

The US dollar and new imperialism under the logic of capital accumulation

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Abstract

Purpose – The world currency is endowed with two inherent contradictions, namely, the general contradiction of all currencies and the special contradiction between the quality and quantity of the world currency. The paper aims to discuss these issues.

Design/methodology/approach – In the wake of the Second World War, the USA, with its strong economic and military strength, established an international monetary system centered on the US dollar (USD). This gave USD the status of “world currency” and bounded it to the US imperialist hegemony with mutual integration and interaction, making it possible for USD capital to conduct international exploitation and wealth plundering extensively around the world.

Findings – The contradiction between the capital logic and the power logic, which is inherent in capital accumulation models of the new imperialism, also indicates the inevitable decline of USD.

Originality/value – This constitutes an important feature of the new imperialism. However, as a sovereign currency, USD has inextricable and inherent contradictions while exercising its function as the world currency.

Keywords Capital accumulation, International monetary system, New imperialism, State hegemony

Paper type Research paper

As early as the beginning of the twentieth century, the issue of imperialism aroused the concern of Marxists. Lenin *et al.* (1995) have conducted intensive research on the major characteristics and essence of imperialism the inherent contradiction between imperialism and capital accumulation[1], and the relationship between imperialism and financial capital[2]. Since the end of the Second World War, territorial occupation and colonial rule were gradually replaced by economic control and political intimidation. Imperialism has emerged with a new mask. Works such as the theoretical analysis of “territorial logic” and “capitalist logic” by American scholar David Harvey (2003) and the historical research on supranational economic control and economic laws by American scholar Ellen Wood[3] have fully demonstrated that although imperialism has taken a new form, its exploitative and predatory nature remains unchanged. Lenin’s (1990) argument that “in the field of economic science that studies the changes in the form of modern capitalism, the issue of imperialism is not only one of the most important issues, but can be said to be the most important one” is still of great significance. At the global level, the USA can plunder wealth and exercise imperial hegemony around the world. This is due to the special status of US dollar (USD) as a world currency, which continuously consolidates the imperial hegemony of the USA (Poovey, 1998). Thus, currency is the embodiment of social relations (Lenin, 2009). The USD was by no means predestined to be a world currency, nor is it the



irreplaceable “Chosen One.” Its power and status are nothing, but the external manifestation of US imperialism. This paper explores the nature and the inherent contradiction of the new imperialism by analyzing the inherent contradictions of USD as the world currency.

1. “De-anchored” USD: the inherent contradiction of world currency and its development

The world currency naturally has two inherent contradictions. The first is the general contradiction between all currencies – the intrinsic contradiction between the use value and value, private labor and social labor and the external contradiction between money and commodities (Lenin, 2009), which manifests itself as the contradiction between world currency and foreign trade commodity. The second is the contradiction peculiar to the world currency that the contradiction between the quality and quantity of the world currency. The quality of the world currency refers to the quantity (magnitude) of value represented by the sovereign currency. The magnitude of USD as the world currency must have certain stability, which is an inherent requirement for the world currency to perform its functions. On the one hand, the magnitude of world currency refers to the production or supply of it, and on the other hand, the demand for it. With the rapid growth of international trade, finance and investment, the supply or production of world currency has never kept up with the demand of world currency. This has generated not only the development of the gold exchange system, but also the demonetization of gold and the corresponding contradiction between the quality and quantity of the world currency.

When the fiat currency of a country takes the role of world currency, in order to maintain the stability of a world currency, it is necessary to match the amount of gold reserves and currency issuer. Otherwise, if the quantity of currency issued by a country exceeds by far the amount of its gold reserves – although this excess can enable currency issuers to obtain a certain “coinage tax” – it will generate worldwide inflation and pose questions about the convertibility of the currency. This will trigger bank runs that can evacuate the gold reserves of the country issuing sovereign currency, and eventually overthrow its status as world currency. Given this contradiction, the sustainability of a sovereign currency as a world currency and the relative stability of its monetary value are based on the country’s hegemonic position in the world. When the growth of gold reserves of a country cannot keep abreast of the rapid growth of global economic activities, the order of international economic activities and the interests of currency issuers can only be maintained by the establishment of hegemony.

