

Re: Questions about Community Currency.

Source: <http://sci.tech-archive.net/Archive/sci.econ/2005-03/1924.html>

From: Quirk (quirk_at_syntac.net)

Date: 03/16/05

Date: 16 Mar 2005 09:37:06 -0800

karl wrote:

> *"Quirk" <quirk@syntac.net> wrote in message*
> *news:1110983319.057262.225410@g14g2000cwa.googlegroups.com...*
> *[...]*
> > *Seems to me that the US dollar is being (barely) kept afloat by*
four
> > *things, a) demand for dollars to buy oil,*
>
> *No. Oil is priced in US\$. Their is no need to purchase US\$ to buy*
oil.

This is wrong, it is sold in US\$, not just priced, as the statement from the State Department that I quoted in my last message shows.

How would selling oil in euros

> *Part of the rise of oil and gold prices is the depreciation of the*
US\$.

You appear misinformed on this issue, here is a good article on the subject.

US dollar hegemony has got to go
By Henry C K Liu

There is an economics-textbook myth that foreign-exchange rates are determined by supply and demand based on market fundamentals. Economics tends to dismiss socio-political factors that shape market fundamentals that affect supply and demand.

The current international finance architecture is based on the US dollar as the dominant reserve currency, which now accounts for 68 percent of global currency reserves, up from 51 percent a decade ago. Yet in 2000, the US share of global exports (US\$781.1 billion out of a world total of \$6.2 trillion) was only 12.3 percent and its share of global imports (\$1.257 trillion out of a world total of \$6.65 trillion)

was 18.9 percent. World merchandise exports per capita amounted to \$1,094 in 2000, while 30 percent of the world's population lived on less than \$1 a day, about one-third of per capita export value.

Ever since 1971, when US president Richard Nixon took the dollar off the gold standard (at \$35 per ounce) that had been agreed to at the Bretton Woods Conference at the end of World War II, the dollar has been a global monetary instrument that the United States, and only the United States, can produce by fiat. The dollar, now a fiat currency, is at a 16-year trade-weighted high despite record US current-account deficits and the status of the US as the leading debtor nation. The US national debt as of April 4 was \$6.021 trillion against a gross domestic product (GDP) of \$9 trillion.

World trade is now a game in which the US produces dollars and the rest of the world produces things that dollars can buy. The world's interlinked economies no longer trade to capture a comparative advantage; they compete in exports to capture needed dollars to service dollar-denominated foreign debts and to accumulate dollar reserves to sustain the exchange value of their domestic currencies. To prevent speculative and manipulative attacks on their currencies, the world's central banks must acquire and hold dollar reserves in corresponding amounts to their currencies in circulation. The higher the market pressure to devalue a particular currency, the more dollar reserves its central bank must hold. This creates a built-in support for a strong dollar that in turn forces the world's central banks to acquire and hold more dollar reserves, making it stronger. This phenomenon is known as dollar hegemony, which is created by the geopolitically constructed peculiarity that critical commodities, most notably oil, are denominated in dollars. Everyone accepts dollars because dollars can buy oil. The recycling of petro-dollars is the price the US has extracted from oil-producing countries for US tolerance of the oil-exporting cartel since 1973.

By definition, dollar reserves must be invested in US assets, creating a capital-accounts surplus for the US economy. Even after a year of sharp correction, US stock valuation is still at a 25-year high and trading at a 56 percent premium compared with emerging markets.

The Quantity Theory of Money is clearly at work. US assets are not growing at a pace on par with the growth of the quantity of dollars. US companies still represent 56 percent of global market capitalization despite recent retrenchment in which entire sectors suffered some 80 percent a fall in value. The cumulative return of the Dow Jones Industrial Average (DJIA) from 1990 through 2001 was 281 percent, while the Morgan Stanley Capital International (MSCI) developed-country index posted a return of only 12.4 percent even without counting Japan. The MSCI emerging-market index posted a mere 7.7 percent return. The US capital-account surplus in turn finances the US trade deficit. Moreover, any asset, regardless of location, that is denominated in dollars is a US asset in essence. When oil is denominated in dollars

through US state action and the dollar is a fiat currency, the US essentially owns the world's oil for free. And the more the US prints greenbacks, the higher the price of US assets will rise. Thus a strong-dollar policy gives the US a double win.

Historically, the processes of globalization has always been the result of state action, as opposed to the mere surrender of state sovereignty to market forces. Currency monopoly of course is the most fundamental trade restraint by one single government. Adam Smith published *Wealth of Nations* in 1776, the year of US independence. By the time the constitution was framed 11 years later, the US founding fathers were deeply influenced by Smith's ideas, which constituted a reasoned abhorrence of trade monopoly and government policy in restricting trade. What Smith abhorred most was a policy known as mercantilism, which was practiced by all the major powers of the time. It is necessary to bear in mind that Smith's notion of the limitation of government action was exclusively related to mercantilist issues of trade restraint. Smith never advocated government tolerance of trade restraint, whether by big business monopolies or by other governments.

A central aim of mercantilism was to ensure that a nation's exports remained higher in value than its imports, the surplus in that era being paid only in specie money (gold-backed as opposed to fiat money). This trade surplus in gold permitted the surplus country, such as England, to invest in more factories to manufacture more for export, thus bringing home more gold. The importing regions, such as the American colonies, not only found the gold reserves backing their currency depleted, causing free-fall devaluation (not unlike that faced today by many emerging-economy currencies), but also wanting in surplus capital for building factories to produce for export. So despite plentiful iron ore in America, only pig iron was exported to England in return for English finished iron goods.

