Quantitative Easing and the fetishized emergence of 'world money' in the 21st century

Paul Kellogg
Centre for Integrated Studies
Athabasca University

Paper presented to the annual conference,
Canadian Political Science Association (Political Economy),
May, Wilfrid Laurier University, Waterloo

Draft only
April 29, 2011
Comments to pkellogg@athabascau.ca

Introduction 2
The two-fold character of money 2
'Good as Gold' at Bretton Woods 4
The Nixon Shock and the era of devaluation 8
Petrodollars: the fuel of empire 10
World money and militarism 12
Conclusion – Dirty Deeds Done Dirt Cheap 18
Works Cited 21

Introduction

Quantitative Easing – treated with skepticism when used by the Bank of Japan from 2001-2006 – has become the policy tool of choice for the U.S. Federal Reserve. Trillions of dollars worth of debt in various forms have been moved from the books of financial institutions to those of the Federal Reserve in effect by "printing money" (although in fact all transactions are electronic). This aggressive increase in the supply of money in the world's biggest economy has been in response to the very severe recession of 2008-2009.

This paper will examine this 21st century policy development by deploying the concept of "world money" (sometimes translated as "universal money" or "money of the world") developed by Karl Marx in the first volume of *Capital*. Marx speculated about conditions where money might acquire "to the full extent the character of the commodity whose bodily form is also the immediate social incarnation of human labour in the abstract." (Marx, 1996, p. 153) Quantitative Easing, it will be argued, is a) only possible when a currency already partially contains the characteristics of "world money" and b) is the latest in a series of phases of the attempt by the greenback to solidify its claim to "world money." However, because this process is unfolding in a "fetishized" fashion – driven by private property, corporate power and inter-state competition – it is rife with contradictions, and can have the effect of increasing, rather than decreasing economic instability.

The two-fold character of money

In the wake of the Great Recession of 2008-2009, a term heretofore confined to the desks of economists, entered general parlance. The peculiar term "quantitative easing" has become normalized as part of the general discourse about responses to the crisis. According to the Central Bank of the United Kingdom, it is a way of injecting money into the economy "by purchasing financial assets from the private sector." What are these financial assets? They are bonds issued by the central government to finance growing deficits. How are these assets paid for? Why "with new central bank money." But where does that money come from? Well, "the Bank can create new money electronically by increasing the balance on a reserve account." (Benford, 2009, p. 91) And that's it. New money is just simply, created. If your balance is $1,000, add a "zero" and it's $10,000, new money created "electronically by increasing the balance on a reserve account." Quantitative easing's "effect is the same as printing money in vast quantities, but without ever turning on the printing presses." (The New York Times, 2010) A skeptic would argue that the obscure term "Quantitative Easing" was chosen as less likely to arouse suspicion than a more transparent name such as "Harry Potter money creation."

When this was policy in Japan in the wake of the deep recession of the early 1990s, it was derided in the U.S. press as something "which essentially stuffed Japanese banks with cash to help them write off huge bad loans accumulated during the 1990's." (Fackler, 2006) But in 2008 and 2009, this policy of creating money from nothing was embraced with passion in the United States. In 2008, the U.S. central bank (the Federal Reserve) "bought $1.7 trillion –worth of Treasury and mortgage bonds with newly created money." (The Economist (US), 2010b) That $1.7 trillion did not exist. It was brought into existence electronically, transferred to the books of financial institutions, in the hopes of pushing that newly minted money into the economy and stimulating growth. That program ended in 2009. But in 2010, another round of Quantitative Easing – QE2 – was employed, with a planned purchase of $600 billion of U.S. government debt, to "stuff U.S. banks with cash to help them write off huge bad loans" accumulated in the last 10 years, to paraphrase the sarcastic analysis, written in the United States, describing Japan's similar policies a decade earlier.

Conceptualizing this moving of mountains of money is not easy. Few of us have the habit of thinking in terms of trillions. It helps to attempt to work out in more detail exactly what money is, in the abstract. One of the clearest discussions of this concept comes from the first volume of Karl Marx's *Capital.* His third chapter is titled "Money, or the circulation of commodities." It is not a complete analysis, and portions of it are now quite dated. But the essence of his outline remains relevant.

He argues that, just as there is a twofold nature to the commodity, there is a twofold nature to money. It is both a universal equivalent, and a store of value. As a universal equivalent, it functions to "supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a universal measure of value." (Marx, 1996, p. 104) This is the function of money in everyday life – as a tool with which we exchange commodities, a tool with which we buy and sell things.

As a store of value, the function of money is different. In earlier societies, the fact that money was a store of value could be seen through "hoarding" or the acquiring of a hoard of money (usually in the form of gold and silver). This is a term little used today because "hoarding, as a distinct mode of acquiring riches, vanishes with the progress of civil society." However, "hoards" of cash are still acquired – certainly by corporations, but also by states. In the realm of international trade for instance, "the formation of reserves of the means of payment" grows along with the progress of civil society. (Marx, 1996, pp. 152-153)

This "progress" of civil society, is for Marx, at one level the progress from an economy largely bounded by a home market, to an economy increasingly embedded in international trade and exchange. "When money leaves the home sphere of circulation, it strips off the local garbs which it there assumes … In the trade between the markets of the world, the value of commodities is expressed so as to be universally recognized. Hence their independent value form also, in these cases, confronts them under the shape of universal money. It is only in the markets of the world that money acquires to the full extent the character of the commodity whose bodily form is also the immediate social incarnation of human labour in the abstract." (Marx, 1996, p. 153) For Marx, this universal money necessarily took the form of bullion – gold and silver in bulk. We now know this is not the case. The needs of the modern economy for universal money far outstrip the gold and silver available to perform this task. But absent this reference to bullion, Marx's insight into money "shedding its local garb" (the peso, the loonie, the yen, the greenback) and necessarily acquiring the character of universal money when it enters the sphere of relations between national economies, this insight is clear and valuable.

What Marx is saying here is built on his labour theory of value. Aristotle long ago posed an important question, one for which he could not quite find an answer. How is it that commodities that are qualitatively different – wheat versus shoes, or the tangible products of farming and the intangible services of a physician – are in every day life compared and made equivalent through buying, selling and trade. The fact of exchange implies that these qualitatively dissimilar products and services each contain something that can be compared and measured, something which Aristotle could not discover. (Aristotle, 1962, pp. 1132b: 20-25; 30-35; 1133a: 15-20)[1] For Marx the answer had been made clear by the development of capitalist society – qualitatively different commodities all contained "congealed" labour time. All were products of human labour, and, in theory, that labour time, congealed in each commodity, could be measured and given a value. In fact, that is what happens every day on the market, whether in the village market or the world market.

But the greater the distance from the local, the more abstract becomes the relationship between these commodities, the more pressure there exists for a more precise means by which to measure and equate olives from one continent with computer chips from another. This pressure, Marx argues, creates a pressure for money to assume the garb of "World Money," sometimes translated as "Universal Money" or "Money of the world".[2] There is a tendency, in other words, as the complexity of the world economy increases, and as it increasingly internationalizes or globalizes, there is a pressure towards the creation of a money "whose bodily form is also the immediate social incarnation of human labour in the abstract."

However, the world economy does not just step from nationally-bounded economies to "world economy" at one move. It is a move made over centuries, and from a position where money and the economy are both encased in private property, and unequal power relations between national economies. So this move towards world money, in the first instance, takes the form of a particular, national currency attempting to take on that role. So for instance, for much of the 19th century, the British pound sterling began to play the role of world money. "Many countries and firms held sterling deposits in London, reflecting Britain's central role in the world capital market." (McKinnon, 1993, p. 6) But this capacity for one currency to play the role of world money is intimately linked to the place of that country's economy in the world hierarchy of nations. As the British empire declined, so ultimately did the place of the British pound's capacity to play this role.

This opens up a large area of inquiry into the dynamics of the economic turmoil during the first 40 years of the 20th century, turmoil in which this uncertainty as to the status of "world money" was an important factor. That is for another paper. For the analysis that is presented here, however, it will be sufficient to indicate that it *was* a factor in that crisis, and that it was noticed as such by the 20th century's greatest economist, John Maynard Keynes. Filling out our understanding of world money necessitates an examination of his contribution.

'Good as Gold' at Bretton Woods

Keynes emerges into prominence in the context of the restructuring of the world economy out of the ruins of the Second World War. In 1944, as that catastrophe was winding to a close, representatives of 44 allied nations met in Bretton Woods, New Hampshire to try to develop policies to prevent history repeating itself. Prior to 1914, capitalism had by and large been able to develop through exporting its horrors to the Global South – bringing genocide, slavery and the destruction of ancient civilizations to the Americas, Africa and Asia. But from 1914 on, some of those horrors had come home to the heart of the system itself, world wars engulfing the most "civilized" and capitalist powers themselves, first from 1914 to 1918, and then again from 1939

[1] By convention, page references are based on the first modern edition by I.Bekker. Each page in Bekker's version is printed in two columns, the left called "a" and the right "b". Here, then, in-text references to Ethics indicate Bekker's page, column and line numbers.