Based on the history of the world currency, the UK first established the gold standard system of the world currency. The UK was, at that time, the world’s largest industrial and trading country. The British Pound, freely convertible into gold, executed the function of world currency. In the late nineteenth century, the UK’s economic status declined, and the long-term deficit in industrial product exports threatened the convertibility of the pound. To maintain the confidence of other countries in the pound, Britain cleared the deficit by plundering wealth from the colonies (especially India) and conducting illegal trade. After the end of the Second World War, the empire on which the “sun never sets” was already in the doldrums. There was not much left of the gold reserves (about 6.23 percent of the world’s total)[4]. The economic and military strengths were plummeting. Following this, the overseas colonies sought independence. The pound could not maintain its free convertibility into gold and was forced to surrender its position as the world currency. Meanwhile, the USA on the other side of the ocean was not at all dragged down by the war; instead, it amassed fabulous wealth from it. After the war, it aggregated about 75 percent of the world’s gold. With the backing of strong gold reserves and the status of world’s largest creditor country, USD became the world’s major settlement currency. A gold exchange standard is established, that is, USD and gold remain convertible, and other countries’

currencies are pegged to the USD with a certain exchange rate. Nonetheless, this seemingly viable monetary system is no exception to the inherent contradictions of the world currency. With the gradual recovery and rapid growth of the post-war economy of Germany, France, Japan and other countries, these countries amassed a large amount of USD foreign exchange in the international trade market, with a short-term USD debt exceeding the US gold reserves. Uncertainty about the convertibility of USD caused the speculation of USD in the financial market and the demand for exchanging USD to gold from European countries, resulting in the continuous outflow of US gold reserves. In 1971, the USA decided to abandon the convertibility of USD, declaring the decoupling of USD from gold. In 1973, the USD-denominated gold exchange standard collapsed.

The de-anchoring of USD from gold declared the end of the world currency system based on convertible gold. In the absence of other currencies comparable to the credit of USD, the status of USD went up instead of down; thus, USD replaces gold as the main currency of the world reserve (see Table I for details). In the world currency system of non-monetized gold, the floating exchange rate is legalized. However, the floating exchange rate did not solve the inherent contradiction of the world currency. On the contrary, due to the disengagement of convertibility into gold, USD lost its external constraint to maintain its stable value. Although USD performs the functions of the world currency, the circulation of USD rests entirely on the USA. For sovereign countries, currency issuance is often the primary consideration of national economic goals, which encompass, aside from the stability of the currency, other goals such as employment and economic growth. When different targets collide, the US Government is very likely, as it turns out, to sacrifice the indicator of currency stability. This determines the inherent instability of USD as a world currency. With the rapid rise of countries such as Germany and Japan, the unstable USD attracted strong competitors such as the Deutsche Mark and the Japanese Yen. In order to maintain the world currency status of USD, the USA, like the former UK, embarked on the path of state hegemony.

2. The “empire’s new clothes”: inequality under the cover of equal transactions

The USD, which acts as the world currency, can be divided into two categories by channel: the official channel of USD and USD used for private transactions. The official channel of USD refers to USD assets held by central banks, including various types of USD bonds. For other countries except the USA, there are three major ways to obtain this type of USD: to directly purchase USD bonds approved by the US Congress and designed by the US Treasury; to buy USD or USD bonds in the international foreign exchange market; and to apply directly for USD loans. The USD obtained through official channels directly forms the country’s foreign exchange reserves, which are used to regulate the international balance of payments and local currency exchange rates. The USD for private transactions mainly exists in the form of notes and cash reserves. Other countries obtain USD through the export of USD-denominated commodities and investment in USD capital. These USD are held privately, or settled or exchanged by commercial banks to form foreign exchange reserves

