert Triffin.

According to the masterly reconstruction made by Hudsonvii, the dollar supremacy began in 1917, when the US Government financed the war efforts of Great Britain, France and Italy against the Central Empires, imposing the intergovernmental financing model instead of the private bank loans and of the friendly aids from allies, until then commonly used to tackle the financial needs of wars. The European States, to combat against each other, bought armaments from their ex-colony, got into debt with the American Government and were not even able to win the conflict by themselves. The final intervention of the US, when the European States were almost at the end of that horrible carnage, made it the real winner of the war.

The problem of the inter-alliance debt got intertwined with that of the German reparations. Germany, argued Keynes at Versailles, could not pay the reparations to Great Britain and to France without selling goods and services to the winners, who, nonetheless, did not mean to make room for that in their markets. At the same time, the “winning” European powers were not able to reimburse the debt contracted with the American Government without collecting the German reparations or getting the means needed through a commercial surplus. The reparations, in short, could and did eventually lead to a second world war. Ignored, Keynes resigned and wrote The Economic Consequences of the Peace. The prophecy was understood only when it came true, but at least it was useful for managing the second post-war period better than the first.

Roosevelt, just in office, was responsible for the failure of the 1933 London Conference, from which Great Britain and France expected, as the Hoover administration had let them hope, the remission of their debt or at least a moratorium, and therefore the possibility to come to a transaction with Germany. The formal explanation offered by the Roosevelt administration was that the US in 1917 was not yet an ally but only an “associate” in the war. The New Deal, which within the US was envisaging policies favourable to debtors, applied towards the European States a most rigorous creditor policy, together with protectionist measures. The debtor Countries, which wanted to honour their commitment towards the US, as the possibility of exports was excluded, asked more pressingly for the payment of the German reparations. This greatly favoured Hitler’s campaign and pushed Europe towards its own destruction.

In 1936 Keynes published his General Theory and sided for the imitation of the New Deal by Great Britain. Undoubtedly, the New Deal, launched already some years before, put into place for the first time policies supporting the monetary demand and direct public interventions in the economy, that Keynes deemed essential to guarantee a stable level of income and an almost full employment in the capitalistic system characterized by complex financial institutions, whose instability was intrinsic in their investment-financing modelsviii. However, the application of policies similar to those of the New Deal, therefore of a "beggar your neighbour" type, by the single national States could lead directly to war. This contradiction could be less visible to Roosevelt and Keynes, thanks to the size and richness of the internal market for the former and to the imperial space for the latter, but for the other European States its undervaluation was the most ruinous mistake of their economic nationalism. English federalists saw the contradiction, denounced it and supported a new international order, but the world had taken another path and Lionel Robbins himself, in the post-war period, regretted that he had opposed the "reflation" suggested by Keynesix.

The financial tools with which the US Government supported the Allies before and during the Second World War (cash and carry and lend-lease) added a new and unsustainable weight to the previous debt, allowed the Americans to impose to Great Britain the renunciation to her imperial status, definitely strengthened the American position in the world and sanctioned the US succession to Great Britain as the hegemonic power. Therefore, the European national States' division handed the entire continent over to the US.

The agreement reached at Bretton Woods with the adoption of the White Plan (a gold exchange standard founded on the convertibility of the dollar in gold at the price of 35 US$ per ounce) and the rejection of the proposal put forward by Keynes (an international currency denominated bancor), sealed the success of the American project of a unilateral dominance on the Western world. The success of the dollar as the international currency, the American power of veto at the International Monetary Fund, the use of the World Bank to support an international division of labour favourable to American exports, the double standard which became the GAAP rule in commercial matters, made up the bone structure of the economic system corresponding to the

American hegemony.

The US obtained Europe's final renunciation to any colonial ambition during the Suez crisis (1956), when it asked the IMF to make its support to the pound conditional on the retreat of the Anglo-French troops from the Canal. The Americans, as illustrated by Hudson, were aiming at taking over the English Empire since the times of the first intergovernmental loan in 1917. The crisis of the pound in 1956 was caused mainly by the conversion of the sterling balances into dollars. They were Great Britain's debts vis-à-vis its Colonies for the supply of groceries to the US, the main British contribution to the war. At Bretton Woods, Keynes asked for a bilateral clearing regarding these “deposits” between Great Britain and its Colonies, in order to reimburse them gradually with the income coming from exports, but the US asked and obtained, together with the abandonment of the imperial status, the multilateralization of those British debts.

More than once (with regard to the 1917 loan, the London Conference and Bretton Woods) Hudson reflects on the reasons at the root of the British acquiescence to the American requests, and tries different answers. Firstly, that Great Britain was convinced of the need to keep the creditor policy strong, honouring the commitments even in a debtor position, because that policy, as well as private property, was a pillar of capitalism, and the British leading classes of the time, amongst which there were also supporters of fascism and nazism, feared communism more than anything else. Secondly, Hudson’s hypothesis is that Great Britain resigned itself to pass the baton to the US, in order to realize through them the diffusion of the English language and culture (that is, their “race”) worldwide. Each of these explanations includes relevant aspects, but one cannot forget that in reality Great Britain did not have other possibilities: the division of the national sovereign States and their wars delivered the entire Europe in the hands of the US.