[2] The importance of this concept has been underlined in the contemporary period by David McNally. (2008)

to 1945. Between these two moments of industrialized slaughter, was the interlude of the Great Depression – the unprecedented collapse of trade, finance, employment and income, which shattered lives for a decade. It was clear to everyone that these two – war and economic collapse – were intimately related, and that to forestall another military catastrophe, deep economic restructuring would be required.

In this context, a once obscure economist emerged into prominence. In 1919, the then 30-something John Maynard Keynes was horrified when the peace treaty imposed by the victorious allies – the Treaty of Versailles – put in place punitive reparations on Germany. Keynes argued that the billions of dollars that were to be stripped out of German society would impoverish and embitter the country, lay the ground for economic difficulties, and for new wars. He captured this in his first major book, *The Economic Consequences of the Peace.* (Keynes, 1995) His advice was ignored, the punitive treaty was put in place, and the worst of Keynes's predictions as to its consequences were, unfortunately, realized.

Largely as a result of a) the extent of the catastrophe of the 1930s and 1940s and b) the fact that Keynes was one of the few who had anticipated this catastrophe, by 1944, Keynes was no longer an outsider and critic. This time he was at the table as one of the chief architects of the Bretton Woods' institutions which were to emerge from this gathering. His ideas were listened to, in part because his warnings in 1919 had been so appallingly confirmed. His argument that economic competition needed to be regulated, that there had to be a central role for the state to mitigate the effects of the boom-bust cycle, and that there had to be institutions which could manage competition at an international level – these ideas were to be taken very seriously, as policy makers everywhere stared back at the horrors which were the alternative.

The Bretton Woods' discussions would create the International Monetary Fund (IMF – designed to "administer the international monetary system") and the International Bank for Reconstruction and Development or World Bank ("initially designed to provide loans for Europe's post-war reconstruction" (Steger, 2009, p. 39)). But two other key goals were not achieved. One has been well-documented. Keynes had wanted an "International Trade Organization" to forestall the vicious trade wars which had broken out in the 1930s. He was not successful on that front. All that could be arrived at was the General Agreement on Tariffs and Trade or GATT, which took until 1995 to evolve from an agreement into an institution in the shape of the World Trade Organization (WTO). The second unrealized objective has received much less attention. It was to establish an "International Clearing Union" (ICU) for use in transactions between countries. (Davidson, 2002, p. 5) (Monbiot, 2008) The U.S. – enthusiastic backer of much of the Bretton Woods' discussions – was completely opposed to this. The establishment of an ICU would have sidelined the role of the U.S. dollar in international transactions. Emerging from the war controlling something like half of the world economy, the United States looked forward to the advantages that would accrue to its corporations and government from its new place as the centre of empire. Without an ICU, the U.S. dollar – like the British empire's pound before it – would inevitably become the chief currency for international transactions. It would, in other words, come to take on the role of "world money."

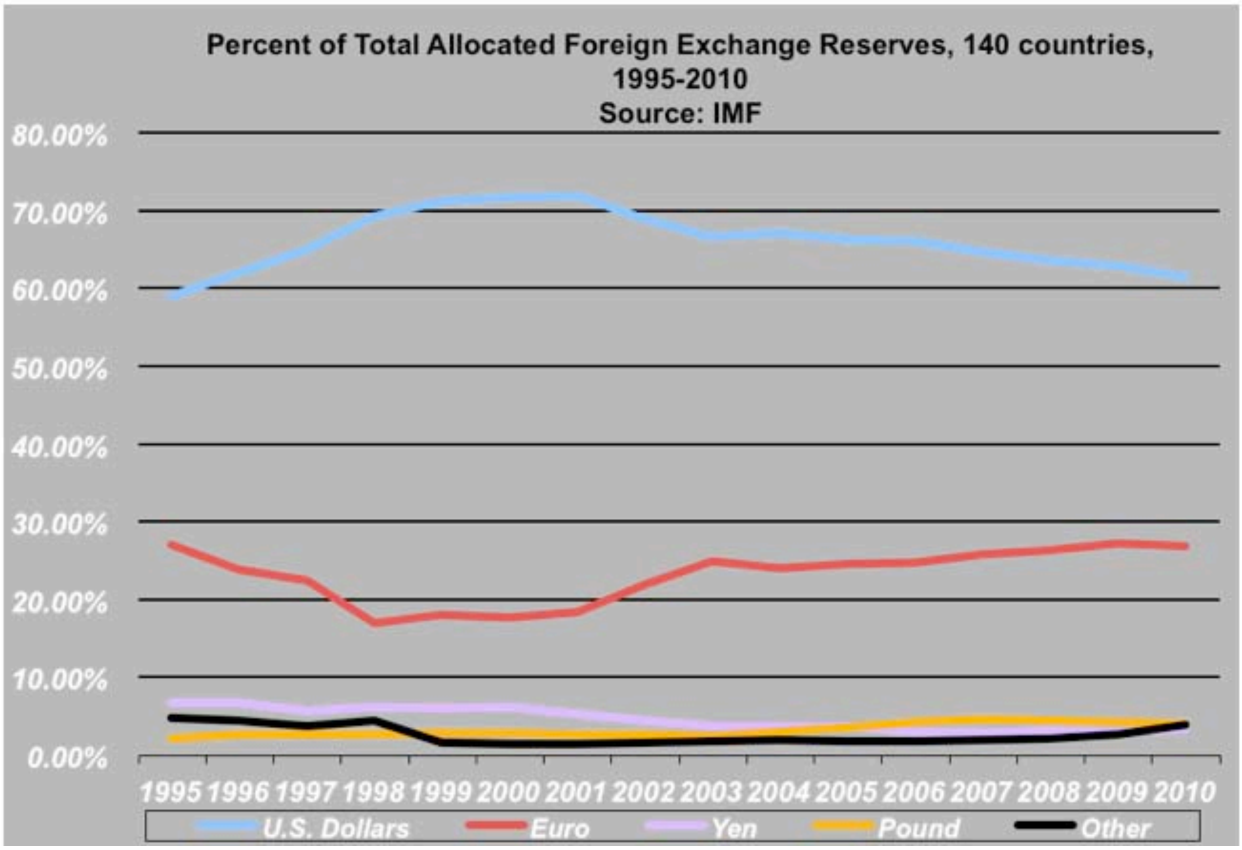
We cannot avoid world money. There will be a currency for use in international transactions whose "bodily form is" more and more "also the immediate social incarnation of human labour in the abstract." But that is only, of course, part of what the British pound was in the 19th century and the U.S. dollar was in the 20th century. Both were, and are, simultaneously currencies tied to particular national economies, economies based on corporate power and capital accumulation. The privileges associated with having a national currency used as world money are vast. It was in anticipation of these privileges, that the U.S. would not countenance Keynes suggestion for an ICU. The U.S. intended to, and did, leverage its position as the centre of empire to establish the U.S. dollar as world money.

We have already seen that money is a peculiar thing. It is the necessary link between producers and consumers, employers and workers. It is also something that can be a "store of value." Accumulate a lot of money, and you can have access to a lot of commodities, or a lot of that most special of commodities, labour power. In the early years of the world economy, precious metals, such as gold and silver, evolved into the material of choice to represent value – scarce enough to be "valuable" in themselves, but abundant enough so they could circulate in sufficient quantities to keep the economy functioning. In states that were sufficiently large and stable, a modification of this system developed. Paper money (probably first used in China more than 1,000 years ago) is essentially a promise that, should the holder of the paper money choose, the paper can be exchanged for a certain amount of gold or silver. So precious metals had not disappeared from the equation. They had simply been pushed into the background.