	1938	1948	1958	1978
Gold	82	33	45	–
Dollar	5	13	27	82.1
GBP	13	53	21	1.6
Others	0	1	6	16.3

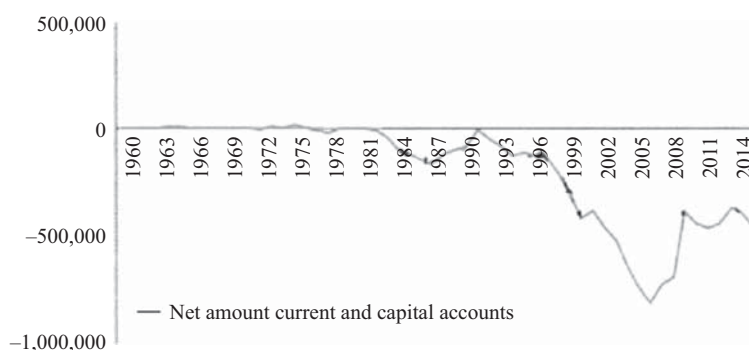
Table I.
Composition of the
world currency
reserve (unit: %)

Source: Statistics from the IMF’s gold reserves, foreign exchange and trade data, and annual reports, excluding data from international organizations and Soviet countries

in their central banks. Although USD obtained from private channel is issued by the Federal Reserve (FED), it is essentially a debt borrowed by the US Government from the FED with interest payment and future taxes as collateral. As the world currency, USD essentially represents a debt relationship with the US Government, thus the so-called “dollar standard” is essentially the “debt standard.”

The movement of USD, as the world currency can be seen in a circulation pattern centered on the US Government, is moving among central banks around the world. However, this kind of movement is asymmetric. For countries that have obtained an abundance of USD through trade surpluses, these USD are essentially debts. The fluctuations of USD exchange rate will seriously affect the market value of the country’s foreign exchange assets. In order to guarantee the security of USD debt assets held, these countries were forced to become fixed buyers of bonds issued by the USA. By the end of January 2016, US treasury bonds accounted for half of China’s foreign exchange reserve[5]. Since the first trade deficit in 1976, the USA has seen a persistent deficit (see Figure 1). As the size of the US trade deficit continues to expand, the movement of USD between the USA and its creditor countries is characterized by a steadily reinforced one-way net outflow that deviates from the USA. For countries with serious shortages of USD reserves to obtain sufficient USD for international trade and other needs, they needed to obtain USD loans through mortgage of their own assets, consequently becoming countries in debt to the USA. These countries often have to sell domestic assets for debt service repaying capital and interest, thus, further losing the ability to obtain USD through export earnings in international trade. Therefore, the size of their debt is constantly increasing. The movement of USD between the USA and US debtor countries is characterized by a continually reinforced one-way net inflow toward the USA. In both movements, the USA is an absolute beneficiary. For the former, low-interest loans were obtained without reimbursing, and for the latter, high-interest payments were reaped at low-cost USD.

The USD circulates globally as a world currency and essentially working as an agent to rape various economic benefits worldwide. In the international trade market, the liberal trade advocated by neo-liberalism is based on the establishment of an unequal exchange system with the USA at its core. The USA promotes the expansion of neo-liberalism around the world, persuading or forcing developing countries to abandon their protection over markets for goods and services so that USD capital can take advantage of cheap labor in developing countries and possess privatized assets. With its huge capital scale and technological advantages, USD capital has incorporated developing countries, which have become suppliers of cheap labor and commodities, into the global manufacturing and distribution system centered on USD capital through direct investment or outsourcing production and vertical division of labor.



Source: Based on data released by the US Bureau of Economic Analysis

Figure 1.
Trends in credits and
debts of current
account, US
international
balance of payments
(1960–2014)

While enjoying cheap goods, the USA has retained the surplus value of workers produced by other countries in the form of reflux of USD capital (Hausmann and Sturzenegger, 2007).