In 1795, when the Americans began finally to wake up to their disadvantaged trade relationship and began to raise European (mostly French and Dutch) capital to start a manufacturing industry, England decreed the Iron Act, forbidding the manufacture of iron goods in America, which caused great dissatisfaction among the prospering colonials. Smith favored an opposite government policy toward promoting domestic economic production and free foreign trade, a policy that came to be known as "laissez faire" (because the English, having nothing to do with such heretical ideas, refuse to give it an English name). Laissez faire, notwithstanding its literal meaning of "leave alone", meant nothing of the sort. It meant an activist government policy to counteract mercantilism. Neo-liberal free-market economists are just bad historians, among their other defective characteristics, when they propagandize "laissez faire" as no government interference in trade affairs.

A strong-dollar policy is in the US national interest because it keeps US inflation low through low-cost imports and it makes US assets

expensive for foreign investors. This arrangement, which Federal Reserve Board chairman Alan Greenspan proudly calls US financial hegemony in congressional testimony, has kept the US economy booming in the face of recurrent financial crises in the rest of the world. It has distorted globalization into a "race to the bottom" process of exploiting the lowest labor costs and the highest environmental abuse worldwide to produce items and produce for export to US markets in a quest for the almighty dollar, which has not been backed by gold since 1971, nor by economic fundamentals for more than a decade. The adverse effect of this type of globalization on the developing economies are obvious. It robs them of the meager fruits of their exports and keeps their domestic economies starved for capital, as all surplus dollars must be reinvested in US treasuries to prevent the collapse of their own domestic currencies.

The adverse effect of this type of globalization on the US economy is also becoming clear. In order to act as consumer of last resort for the whole world, the US economy has been pushed into a debt bubble that thrives on conspicuous consumption and fraudulent accounting. The unsustainable and irrational rise of US equity prices, unsupported by revenue or profit, had merely been a devaluation of the dollar. Ironically, the current fall in US equity prices reflects a trend to an even stronger dollar, as it can buy more deflated shares.

The world economy, through technological progress and non-regulated markets, has entered a stage of overcapacity in which the management of aggregate demand is the obvious solution. Yet we have a situation in which the people producing the goods cannot afford to buy them and the people receiving the profit from goods production cannot consume more of these goods. The size of the US market, large as it is, is insufficient to absorb the continuous growth of the world's new productive power. For the world economy to grow, the whole population of the world needs to be allowed to participate with its fair share of consumption. Yet economic and monetary policy makers continue to view full employment and rising fair wages as the direct cause of inflation, which is deemed a threat to sound money.

The Keynesian starting point is that full employment is the basis of good economics. It is through full employment at fair wages that all other economic inefficiencies can best be handled, through an accommodating monetary policy. Say's Law (supply creates its own demand) turns this principle upside down with its bias toward supply/production. Monetarists in support of Say's Law thus develop a phobia against inflation, claiming unemployment to be a necessary tool for fighting inflation and that in the long run, sound money produces the highest possible employment level. They call that level a "natural" rate of unemployment, the technical term being NAIRU (non-accelerating inflation rate of unemployment).

It is hard to see how sound money can ever lead to full employment when unemployment is necessary to maintain sound money. Within limits

and within reason, unemployment hurts people and inflation hurts money. And if money exists to serve people, then the choice becomes obvious. Without global full employment, the theory of comparative advantage in world trade is merely Say's Law internationalized.

No single economy can profit for long at the expense of the rest of an interdependent world. There is an urgent need to restructure the global finance architecture to return to exchange rates based on purchasing–power parity, and to reorient the world trading system toward true comparative advantage based on global full employment with rising wages and living standards. The key starting point is to focus on the hegemony of the dollar.

To save the world from the path of impending disaster, we must:

promote an awareness among policy makers globally that excessive dependence on exports merely to service dollar debt is self–destructive to any economy;

promote a new global finance architecture away from a dollar hegemony that forces the world to export not only goods but also dollar earnings from trade to the US;

promote the application of the State Theory of Money (which asserts that the value of money is ultimately backed by a government's authority to levy taxes) to provide needed domestic credit for sound economic development and to free developing economies from the tyranny of dependence on foreign capital;

restructure international economic relations toward aggregate demand management away from the current overemphasis on predatory supply expansion through redundant competition; and

restructure world trade toward true comparative advantage in the context of global full employment and global wage and environmental standards.

This is easier done than imagined. The starting point is for the major exporting nations each to unilaterally require that all its exports be payable only in its currency, so that the global finance architecture will turn into a multi–currency regime overnight. There would be no need for reserve currencies and exchange rates would reflect market fundamentals of world trade.

As for aggregate demand management, Asia leads the world in both overcapacity and underconsumption. It is high time for Asia to realize the potential of its market power. If the people of Asia are to be compensated fairly for their labor, the global economy will see its fastest growth ever.

Henry C K Liu is chairman of the New York–based Liu Investment Group.

sci.econ: Re: Questions about Community Currency.

((c)2002 Asia Times Online Co, Ltd. All rights reserved. Please contact ads@atimes.com for information on our sales and syndication policies.)