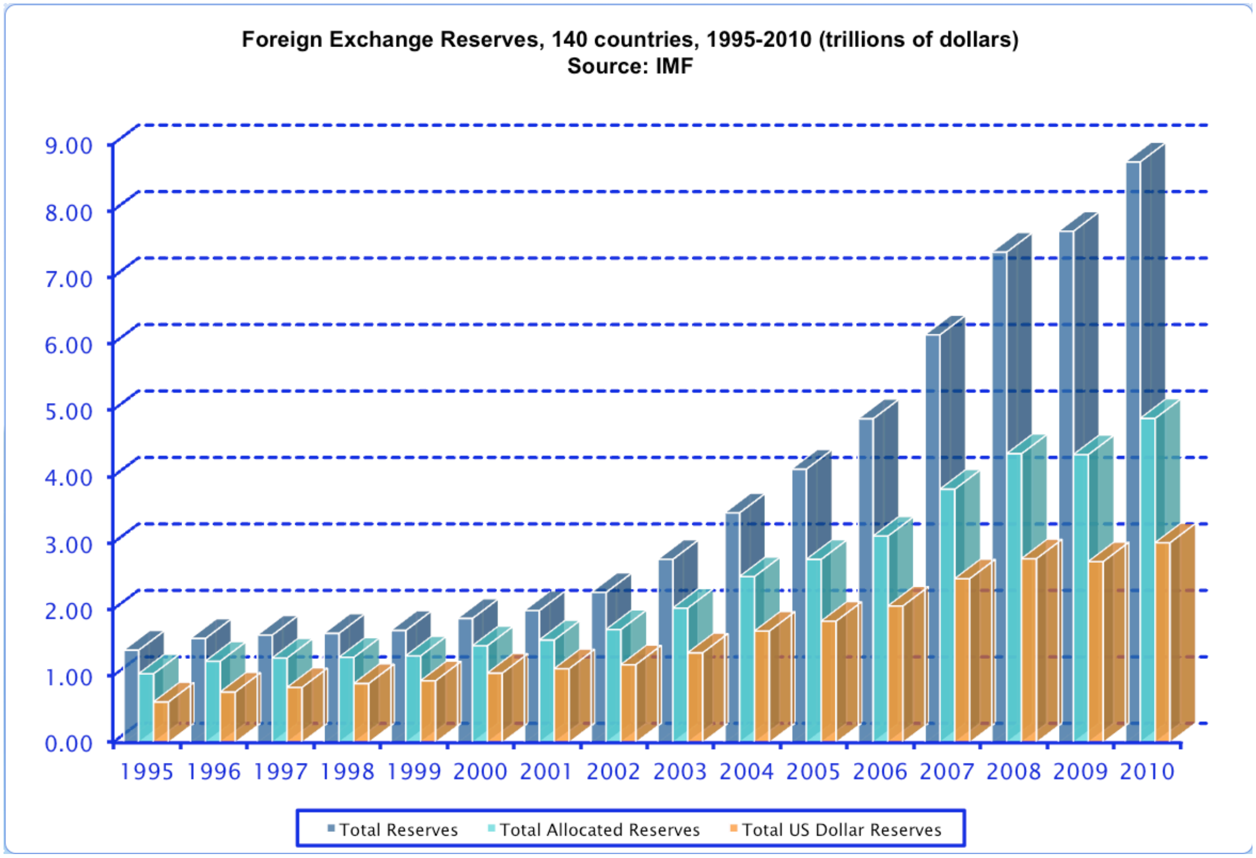
At Bretton Woods, the U.S. argued for and won a particular framework by which money could circulate in the world economy as a whole. It argued that it could guarantee currency stability by a double linkage – world currencies to the U.S. dollar, and the U.S. dollar to gold. Other currencies could price themselves in U.S. dollars, and that would be "good as gold" as the U.S. committed that anyone who wished, could turn in their U.S. dollars in exchange for the real thing – for gold, held at a fixed rate of $35 an ounce.

The establishment of the U.S. dollar as the world's chief currency for international transactions had some risks. Should everyone with U.S. dollars demand they be exchanged for gold at the same time, the system would be in crisis. But it also held out enormous benefits. A key component of the world economy consists of the international reserves held by each country's central bank to facilitate economic exchanges between nations. Traditionally, the key component of these reserves was gold. But with the U.S. dollar "good as gold" it became increasingly the practice for central banks to hold U.S. dollars as their international reserve, along with and increasingly in place of gold. The U.S. dollar was not the only such currency. Most central banks hold reserves in several of the different major currencies. But since Bretton Woods, by far the dominant currency held in central banks has been the U.S. dollar. The first chart (IMF, 2010) here shows that this remains true into the 21st century, at any one time between 1995 and the present, U.S. dollars representing some 60 per cent to 70 per cent of allocated international reserve holdings throughout the world.[3]

[3] Prior to 1999, the euro did not exist, so figures here for 1995 through to 1998 are for a "euro equivalent" – the sum of the old Deutsche mark, the French franc, the Netherlands guilder and the European Currency Unit (ECU), all of which have ceased to exist with the launch of the euro.



There are some important qualifications to be given to these percentages. First, these figures are provided "on a voluntary basis" from the 140 countries participating in the IMF process which compiles them. Second, not all international reserves are identified. The percentages here are for "allocated" reserves alone. There is a quite large – and growing – portion of international reserves held by central banks which are "unallocated" because the IMF simply does not know what they are. In 1995, 26 per cent of foreign exchange reserves went into this mystical "unallocated" category. By 2010, that had risen to 44 per cent. These qualifications aside – it remains the case that fulfilling the role of internationally recognized "store of value" for international transactions, requires a huge quantity of U.S. dollars, measured in the trillions. The next chart (IMF, 2010) demonstrates this, showing total foreign exchange reserves, total allocated reserves, and total reserves held in U.S. dollars. The amounts are vast (by 2010 more than $8 trillion in total foreign exchange reserves, of which more than $3 trillion in U.S. dollars) and growing.



This was the first, and centrally important, privilege of empire. The United States, alone in the world economy, had partially broken the link between trade deficits and currency decline. Most countries which run large trade deficits, see their currency decline in value. Less relative demand for an economy's goods means, normally, less relative demand for that country's currency. But the United States could partially defy that law. Since the 1980s, the United States has run increasingly large deficits in all of its international transactions. But regardless of demand for U.S. goods, there is always a demand for U.S. dollars, as the principle "store of value" for central banks around the world. As long as the U.S. dollar was "good as gold" it could run – and has run – very large trade deficits, but not seen its currency collapse. The annual trade deficits which the U.S. has been running since 1975 are a downward pull on the value of the U.S. dollar – but that has been significantly lessened by the constant demand for the U.S. dollar as a store of value on an international scale.

It is, then, of some interest, what exactly is represented by the large and growing "unallocated" portion of foreign reserves, pictured above. If that represents a hidden move away from the U.S. dollar towards other currencies, then this long love affair between the world's central banks and the U.S. dollar might be in jeopardy. If and when that love affair ends, and the U.S. dollar starts behaving like a "normal" currency, the consequences will be profound.

The Nixon Shock and the era of devaluation

So the first, and still important, privilege of empire was to establish the U.S. dollar as "world money," creating demand for the US dollar in spite of growing internal weaknesses and imbalances inside the U.S. economy. But empires do not last forever. The second aspect of United States' currency wars developed in the late 1960s and early 1970s, as the first signs of the weakening of the U.S. empire began to reveal themselves.

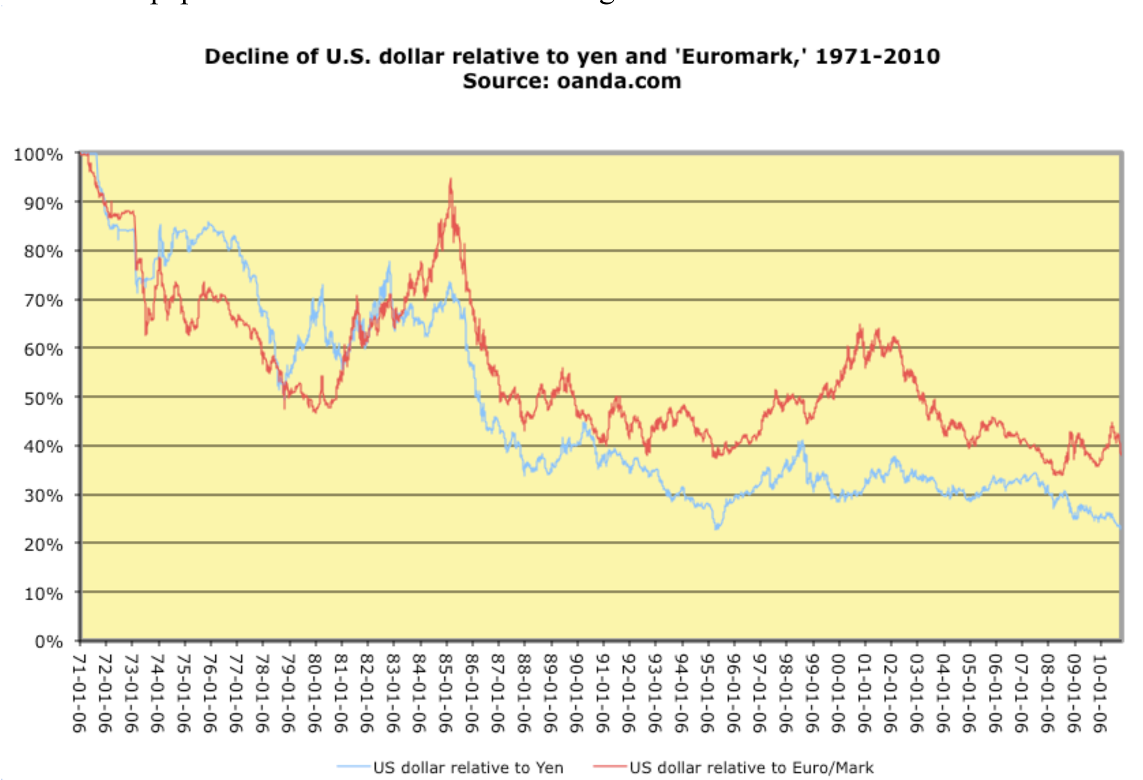
Part of the background was created by the U.S. wars in Indochina. From small beginnings under John F. Kennedy, these wars under first Lyndon Johnson and then Richard Nixon, grew into murderous, destructive – and hugely expensive affairs. The U.S. had won the right, through Bretton Woods, to print money almost without impunity. But emphasis here has to be put on the word "almost." The enormous expenses involved in keeping an army of half a million overseas began to put severe strains on the U.S. economy.