This unequal exchange system is not only reflected in the division of labor but also in the monopoly of USD on commodity pricing and currency. Even when industrial production capacity and the gross value of tradable commodities decline in the USA, the USD can still participate extensively in international transactions unrelated to the USA, serving as the most important pricing and trading currency. Therefore, when USD exchange rate fluctuates greatly, the domestic capital of the USA will not be affected and will seek benefit at the expense of other countries. Former US Secretary of State Kissinger wrote in *Years of Upheaval* (1982) that the two oil price hikes in the 1970s were driven mainly by the USA. US policymakers used the embargo imposed by the Organization of Petroleum Exporting Countries (OPEC) to rocket oil prices up, which was unanticipated by OPEC. The purpose of the USA was to change the balance of payments in the three major economic zones: Europe, the USA and Japan. The USA estimated that Japan and Western Europe would face greater difficulties than itself in dealing with the rocketing oil prices. The USA had gained enormous benefits from the crisis of its own making and in the process, successfully reduced its deficit (Halevi and Varoufakis, 2003).

In the international financial market, the free flow of USD has become a tool for the redistribution of wealth. The USA has used various means to promote the opening of financial markets in developing countries and to incorporate other countries into USD-centered international financial system, further strengthening the USD-centered international currency system. The goal of the US promotion of financial liberalization is not to stimulate wealth production, but to redistribute world wealth and income, thus achieving a “predatory accumulation” (Harvey, 2003). In the increasingly unified global financial market, the USA, as the world’s largest capital-owner and investor country, can influence the flow of capital and the redistribution of world wealth through the adjustment of interest and exchange rates. When the USA cuts its interest rates, its capital will flow to countries with good economic development momentum and will divide the surplus value created by workers in other countries in the form of industrial capital or interest-earning capital. Once the USA raises its interest rates, this capital will carry the surplus value of the goods back to the USA, actualizing the transnational flow of wealth. When USD appreciates, USD-denominated debt will increase, and the debtor country will have to sell its assets to pay the principal and interest. When USD depreciates, USD-denominated debt will shrink, and USD-denominated assets held by the creditor countries will suffer serious losses. Considering that the USA is both a debtor and a creditor country, it is both a capital exporting destination and a capital reflux destination. The USA can tailor its monetary policy to the needs of its own economic development, and realize its monetary policy objectives by transferring other countries’ wealth. In the 1970s, in order to improve the US balance of payments, USD depreciated sharply, leading to two oil crises and worldwide inflation. In the 1990s, to stimulate the sluggish domestic economy, USD rate hike attracted capital to return. As a result, the capital flight and debt increase in Southeast Asia triggered the Asian financial crisis. After the financial crisis broke out in 2007, compared with the limited effect of the European Union and Japan’s monetary policy, the US quantitative easing policy has achieved remarkable results in large part due to the benefit of USD status as world currency. The quantitative easing policy generated the expectation of a USD rate hike, which prompted the flow of international capital to the USA, saving the US capital market, which was deeply affected by the subprime mortgage crisis. After the US domestic economy improved, the exit of the quantitative easing policy rendered USD interest on the rise, boosting the appreciation of USD and reducing the external debt burden of the US Government. At the same time, in the process of economic recovery in the USA, other countries have suffered huge losses due to sudden and large capital outflows and huge changes in international debt, and even fallen into crisis.

The USD is not only a tool for transferring wealth from other countries, but also for exporting the crisis and protecting USD world currency status. Since the 1990s, the degree of financialization in the USA has escalated (Epstein, 2006). The USD capital has penetrated into the industrial and financial sectors of other countries, making countries closer to each other, even if the US economy declines. Since other nations' financial markets are deeply related to the USA, it is difficult to give up USD to choose other currencies as the world currency. This was particularly evident after the 2007 financial crisis. Even though the instability and weakness of USD became a consensus, other countries were forced to continue to hold cheap credit for USD because of their massive USD assets (Davis, 2010).