The acceptance of the dollar as the international currency, when the US was in a leading position during the “golden years” between 1946 and 1965, can therefore be easily understood. The Bretton Woods monetary system had reorganized the “free world” around the dollar, as the British Empire had been organized around the pound. The US represented more than half of the world's gross product, had almost the totality of the gold reserves and was the only one able to finance the reconstruction and the economic recovery in the post-war period. It did it in a masterly manner, for the clear correspondence between reconstruction and the American reason of State, for the improvement in the way economy was perceived (a quarter of a century had passed since the Economic Consequences), and finally, perhaps, for its idealism (at least in a minority always present in American history). The US was nevertheless able to prolong the international role of the dollar until today, forty years after the end of the gold convertibility (in 1968 it was limited to the Central Banks and in 1971 it was abolished by Nixon). The power exercised by the US as creditor is evident, but the one exercised as debtor needs some explanation. As guessed by Triffin, the adoption of the dollar as the international currency could end up in two opposite situations (the Triffin dilemma): a shortage of the international currency in the case of a surplus of the American balance of payments, and an excess of dollars in the opposite case. After the dollar-shortage of the Fifties, there came the dollar-inflation with the wars in Korea and above all in Vietnam. After the declaration of the end of the dollar convertibility in gold, the gold-exchange standard became, even formally, a dollar standard, which allowed the US to finance a series, until today almost uninterrupted, of export-balance deficits.

Until 1982, the deficits were caused by capital flows: the US bought, getting into debt, the companies of the rest of the world, gained high profits and capital gains on its investments, and paid low interests on its Treasury Bills and on its Treasury Bonds. The balance of current payments did not present unbalances. Europe and Japan were in this phase the main investors in the US. However, from 1982, the deficit involved the current account balance of goods and services, and it worsened until it reached 5-7% of the GDP, not very affected by the changes in the dollar exchange rate (also because the dollar was devalued vis-à-vis the wrong currencies: too much versus the euro, too little versus the yuan). The military costs, continuously increasing, were financed with foreign debt without a corresponding increase in tax rates, which were on the contrary lowered for the upper classes. The Government therefore avoided to ask Congress, and the American people, to support the war costs. The “deficit without tears”, opposed in vain by De Gaulle and Rueff, allowed to finance the cannons without renouncing to the butter.

Europe brought itself to safety with the creation of the euro, a process which lasted for thirty years. The main investors in the US were in this second phase the oil-exporting countries and the Asian countries, which were exporting industrial products (with extensive use of low-cost labour, without social dues, without environmental restrictions, with a strong State-control on the exchange rate). The export revenues of these countries, deposited in US banks and mainly reinvested in US Treasury bonds, made the US the largest world debtor. But the accumulation of the deficit made the debt unsustainable.

It would be really surprising if the American Government and the too many authorities in charge of controlling the US financial system, every day under pressure for the need to renew the old debts and to place new ones, were worried about exercising more stringent controls, about impeding the most dangerous financial experiments, about limiting the creation of financial institutions not subject to the Fed's rules, and about putting at last a limit to the leverage levels, tending to infinity. As illustrated by Minsky, in a capitalist system like ours (the true one, not that of the Chicago boys' books) instability is intrinsic, because the physiological financing phases (hedge financing) cause an increase in profits, and consequently an increase in the value of capital assets, which pushes towards a speculation on their prices through speculative financing tools, which can end up in the need to make new debts to just finance the interests alone on previous debts (the Ponzi financing). This is the path to bankruptcy. This is a different explanation from that given by Galbraithx or Shillerxi, of an irrational expectation of a continuous increase in the stock exchange, because Minsky underlined the endogenous character of instability: even if all the operators behave rationally, the sum of their rational behaviours is not sustainable by the economy as a whole.

The fundamental issue is therefore the international role played by a domestic currency: with the US Government busy with the placement of debts, and the controlling Authorities willing to take no notice, bankruptcy is not an enigma any morexii. Market fundamentalism, deregulation, privatisation/expropriation of public properties and of natural monopolies, all the Chicago paraphernalia talked about by Reagan and his successors served only as a smokescreen to cover the US, while it was putting in place the most ruthless debtor policy, according to which debts are not to be paid.

This crisis is not like the others, but it is the last convulsion of the international role of the dollar. The world economic recovery cannot be pursued and the relapse into protectionism and war cannot be avoided without radical reformsxiii:

- the creation of a world currency unit, with functions similar to those of the European currency unit (ecu) in the phase preceding the creation of the euro;
- the entrusting of the world economic and financial supervision powers to the IMF, transformed into a true economic Council of Ministers of the UN (corresponding to the European Ecofin), as already suggested by Delors;
- the entrusting to the Bank of International Settlements of the functions of Central Bank of the world system (or of the system of monetary systems);
- the entrusting to the European Central Bank of banking and financial supervision functions in the Eurozone, and to the BIS of the corresponding functions at the world level;
- the institution of independent authorities, in Europe and worldwide, with the functions today entrusted, with a conflict of interests, to the rating agencies;
- the institution of a public insurance company at world level for the coverage of global risks, or, at least, of an authority for the independent evaluation of risks, to be a reference for the insurance market;
- the commitment to a common struggle against illegal financial flows, disguised and secret, which make drugs, international crime and terrorism possible and profitable, to be pursued even in their off-shore havens;
- the use of the World Bank to pursue goals of human development and for the battle against poverty.