The other part of the background had to do with the defeated powers from World War II. Japan and Germany – and with Germany the rest of Europe – had considerably recovered from the destruction of war. Their economies were growing, and they were not burdened with the cost of empire and war as in the United States. Crucially, the recovering European and Japanese economies – were running big trade surpluses, and accumulating growing piles of U.S. dollars. Gold on the open market was trading above $35, but the Bretton Woods' exchange rate system pegged the U.S. dollar to gold at $35 an ounce. Increasingly, central banks, in Europe in particular, were exercising their Bretton Woods' right to convert their U.S. dollars for gold – in effect, gaining access to gold below market value. The dangers to the U.S. economy were very clear, as gold fled the country both to pay for imperialist wars, and to meet Bretton Woods' obligations.

Secretary of the Treasury John Connally, a life-long militarist and hawk – would not, of course blame U.S. foreign policy adventures for the crisis of his country's economy. But the other half of the equation, he saw absolutely clearly. He argued that action was needed "to head off what the Administration believe[d] to be the most important non-military threat to U.S. national security: economic competition from Japan and Western Europe." (Cited in Muirhead, 2004, p. 439)

August 15, 1971, Richard Nixon announced a New Economic Policy. In Japan, it became known as the Nixon Shock. That day, the Bretton Woods system broke down – or rather, the United States walked away from Bretton Woods. Nixon announced that the U.S. would no longer automatically exchange U.S. dollars for gold at $35 an ounce. In effect, he was removing gold as the standard by which currencies were measured, leading to the current system of "floating" exchange rates. The immediate effect was a steep and stunning decline in the value of the U.S. dollar relative to other currencies. This was precisely the intention of the Nixon Shock. As *Time* magazine reported in 1971: "American officials who once proclaimed the majesty of the dollar now cheer declines in its price on newly freed money markets, because they hold the potential for helping the U.S. balance of payments." (Time, 1971) There is much talk today about China having an artificially devalued currency. The Nixon Shock was devaluation on a scale about which China can only dream. And it is a devaluation which has continued in the almost forty years since.

Elsewhere I have examined some of the statistical challenges in measuring the relative strength of the U.S. dollar. (Kellogg, 2009) The most common database by which to compare the relative strength of currencies begins in 1973. In other words, it excludes the impact of the Nixon Shock, and in doing so "flattens" the picture, showing only a modest downward trend for the U.S. dollar. But a database with a more rounded picture, stretching from just before the Nixon Shock to the present, can be put together from readily available statistics – with figures for the U.S. dollar, the historically most important currency in Asia (the Japanese yen) and the "euromark" – a composite notional currency comprised of the German mark and the euro, which has replaced the mark. The result, visible in Figure 10 (Derived from Oanda.com), is very clear. The U.S. dollar is approximately 1/3 of what it was in 1971, compared to the yen and the "euromark," and its trajectory is without question "down." A detailed explanation of the reasons for and ramifications of this long-term slide relative to other major currencies will have to wait for another paper. But the fact of the weakening of the U.S. dollar is incontrovertible.



It is worthwhile at this point in the analysis to marvel at the arrogance of U.S. policy makers. In 1944, a system to stabilize the world economy was put in place, which had the side benefit for the United States, of privileging its currency as the store of value for central banks around the world, allowing United States' policy makers to print money almost at will. When this capacity to print money out of proportion to the needs of the economy – in particular to finance murderous wars in IndoChina – started to put strains on the system, the United States simply walked away from its obligations, leaving the Bretton Woods' monetary system in ruins, and imposing on the rest of the world a remarkably steep devaluation of their currencies, making U.S. produced goods more competitive, and those produced in Japan and Europe less so. It is a remarkable story to this point. The evidence of U.S. manipulation of the world currency system to its advantage is overwhelming, and has a very impressive pedigree. But the story is only half done. There are two other key aspects to the "privilege of empire" still to be examined.

Petrodollars: the fuel of empire

The collapse of Bretton Woods led to a short-term devaluation of the US dollar. Other things being equal, it is conceivable that this devaluation could have accelerated into a collapse. However, the death of Bretton Woods was followed by another era in the history of the dollar –

that of the Petrodollar. In the early 1970s, the Organization of Petroleum Exporting Countries (OPEC) made the historic decision to invoice the trade of oil in dollars. In part under the direction of then Secretary of State Henry Kissinger, the United States and Saudi Arabia in 1974 launched the "United States – Saudi Arabian Joint Commission on Economic Cooperation." The key decision arising from this commission was for Saudi Arabia to sell its oil in U.S. dollars. "As the largest OPEC producer, the Saudis used their strong influence in OPEC to persuade other members to follow suit; and they did. In 1975, OPEC announced its decision to invoice oil sales in dollars." (Momani, 2008, p. 297)

This meant that there was another reason for every nation to hoard U.S. dollars, whether buying goods from the U.S. or not. To buy oil, you needed U.S. dollars, something which set both oil and the U.S. dollar apart from their equivalents in the world economy. To buy apples produced in Canada, someone outside of Canada in effect has to buy Canadian dollars at the same time. The apples are priced and traded in local (Canadian) currency, so a demand for apples implies a demand for the Canadian currency. But not with oil. To buy oil from Saudi Arabia, or Iran, or Venezuela – you didn't need access to the currencies of those nations, but rather to U.S. dollars. Increasing demand for oil from these producers, then, meant perversely increasing demand for U.S. dollars. Bessma Momani summed it up as follows.

> Since the mid-1970s, the value of the United States' dollar has been upheld by a number of domestic and international factors. An often underestimated factor is that oil is sold and traded in US dollars. Arguably, having the dollar used as the 'main invoice currency' for oil makes the trade of this vital resource the new post-Bretton Woods' Fort Knox guarantee of the dollar. (Momani, 2008, p. 293)

Nixon broke the link with gold in 1971, and at first glance that should have led to a very steep decline in demand for the U.S. dollar. But because of the pivotal role of the U.S. dollar in the international oil market – the market for the one indispensable commodity for world capitalism – there remained constant demand for the U.S. dollar.

The United States again benefited from the "privilege of empire" – a unique capacity that existed only because of the overwhelmingly dominant position held by the United States in the world economy. With this capacity to print dollars far in excess of that of other nations, the United States has been able to continue financing enormously expensive wars abroad, while at the same time running large and growing trade deficits at home. No other country in the world has this kind of capacity.