It should be noted that in the asymmetric movement of its world currency, USD can plunder wealth on a global scale through the form of multinational corporations and financial capital. The fundamental reason lies in the support of state hegemony. In the international trade market, the core position of the USA is not solely based on technological advantages but also, most importantly, on the support of political and military power. Under the coercion and attack of the US military that USD has guaranteed its position as the main currency in the world trade of mainstay commodities such as oil (Vasudevan, 2009). In order to ensure the risk return of overseas USD capital, the USA exerts strong protection over its interests overseas through political pressure, strict intellectual property rights and flexible market access thresholds. Since international organizations such as the World Trade Organization, the World Bank and the International Monetary Fund are under the control of the US Government, when the interests of USD capital are threatened, other governments are under various pressures and investors from the USA can enjoy overseas supreme power. In the financial market, the US Government has forced developing countries to open up financial markets and give unimpeded access to USD capital through a carrot-and-stick (coercion and inducement) approach, while forcing intervention in other countries' financial markets. The USA adjusts USD interest rate and exchange rate pursuant to the interest that appeals to US capital, regardless of the interests and protests of other countries. A strong state hegemony is the foundation for maintaining the world currency status of the USD.

3. The USD impasse: the desire for unlimited accumulation of capital and the continual waning strength of the USA

In order to cope with the inherent contradictions of the sovereign role of world currency, the US hegemonic support of the USD status created a new model of capital accumulation. By collecting coinage tax, exerting unequal exchanging and manipulating financial markets on a global scale, the USA plunders the wealth produced by other countries, but the series of contradictions in this new imperialist capital accumulation model also predict the inevitable decline of the US hegemonic status.

First, there is a contradiction between the increase in USD debt and the need to maintain domestic low inflation. The above analysis of the movement of USD as a world currency shows that in order to meet the demand for USD in international trade investment, the USA needs to loan USD to abroad or release USD by maintaining a trade deficit for a long time. Under the Bretton Woods system, the US economic strength is far ahead of other countries. Coupled with USD linked to gold, the USA is more inclined to export USD through external loans and aid, and then recover USD through trade surplus. After the 1970s, the US economy was in a relative downturn, and the USA relied on exporting USD through trade deficits and then recovering USD through capital backflow. Although this effectively guarantees the demand for USD from other countries, as the size of USD deficit continues to expand, the circulation of USD snowballs, which in turn increases the pressure on domestic inflation in the USA. In order to release inflationary pressures, the USA, in addition to exporting inflation through the outflow of USD, is also trying to control the level of domestic price and the rising trend of wages. Since the Reagan administration began to suppress

trade unions and lower wages in the late 1970s, the USA has taken the reduction of wages of workers as an important tool for preventing inflation. To effectively control wages, the USA does not hesitate to sacrifice domestic industrial entities, and transfer industrial capital to overseas by means of global industrial division of labor, and then obtain cheap goods produced overseas in the form of imports to reduce the cost of reproduction of domestic workers' labor. This led to the decline of the US real economy, further exacerbating the current account deficit, which in turn pushed up USD's debt size (as shown in Figure 2). This mode of operation, in which economic prosperity is maintained by debt and the world's working class is squeezed to maintain domestic capital profits, spreads the risk of inflation to the world. When inflationary pressures reach the critical point that the world economy can bear, the USD collapse will inevitably sweep the world.

