

# Multi-Polar Capitalism: The End of the Dollar Standard

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# Finance-Led Capitalism

- Post-War Boom (1945 - 1969) = Fordism -> stagflation crisis (1969 – 1982) -> conservative (“neo-liberal”) counter-revolution (1979-82).
- Deregulation of money and banking: exchange rates (1973), capital controls (1974), money market (1975), Kingston Agreement (1976) -> “dollar standard,” interest rates (1979), banking (1989).
- Dominance of finance: Eurocurrencies (1960s), petro-dollar recycling (1973-1982) and LDC debt crisis (1982-1987), shareholder value maximization (1986-1989).
- Dollar Standard: American asset bubbles (“raiders” in 80s, dot-com in late 90s, housing in ‘00s) -> US twin deficits absorb export-led growth of ICs and EMEs.

# Global Systemic Crisis

- Bursting of US housing bubble 2007-08: collapse of American excess spending, huge losses for banks across globe (+ massive bail-outs).
- Third global transmission channel of crisis conditions via currency war fueled by quantitative easing and competitive devaluations: US 2009 => €-zone 2010-2012 => EMEs (China, Brazil) 2015.
- “Slowbalization:” de-globalization -> slowdown of trade amidst global excess capacities in key sectors; sharp decline in FDI; lower  $\pi$ -rate for MNCs; retrenchment of global value chains.
- Trump -> successive rounds of tariffs (and tit-for-tat retaliation), financial sanctions (e.g. Iran), unilateral retrenchment (TPP, Paris Agreement), trade war with China, limits on foreign firms.

# Long Waves

- Global systemic crises (and de-globalization forces) are symptomatic of downswing phases of long waves, such as during the Great Deflation of the late 19<sup>th</sup> century (1873-1896), the interwar period (1919-1939), or stagflation crisis (1969-1982).
- Capitalism's evolution best understood in terms of Kondratiev (long) waves.
  - technological: Schumpeter, Perez.
  - financial: Minsky's super-cycle.
  - industrial: Marx, Mandel -> falling profit-rate and counter-tendencies.
  - institutional: French "théorie de la régulation" -> accumulation regimes with their specific "modes of regulation": competitive (1848-1896), monopolistic (1896-1945), Fordist (1945-1989), FLC (1989-202?).
  - international: World Systems Theory -> New Developmentalism?

# International Monetary System (IMS)

- Long waves play out in terms of waves of globalization (in upswing phase, with catching-up of periphery) and de-globalization (systemic financial crisis -> global excess capacities -> structural crisis).
- Central to this global long-wave dynamic is prevailing IMS and its disintegration: classic gold standard (1879-1914), Bretton Woods (1945-1971), dollar standard (1989-202?).
- IMS: defined by globally accepted forms of world money, exchange-rate regime(s), settlement of international payment obligations.
- Key IMS concepts (ill-defined in standard economics): P. Krugman's 2x3 matrix of WM functions, B. Eichengreen's criteria for WM, S. Dow's international liquidity preference, P. Davidson's taxonomy of international money, B. De Conti & D. Prates' monetary pyramid.

# End of Dollar Standard?

On surface, no obvious reason to predict end of dollar standard -> strong US economy, steady market share of USD for all six WM functions, strong exchange rate for USD.

But below surface, US (under Trump) suffers erosion: constitutional crisis, political paralysis, loss of soft-power leadership, decline of pillars (health, education, infrastructure), unilateral retrenchment.

Trouble Triggers: trade wars, US budget deficits and debt ceiling, Fed no longer effective crisis manager, political polarization -> policy paralysis.

Change of IMS is very slow, subject to inertia, usually in wake of crisis. Long-wave pattern typically has two crises during downswing -> IMS reform in wake of second crisis (Bretton Woods 1944, \$-standard 1989).

# Multi-Polar Capitalism

De-Globalization -> Fragmentation -> Regionalization -> Three blocs, each with a center (US, D + F, China) and its sphere of influence.

China: regional power via Belt & Road Initiative, Asian Infrastructure Investment Bank, Comprehensive Regional Economic Partnership. RMB internationalization: contradictory process.

European Union: banking union, capital markets union, ECB reforms, fiscal federalism, Eurobonds, trade deals (Japan, Canada, Mercosur).

United States: USMCA replacing NAFTA, other allies (e.g. Israel, Saudi Arabia, Egypt, post-Brexit Britain, Columbia, Japan).

Three blocs represent also varieties of capitalism: US' "free market" economy, EU's social-market economy, China's state-directed capitalism

# Scenarios

- Much will depend on timing and nature of structural (reorganization) crisis => war, depression, or environmental crisis? Climate change will be key in this process (one reason US will lose its superpower status).
- Possible scenarios shaping relations within emerging 'triad':
  - US-China confrontation. Role of EU as go-between and pace-setter.
  - Minimum degree of cooperation between three adversarial blocs.
  - Coordination -> target-zone system as new IMS;
  - New global governance structures for low-carbon transition, G-5 Internet, Big Data, AI automation, migration, with new IMS rooted in upgraded SDRs (in stages all the way to equivalent of Keynes' Bancor). Progressive finance.
  - How to integrate other regional power centers, like Russia, India, South Africa or Brazil? Need to embed New Developmentalism in broader global context.