There were other perverse effects from the creation of a world awash in petrodollars. The oil exporting countries amassed huge quantities of these dollars, far in excess of anything they could spend internally. In the late 1970s and the early 1980s, much of these excess funds "were saved and deposited with banks in industrial countries," in particular in banks in the United States. "The banks, in turn, lent on a large part of these funds to emerging economies, especially in Latin America. When the oil boom subsided in the early 1980s, bank flows to emerging markets reversed sharply, triggering the Latin American debt crisis." (Wiegand, 2008, p. 4)

That is how the antiseptic language of an IMF working paper outlines the issue. It could be restated as follows. Billions of dollars left the United States, Europe and Japan to pay for oil imports in the 1970s and 1980s. The billions of dollars received by OPEC countries was far in excess of any local consumption and development possibilities (in large part because these countries had distorted development patterns after decades of oppression by the rich countries of the Global North.) So in turn, these billions flowed back to the Global North in the form of massive deposits in Global North, particularly U.S., banks. "Nearly 500 billion petrodollars were recycled from oil producers with a capital surplus to countries with trade deficits." (Spiro, 1999, p. 1)

It didn't end there. The same processes driving this flow of money – the spike in the price of oil in the 1970s – made it very difficult for developing countries in Latin America to finance their industrialization. They had "balance of payments" problems. Under pressure from the IMF, these countries were encouraged to borrow the petrodollars sitting in the vaults of the Global North banks. These petrodollars were in effect " 'recycled' through the IMF" (Nsouli, 2006) in the form of loans to countries in the Global South from the excess money sitting in the banks of the Global North. This was aggressively marketed as an alternative to the nationalism and state-led development strategies of the 1960s and early 1970s. When interest rates spiked in the 1980s, the loans incurred became unsustainable, and the economies of Latin America spiraled into a deep crisis.

Billions of dollars slosh through the world economy, enriching states and financial institutions in the Global North, creating short-term frenzies for debt-financed development, and laying the basis for long-term crisis in the developing world. The petrodollar aspect of U.S.-based currency wars is an issue for the poorest countries of the world, not just its richest.

The benefits of the Petrodollar era might be beginning to unravel for the United States. Bessma Momani concludes that it is unlikely that in the short term, the OPEC countries will end their use of the U.S. dollar. But, should the U.S. dollar continue the long decline outlined earlier in this paper, there will be increasing incentives to diversify away and into other "stores of value" such as the euro. The consequences for the U.S. would not be pleasant.

World money and militarism

We are no longer in the petrodollar era, but the era of quantitative easing. The two eras are linked, however. The demand for the U.S. dollar, created by its status as world money, has allowed the U.S. to run massive deficits on a scale not possible in other economies. These deficits have been primarily used, by the U.S. state, for one purpose – to finance the U.S. war machine.

This is not always visible. There is a growing chorus of voices in the media and the academy singling out the actions of the Chinese state as central to the dilemmas of the world economy. Paul Krugman, for instance, writing in the run-up to the November 2010 G20 summit in South Korea, praised the United States' approach of creating money out of nothing, Quantitative Easing, as being helpful to the world economy, and criticized the Chinese state's attempts to keep its currency weak as being harmful. "The policies of these two nations are not at all equivalent," he argues, adding his influential voice to the chorus which is increasingly targeting China for the world's woes. (Krugman, 2010) Krugman's, however, is a simplistic analysis which overlooks the role of the U.S. over decades in creating huge imbalances in the world economy, and has the dangerous effect of scapegoating one of the poorest nations of the world (China) for the problems created by the world's richest.

Krugman's argument proceeds through a sleight of hand. He objects to the attempts by the Chinese state to keep down the value of its currency – the yuan – as a series of policies whose "overall effect ... on foreign economies is clearly negative." This is a common theme – China's "weak-yuan" currency being good for China (making its exports cheaper in world markets) and bad for the rest of the world.

But there is a problem. By his own admission, the U.S. policy of creating money out of nothing will result in a "weaker American dollar." What he doesn't say, but what is implicit in his analysis, is that this U.S. policy is identical to China's – a "weak-yuan" policy in the latter, matched by a weak-dollar policy in the former. Krugman nonetheless lets the U.S. off the hook because, he argues, even though the U.S. dollar is certain to fall in value as a result of the new trillions being created, "that is not the ultimate goal."

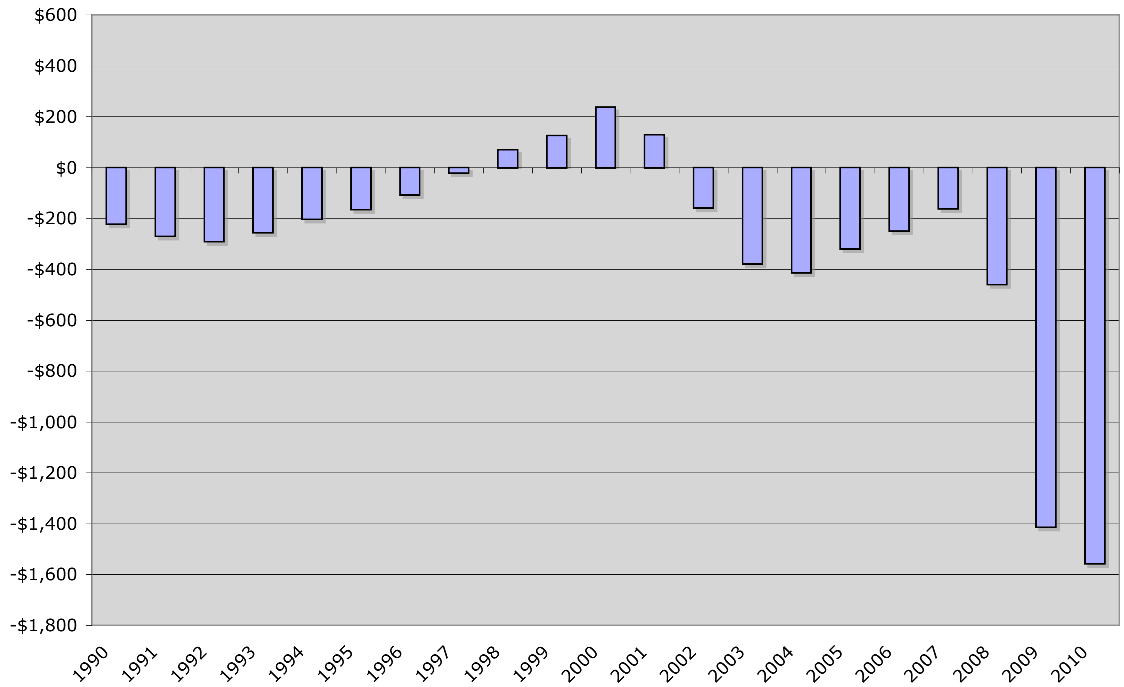
Judging a policy on its intent rather than its effect is disingenuous. The effect of the decision by Michael Ignatieff, to trigger an election in early 2011, has been to deliver an unprecedented defeat to what used to be Canada's governing party. That was certainly not Ignatieff's intent. However, let's take Krugman at face value. Why does he see the U.S. policy as good for the world? Because, he argues, "basically, the United States is pursuing a policy that increases overall world demand" and China "is pursuing a contractionary domestic monetary policy, reducing overall world demand."

Let's begin with some of the key facts. At the peak of the economic crisis, the United States, Canada, and the European Union had to borrow hundreds of billions of dollars from the rest of the world to finance stimulus programs to stabilize their economies. China also engaged in serious fiscal stimulus (relative to GDP virtually on the same scale as the United States) (Prasad, 2010), but unlike the North American and European powers, it was able to do so without borrowing a penny from the rest of the world. (Trevisani, 2009)

One of the reasons the U.S. had to resort to large-scale foreign borrowing, was because of years of high levels of central government deficit spending. The first chart here shows the last twenty years of central government spending, a story of only momentary surpluses and a "norm" of deficits in the hundreds of billions of dollars – in 2009 and 2010 in the wake of the financial crisis, passing the one trillion dollar mark.[4]

[4] Figures for this and the next three charts (Scenarios 1-3) are primarily derived from the U.S. Government Printing Office (2010) For the years 2001 to 2010, the charts are based on figures in Office of the Under Secretary of Defense (Comptroller) / CFO (2010). The latter differ slightly from the former, but have the advantage of explicitly incorporating the military portion of the War on Terror, euphemistically referred to as "Overseas Contingency Operations."