Second, there is a contradiction between the excess of USD capital and insufficient domestic investment. Given the USD status of world currency, USD capital can reap without sowing, without the need to go through the process of commodity production and circulation, and participate in the division of global surplus value in the form of financial capital, and reap high profits (Krippner, 2005). The pursuit of surplus value or the maximization of profits is the sole purpose of capital. Participating in the financial market has become the starting point of the US industrial capital decision making. This has two consequences: on the one hand, capital accumulation serves financial interests rather than social reproduction, the real economy is, thus, in a state of stagnation or even recession; on the other hand, the huge wealth absorbed by financial capital generates huge investment demand, but there is not enough physical property for financial capital to invest and trade in a securitized way. Excess capital becomes idle (along with the surplus labor) because of the inability to see a profitable way out. After the 1990s, under loose financial control, this surplus capital constantly created financial derivatives such as options, futures and swaps targeting virtual properties such as stocks, interest rates and exchange rates, which created the illusion of economic prosperity. The outbreak of the subprime mortgage crisis fully exposed the fragility of the capitalist economic order that relied on virtual capital, and the unsustainability of the US "de-industrialization" development model. Compared with the fact that the US manufacturing output value accounted for more than 40 percent of the world's output value at the end of the Second World War, this value was less than 20 percent in 2015[6]. Although Obama called for the return of overseas capital during his

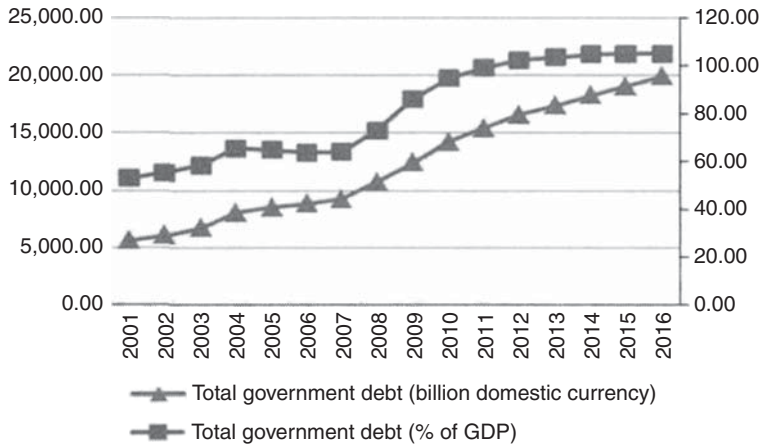


Figure 2.
Total US Government
debt and its ratio
in GDP

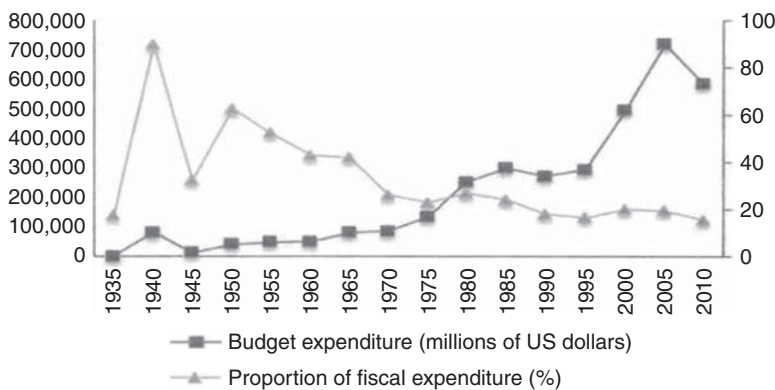
Source: World Macro Economy Database

tenure to achieve “re-industrialization,” the effect is limited. The share of US manufacturing in GDP fell from 13.2 to 12 percent between 2010 and 2015. The newly inaugurated US President, Donald Trump, hopes to encourage the revival of real economy through a preferential tax system, but will USD capital give up the previous effortless profit model of relying on the financial capital movement?

Finally, there is a contradiction between hovering military spending and high budget deficits. David Harvey (2003) once quoted the German-American political theorist Hannah Arendt’s point of view: “a never-ending process of growing property must be based on a never-ending process of growing power that the accumulation of capital is limitless only if it is embodied in a political structure of ‘unlimited Power’ that can assume the necessary task of protecting a corresponding accumulation of property”. The nature of capital is accumulation, and the infinite accumulation of capital necessarily requires the support of ever-expanding state power. In order to decrease the growing desire of USD capital, the USA plunders wealth in the form of world currency capital and continues to expand military spending. In his letter to Congress, Trump said, “Without Safety There Can Be No Prosperity.” This shows that the support behind the US economic prosperity is its military strength. In the wake of the Second World War, to ensure USD status and the interests of USD overseas capital, the US defense spending budget has generally maintained a growing trend. Although the US defense spending budget has declined slightly between 2010 and 2015, it still far exceeds that of other countries. In 2016, the US defense spending budget rose again, reaching \$605bn, more than the sum of the budgets of China, Russia, Germany, Britain, France and India. Corresponding to the growing huge military spending is a record-breaking national budget deficit (as shown in Figure 3). The pressure of domestic inflation and the depreciation of USD caused by the growth of the budget deficit shows that the US deficit is unlikely to increase in an unlimited way. The space left for further expansion of US military spending is getting smaller and smaller. Maintaining the infinite expansion of domestic capital through military power is full of contradictions and dangers. Unless the economic strength of the USA is always at the level of a superpower, the era of USD capital will be terminated once the accumulation of political power falls behind the infinite accumulation of capital (Harvey, 2003).

4. Future envisaged: the establishment of a new order

As a sovereign currency, USD has always been bound with US state power, owing to its inherent contradictions since it became the world currency. With political hegemony and strong military power, the USA supports the plundering and accumulation of USD capital in the world.



Source: Based on data from the US White House budget report

Figure 3.
The proportions of US
defense budget
expenditure in fiscal
expenditure and total
US assets (1949–2010)

It is a new imperialism with occasional wars and eternal oppression. This seemingly stable capital accumulation model is doomed to be “unsustainable” because of its irreconcilable internal contradictions. However, this inequitable and irrational capital accumulation system will remain and continue for a certain period of time before this contradiction intensifies and eventually causes the USD-centered world currency system to collapse.

Nixon’s Finance Minister, John Connally, had a famous saying: “The USD is our currency, but your problem.” As the world’s largest trading country, the second largest economy and the largest USD foreign exchange reserve country, China does not have the corresponding currency recognition and rulemaking rights. China is one of the biggest victims of the “USD problem.” In this current unequal USD-centered world currency system, China needs to participate in the international cooperation since the reform and opening up and actively integrate into the globalization process with developed capitalist countries at the center. After the RMB is included in the special drawing rights currency basket, it is necessary to continue promoting the internationalization of the RMB and enhance its status and role in the global trade and financial system. This will not only ensure the national interests of China, it will also ensure the active participation of the world’s largest developing country in the reform of the unequal international monetary order.

The peaceful development of the world requires the establishment of a new world currency order of equality and mutual benefit, which must not only overcome the inherent contradictions of the sovereign role of the world currency but also surpass the limitations of a single sovereign state in issuing world currencies, overcome the contradictions caused by the predatory accumulation of capital in the world, and transcend the logic of capital accumulation. New imperialism is still capitalism in essence, combating the unequal new imperialism must, therefore, be based on criticizing and opposing capitalism. As a socialist country, China needs to propose a “Chinese program” to improve the world monetary system. Moreover, while promoting imperial capital accumulation, new imperialism has also intensified the contradiction between capital and labor, imperialist countries and other countries. Therefore, the establishment of a new order in the future will also depend on the united struggle of the global working class and the cooperation of developing countries.

Notes

1. (Germany) Luxemburg (1959); (Soviet) Bukharin (1983).
2. (Germany) Hilferding (1994).
3. (USA) Wood (2006).
4. (USA) Triffin (1997).
5. The data come from the US Treasury estimates since the foreign exchange reserves constitute state secrets, and there is no specific detailed information.
6. According to the World Bank statistics.

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