Deficit/surplus, US Central government (billions)



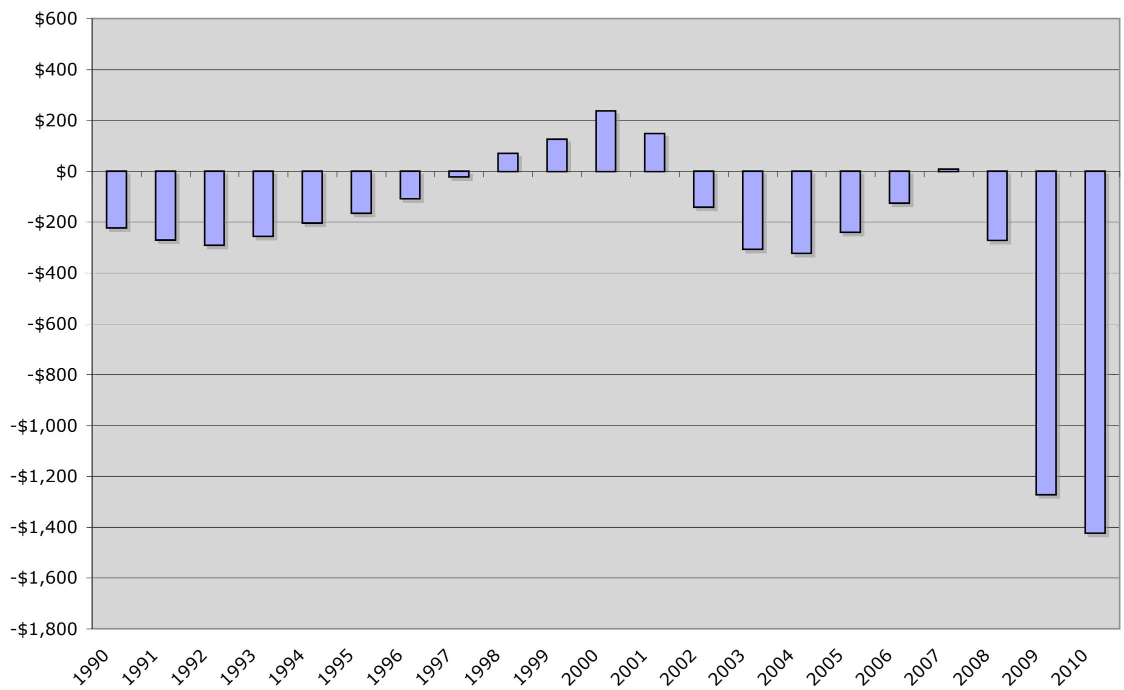
Because the United States central government had been running very large deficits for years, borrowing on a large scale was inevitable to do the very necessary work of trying to "stimulate" the economy at the peak of the crisis in 2009. But with these deficits pushing debt levels very high very quickly, there has been increasing nervousness about both deficits and debts getting out of hand. Enter "Quantitative Easing." As an alternative to creating more government debt, the world's most powerful economy can, for the moment, simply "create more money," push it into the economy, and hope that this has the desired stimulus effect.

Krugman assesses the merits of these actions solely on their effect on world demand. But is this a sufficient criteria? There are all sorts of policies pursued by the U.S. over generations which have increased overall world demand. One in particular comes to mind. The U.S. central government has for a long time been the centre of military expenditure in the world, and its role as such is accelerating. In 1990 its military expenditures represented 36.19% of the military expenditures in the entire world. By 2009, its military expenditures had grown to fully 44.13% of world military expenditures. In other words, almost half of the money spent on war in the world is spent by the U.S. state.

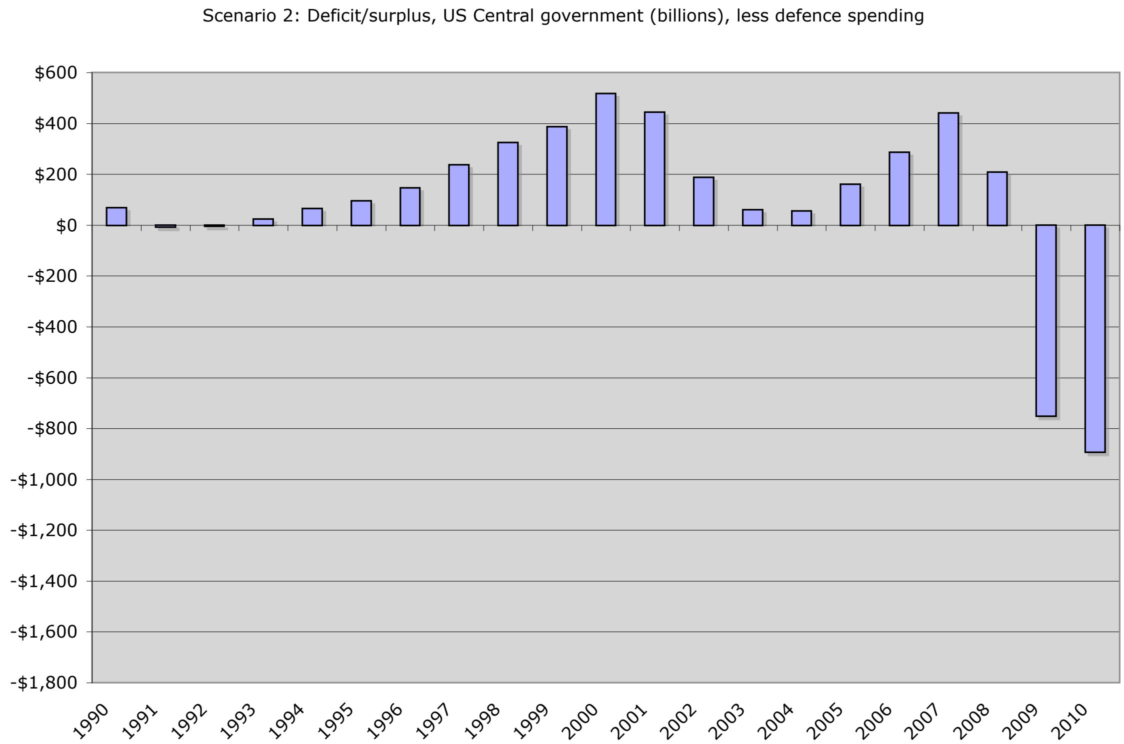
This huge infrastructure of planes, missiles, bases, tanks, guns, ammunition and personnel has a powerful effect on demand in the world economy. For instance, "the U.S. military is the single largest consumer of energy in the world." (Karbuz, 2007) Gobbling up millions of barrels of oil certainly helps stimulate world demand for petroleum (if being somewhat problematic in terms of its impact on global warming). The trillions spent on war and militarism do meet Krugman's criterion in that they "stimulate world demand." But they do so in perverse ways. In particular, they are the principal reason for the desperate fiscal weakness of the U.S. central government, documented above, fiscal weakness which is driving the move to Quantitative Easing.

Begin with one aspect of arms spending, the "War on Terror." Launched in 2001 it has had three components – Operation Enduring Freedom (the war in Afghanistan), Operation Iraqi Freedom (the war in Iraq) and Operation Noble Eagle (beefing up U.S. military bases and homeland security). Officially, the bill to-date for this "War on Terror" is almost identical to the amount of money created in the first round of Quantitative Easing – $1.1 trillion dollars. (Belasco, 2010, pp. 1, 3) This is probably an understatement, perhaps a gross understatement. Joseph Stiglitz and Linda Bilmes estimate that the true cost of the war in Iraq alone will be in excess of $3 trillion. (Stiglitz & Bilmes, 2010) However, for arguments sake we will take the official figures. If those official figures are removed from the books (scenario 1) – that is, if we see what the picture would be like had the War on Terror not been launched – then a change begins to take place in the picture of U.S. deficit spending. It doesn't eliminate the deficit problem. But it does lessen it, to the extent that as late as 2007 – the year the financial crisis first revealed itself – the U.S. central government would have actually have run a modest surplus.

Scenario 1: Deficit/surplus, US Central government (billions), less cost of Iraq/Afghanistan

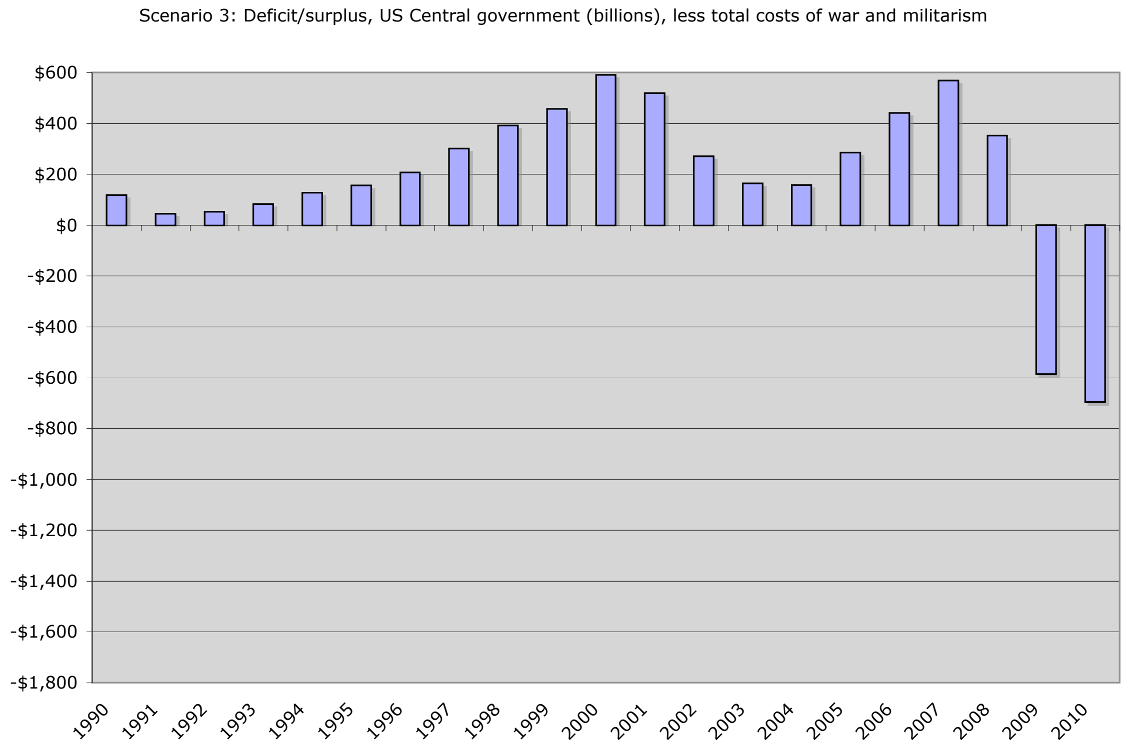


But the War on Terror is just the tip of the iceberg. The United States, as documented above, spends money on the military at a rate far greater than any country in the world. In 2010 for instance, the War on Terror costs of $130 billion were dwarfed by the $534 billion spent on other aspects of the military. Since 2006, the total "defence" budget of the U.S. has been over half a trillion dollars. By 2011 it is projected to be closing in on three quarters of a trillion dollars. Now imagine a pacific instead of a militaristic United States. In other words, see what the picture would be like without sustaining this massive war machine. When this military spending is removed (scenario 2), the picture of the U.S. central government budget is completely different.



In 2009 and 2010 there are of course quite large deficits. This is the normal "Keynesian" turn to deficit spending that occurs in any economic downturn. What is remarkable however, is the fact that in terms of non-military spending, before 2009 and 2010, there would have been no deficit whatsoever. In fact in many years there would have been surpluses, twice (in 2000 and 2007) touching half a trillion dollars. With a budget history for the last 20 years resembling this graph, a pacific U.S. government could have spent billions on its stimulus package, without borrowing a dime. Stimulus could have been completely financed out of accumulated surpluses from the last 20 years.

And in fact, this understates the situation. Many of the costs of the U.S. bloated war budget are hidden. It would take a team of forensic accountants with unlimited time and unlimited funds to sort through government finances and corporate balance sheets to tease out the actual costs of sustaining the world's biggest military, and the world's only truly global empire. But there are two "non-defence" line items that we can say with certainty are directly related to the U.S. military. Veterans Affairs spending is extremely high in the U.S. precisely because so many young people have come back maimed and broken through U.S. military adventures abroad. And the space program is a barely disguised excuse to develop and test the rocket technology that is the backbone of the U.S. nuclear arsenal. When these two are factored in (scenario three), the picture is breathtakingly clear.



The U.S. central government deficit problem has one source – addiction to war and empire. That addiction has led to borrowing on an unprecedented scale, making it impossible for the U.S. to stimulate its economy through accumulated savings and making it increasingly nervous about the accelerating practice of borrowing on a mass scale. This capacity to borrow on an unprecedented scale is facilitated by the role of the U.S. Dollar as world money. The most recent "privilege" this world money status gives the U.S. dollar – the turn to Quantitative Easing or creating money out of nothing – has been made inevitable by the massive deficits used to sustain empire abroad, in turn facilitated by the U.S. dollar's "garb" as world money.

What has been presented here is just a sketch. Critics will say that it is inconceivable to completely eliminate defence spending in the United States, something that happens nowhere in the world. Fair enough. So reduce U.S. arms spending to something reasonable. Instead of 45% of the world's total spending, a reasonable sum might be five per cent, as the U.S. population is roughly five per cent of the world's entire population. Do that, and virtually the same picture will emerge.

Return, then, to Krugman's argument. If we only have one criterion by which to assess this – the creation of demand in the world economy – then there is no problem here. Massive levels of arms spending create demand. Years and years of arms-related U.S. budget deficits do "stimulate" the world economy. But downing two or three pots of coffee in one setting will similarly "stimulate" a person's metabolism. That doesn't mean it is a recommended method by which to obtain our nutrition.

Obviously "the creation of demand" is not the only criteria we should use. When trillions are spent, it is useful to us ordinary folk when these trillions are spent in productive ways – on homes for the homeless, on childcare, on healthcare, on education, on infrastructure, on subways, on clean energy, on water purification in the Global South – the list is endless. But when the trillions are wasted on grenades, nuclear weapons, M-16 rifles, nuclear submarines, aircraft carriers and all the other paraphernalia of the U.S. killing machine – this is ultimately the equivalent of taking those trillions and flushing them down the toilet. It is "investment" which leaves nothing behind – except nuclear waste with which future generations will have to deal, deadly munitions that will exist for generations to maim and kill peasants in the field, and broken bodies and minds chewed up in endless wars. The creation of "demand" is not the only criteria. It matters – and it matters desperately – exactly what kind of "demand" we are feeding.

And think this through. This creation of money from nothing will systematically drive the U.S. dollar lower relative to other currencies. For those holding billions (and in some cases trillions) of U.S. dollar denominated debt, the devaluation of the U.S. dollar means a devaluation of the worth of their holdings. In effect, the United States through Quantitative Easing is forcing the rest of the world to pay for its empire, to pay for the costs it has incurred through sustaining a bloated Permanent Arms Economy.

It is irresponsible to assess the value of the policies of the U.S. and Chinese governments by narrowly focussing in on momentary decisions related to their currencies, and by pretending that these policies happen in a vacuum. There is a history to the current predicament of the United States, a history embedded in its role in empire, and the recreation of the U.S. Dollar as world money that this imperial status made possible. When put in this bigger context, the message that must be sent to Krugman and others making similar arguments is quite clear: blame the wars, not China.

Conclusion – Dirty Deeds Done Dirt Cheap[5]

Whether or not Quantitative Easing will stimulate growth is a matter for debate. There are, however, two things we know it will accomplish. First, it will accelerate the decline of the U.S. dollar relative to other currencies. Second, as this flood of money depresses interest rates in the U.S., it will put upward pressure on other currencies "as investors rush elsewhere, especially into emerging economies, in search of higher yields." (The Economist (US), 2010a) The long decline of the U.S. dollar documented earlier – a decline that is ongoing – is one reflection of the growing relative weakness of the U.S. in the context of the world economy as a whole. This growing weakness was revealed by the harsh impact of the most recent recession on the U.S. economy – a recession felt much more strongly there than in the other major economies. But this weakness is also revealed in the increasing indications that the U.S. dollar's days as world money might just be coming to an end. This is not just reflected in the rise of the Euro, documented earlier. The ICU ideas of Keynes are being seriously discussed for the first time in decades. (Klaffenböch, 2008) And in different parts of the world, regional currencies are emerging as an alternative to the U.S. dollar. The ALBA countries in Latin America and the Caribbean, for instance, have launched a trading currency, the sucre. (Harnecker, 2010, p. 51) The BRICS countries – Brazil, Russia, India, China and South Africa – have announced that they will "establish mutual lines of credit in local currencies." (The Economic Times, 2011) Most aggressively and pointedly, "Zhou Xiaochuan, governor of China's central bank, has suggested creating a 'super-sovereign reserve currency' to replace the dollar over the long run. He would sharply enhance the global role of special drawing rights, the international asset created by the

[5] Apologies to (AC/DC, 1976)

International Monetary Fund in the late 1960s." (Bergsten, 2009) Which if any of these ideas will come to fruition in the short to immediate term is impossible to say. But clearly, some kind of an important transition is underway.

It might help in the navigation of this transition, to deploy the concept of "world money" as has been attempted in this paper. We have acquired world money, but in a peculiar form, a "fetishized" form, which privileges one economy – in the 19th century, Great Britain, in the 20th century, the United States. It has to be seen as fetishized because the universal is packaged in the garb of the particular, in the garb of empire and corporate power. This fetishized form of world money has meant real instability in the world economy. From blocking the creation of ICUs at Bretton Woods in 1944, to the Nixon Shock of 1971, to the Petrodollar era from 1974, to the use of its "special status" to finance a massive military machine – the United States has demonstrated an unprecedented willingness to intervene in and artificially skew the world's money markets. With its adoption of Quantitative Easing, it has taken this to a new level, a "shock and awe" approach to the currency wars that makes any actions by other economies pale in comparison.

This makes it clear that the issue of monetary policy cannot be looked at from a strictly economic point of view, but has to be examined with one eye on the economy and the other on politics. The entire economic history of the U.S. dollar is incomprehensible without the political history of U.S. imperialism. The deep distortions in the international monetary system are a reflection of the "privileges of empire" abused by the United States. The decline of that empire and the slow ending of those privileges promise to make the United States pay dearly for these distortions – but only after they have wreaked havoc on much of the rest of the world.

Conservative analysts see the history outlined above, and long nostalgically for a return to the gold standard. This is a reactionary and impossible utopia. There are just over 30,000 tonnes of gold held in official reserves around the world. (World Gold Council, 2010) But even at the current high rate of $1500 an ounce, the total value of these reserves would be just over $1 trillion. The world economy is measured in tens of trillions of dollars. Any attempt to anchor the transactions of the world economy to the inflexible and slow-growing physical accumulation of gold that exists in the world would be impossible. A gold standard can simply not allow for the reflection of value in the money supply that is necessary for a modern economy to function. It is understandable that Marx, writing from the standpoint of the relatively underdeveloped world economy of the 19th century, would insist on a privileged place for bullion. But in the 21st century, such an attempt is completely dystopic.

However, there *is* an important problem that needs to be addressed. The break from the gold standard towards the U.S. dollar, the musing in the 1940s about an ICU, the Harry Potter economics behind quantitative easing – all are the chaotic expressions of attempts to address a very real problem. The value of the goods and services produced in the world need to be measured, reflected abstractly in some unit of measurement, and then that information used to determine investment, production and consumption decisions. The problem is not the attempt at addressing this issue. The problem is, that in a world capitalist system, this attempt is fetishized – corrupted by private greed, imperialist domination of the Global South, and the militarized designs of the hegemonic state, which means that instead of a reasoned and thought-out approach, we get the chaos and instability outlined here.

Analytically, this demands taking the issue of money very seriously in any counter-hegemonic analysis. Marx's brief comments on it 150 years ago are a place to start. The emergence of world money under capitalism takes a distorted, fetishized form. But it nonetheless represents something real – a reaching towards an adequate mechanism by which to measure the products of our labour, and redistribute them. But this process is controlled by bankers, industrialists, generals and politicians. Until it is brought under the democratic control of the vast majority – the workers in workplace, field and home who produce all the wealth of the system – this money-form of capital will control us, and throw us into periodic crises which wreck economies and lives. But that is for another paper.

Works Cited

Aristotle. (1962). *Nicomachean Ethics.* (M. Ostwald, Trans.) New York: The Library of Liberal Arts.

Belasco, A. (2010, September 2). *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11,.* Retrieved from Congressional Research Service: http://www.fas.org/sgp/crs/natsec/RL33110.pdf

Benford, J. e. (2009). Quantitative easing. *Quarterly Bulletin* (Q2), 90-100.

Bergsten, F. (2009, April 9). We should listen to Beijing's currency idea. *FT.com* .

Davidson, P. (2002). *Financial Markets, Money and the Real World.* Northampton, Massachusettes: Edward Elgar Publishing Limited.

Fackler, M. (2006, March 9). Economists Are Watchful as Tokyo Ends Loose-Money Policy. *The New York Times* , p. C17.

Harnecker, M. (2010, July-August). Latin America & Twenty-First Century Socialism: Inventing to Avoid Mistakes. *Monthly Review , 62* (3), pp. 3-83.

IMF. (2010, September 30). *Currency Composition of Official Foreign Exchange Reserves (COFER)*. Retrieved October 2010, from imf.org: http://www.imf.org/external/np/sta/cofer/eng/index.htm

Karbuz, S. (2007, May 20). *US Military Energy Consumption – Facts and Figures.* Retrieved November 20, 2010, from http://karbuz.blogspot.com/2007/05/us-military-energy-consumption-facts.html

Kellogg, P. (2009, May 16). Panic Capitalism: The impasse of U.S.-led Neo-Liberalism, and the Return of the Global South. Ottawa, ON: Canadian Federation for the Humanities and Social Sciences, Canadian Political Science Association (Political Economy).

Keynes, J. M. (1995). *The Economic Consequences of the Peace.* Charleston, SC: BiblioLife.

Klaffenböch, P. (2008). *Reforming the Global Financial Architecture: A Comparison of Different Proposals.* Retrieved April 29, 2011, from Single Global Currency Association: http://www.singleglobalcurrency.org/documents/DAReformingtheGlobalFinancialArchitecturehyper.pdf

Krugman, P. (2010, November 4). *When China Exports, Everyone Pays.* Retrieved December 10, 2010, from Truthout: http://www.truth-out.org/when-china-exports-everyone-pays64815

Marx, K. (1996). Capital: A Critique of Political Economy, Volume I. In K. Marx, F. Engels, & F. Engels (Ed.), *Collected Works* (S. Moore, & E. Aveling, Trans., Vol. 35, pp. 1-852). New York: International Publishers.

McKinnon, R. I. (1993). The Rules of the Game: International Money in Historical Perspective. *Journal of Economic Literature , 31* (1), 1-44.

McNally, D. (2008). *From Financial Crisis to World Slump: Accumulation, Financialization, and the Global Slowdown*. Retrieved April 30, 2011, from Marx and the Financial Crisis of 2008: http://marxandthefinancialcrisisof2008.blogspot.com/2008/12/david-mcnally-from-financial-crisis-to.html

Momani, B. (2008). Gulf Cooperation Council Oil Exporters and the Future of the Dollar. *New Political Economy, , 13* (3), 293-314.

Monbiot, G. (2008, November 18). *Clearing Up This Mess*. Retrieved April 30, 2011, from Monbiot.com: http://www.monbiot.com/archives/2008/11/18/clearing-up-this-mess

Muirhead, B. (2004). From Special Relationship to Third Option: Canada, the U.S., and the Nixon Shock. *American Review of Canadian Studies , 34* (3), 439-462.

Nsouli, S. M. (2006, March 23-24). *Petrodollar Recycling And Global Imbalances.* Retrieved April 30, 2011, from www.imf.org: http://www.imf.org/external/np/speeches/2006/032306a.htm

OANDA. (2010, October 19). Retrieved from Oanda.com: http://www.oanda.com/convert/fxhistory

Office of the Under Secretary of Defense (Comptroller) / CFO. (2010, February). *United States Department of Defense Fiscal Year 2011.* Retrieved from Budget Request: Overview: http://comptroller.defense.gov/defbudget/fy2011/FY2011_Budget_Request_Overview_Book.pdf

Prasad, E. (2010, December 2). *Assessing the G-20 Stimulus Plans: A Deeper Look.* Retrieved December 10, 2010, from Brookings: http://www.brookings.edu/articles/2009/03_g20_stimulus_prasad.aspx

Spiro, D. E. (1999). *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets.* New York: Cornell University Press.

Steger, M. B. (2009). *Globalization: A Very Short Introduction.* New York: Oxford University Press.

Stiglitz, J. E., & Bilmes, L. J. (2010, September 5). The true cost of the Iraq war: $3 trillion and beyond. *The Washington Post* .

The Economic Times. (2011, April 28). China determined to end the reign of the US currency.

The Economist (US). (2010a, October 16). How to stop a currency war. *The Economist* , p. 13.

The Economist (US). (2010b, October 16). It's all up to the Fed. *The Economist (US)* , p. 37.

The New York Times. (2010, October 21). Times Topics: Quantitative Easing. *The New York Times* .

Time. (1971, October 4). The Economy: Changing the World's Money.

Trevisani, J. (2009, January 28). *While Many Countries Must Borrow, China and Japan Can Fund Their Own Stimulus.* Retrieved November 20, 2010, from Seeking Alpha: http://seekingalpha.com/article/116985-while-many-countries-must-borrow-china-and-japan-can-fund-their-own-stimulus

U.S. Government Printing Office. (2010). *Budget of the United States Government: Historical Tables Fiscal Year 2011: Table 4.1 – Outlays by Agency, 1962-2015.* Retrieved November 20, 2010, from GPO Access: http://www.gpoaccess.gov/usbudget/fy11/hist.html

Wiegand, J. (2008, July). *Bank Recycling of Petro Dollars to Emerging Market Economies During the Current Oil Price Boom.* Retrieved October 10, 2010, from http://www.imf.org/external/pubs/ft/wp/2008/wp08180.pdf

World Gold Council. (2010, September). *World Official Gold Holdings.* Retrieved from World Gold Council: http://www.gold.org/search/?q=World+Official+gold+holdings&x=0&y=0

Young, A., Young, M., & Scott, B. (Composers). (1976). Dirty Deeds Done Dirt Cheap. [AC/DC, Performer] On *Dirty Deeds Done Dirt Cheap* [Vinyl]. Australia: A. Productions.