Devaluation of the US dollar: Quantitative easing 3
Published on Pambazuka News (https://www.pambazuka.org)

Horace Campbell[1]
Thursday, September 27, 2012 - 03:00

Sub-Title: Implications for economies of the global South

There is no agreement among US mainstream economists as to the real impact of the devaluation of the US dollar since the Federal Government of the United States embarked on a process of pumping money into the US financial system through an expedient called ‘Quantitative Easing’. On Thursday, 13 September, four years after the demise of Lehman Brothers and the stock market collapse in the United States, the head of the Federal Reserve, Ben Bernanke, announced another round of devaluation of the US dollar called, quantitative easing. This is how on Friday September 14, 2012, the Washington Post announced it:

‘Most notable is the announcement of a third round of quantitative easing, or the buying of bonds with the intent of lowering interest rates. In the first round of quantitative easing, starting in 2008, the Fed bought mortgage bonds - which lowered interest rates for homeowners and took risky assets off of banks’ balance sheets, enabling them to lend more freely - as well as Treasury bonds, safe assets whose interest rates were already very low.

‘In the second round, starting in 2010, the Fed bought more Treasury bonds.

‘This time around, the Fed is buying $45 billion in Treasury bonds and $40 billion in mortgage-backed securities every month for the rest of the year.’

After this announcement, the global stock markets rallied, temporarily, but after the weekend, reality intervened as finance ministers from Brazil, China, Korea, China and other states accused the Government of the United states of intensifying the current currency wars that have been unfolding since 2007. In our offering this week, we are seeking to explicitly remind once again the slippery slope of competitive devaluations, currency wars, trade wars and actual combat. The QE policies have enabled US banks to boost profits, primarily not by lending to businesses and consumers in the real economy of America but more so by boosting net returns on proprietary trading of financial instruments and commodities, selling worthless assets at face value to Federal Reserve, and investing in non-US-dollars denominated assets, interest rates and acquisitions of companies and resources in foreign countries.

In this commentary I will look back at the first two devaluations after the panic response of 2008 and the impact on the world economy. There is no shortage of information to expose the fact that the policies of the US government have been orchestrated to support the financial wizards of Wall Street and that the US financial system is still at risk. Tougher regulatory control is needed. However, in this election cycle real discussion on this devaluation is absent. There has been a spate of books since 2008 on how the bankers were supported by the policies of the US government. The policies are ostensibly to boost employment, but the reality is that millions are losing their livelihood as the capitalist depression intensifies.

Only this week there was one more book by Sheila Bair, former head of the US Federal Deposit Insurance Corporation, entitled, ‘Bull by the Horns: Fighting to Save Main Street From Wall Street and Wall Street From Itself’. This book explicitly identified the cozy relationship between Tim Geithner, the US Treasury Secretary, and the top directors of Citigroup, and that Geithner favoured the needs of Citigroup when planning the bailout of banks in the US. What many of the books and commentaries neglect to point out is that this propping up of the US financial system is another form of propping up the US dollar and a form of economic organization which vests power in the top one per cent globally. In the past, despite the transnational interests of this one per cent, national chauvinism and capitalist competition precipitated war. Since the efforts of the management of the financial crisis, there has been an intensification of the rhetoric and acts of war. The war against the people of Libya, the present cyber war, economic sanctions and low intensity war against Iran, the wars in Pakistan and Afghanistan are all military skirmishes that can spin out of control. Africans have been caught in this competitive devaluation and currency wars, and the peoples of the Africa have been placed in a position where individual governments have been incapable of responding to these devaluations and currency wars as they affect commodity prices and forward planning. The conclusion will argue that with the devaluation of the dollar, the peoples of Africa will be forced to
adopt measures to respond to this cascading economic and political maelstrom.

WHAT IS QUANTITATIVE EASING?

On Thursday 13 September 2012 Ben Bernanke announced Operation Twist. The Federal Reserve embarked on possibly its most ambitious policy of devaluation which in the past had been called quantitative easing. Bernanke announced that the Federal Reserve would purchase $40bn (£25bn) of mortgage-backed bonds a month to stimulate the housing market and keep long-term interest rates depressed. To put it in the words of the New York Times when the first QE round was announced, this was just another way of printing money.

‘Quantitative easing is the modern way to print money. The central bank does not actually have to use a press to spew out crisp notes. But ultimately, the impact is not very different .....’

‘The aim of quantitative easing is to get money flowing around an economy when the normal process of cutting interest rates is not working - most obviously when interest rates are so low that it is impossible to cut them further.’

When this first round of printing money was announced in November 2008, there was the delusion that the financial meltdown was a short-term crisis and that after three or four quarters, the stock market would recover. As an attempt to strengthen the US economy, this devaluation was simply one more expedient to strengthen the power of the top investment bankers in the United States.

Because the Chairperson of the Federal Reserve Ben Bernanke understands the political implications of this constantly printing money when the US dollar is the principal reserve currency of the international trading system, he is wont to use the term Quantitative Easing. I return to the NY Times to get their definition of Quantitative Easing.

‘Quantitative easing — a term Mr. Bernanke is said to abhor — is the name given to efforts by central banks to stimulate the economy by increasing the money supply through means other than its traditional tool, its control of the short-term interest rate at which it lends to banks.’

http://goo.gl/cA0E2 [2]

The Federal Reserve’s first quantitative easing programme (QE1) was announced in November 2008, with the main bond purchases occurring from January 2009 to March 2010. From November 2008 to December 2009, the dollar index, a weighted average of the dollar against other major currencies, weakened by 15 per cent. In short, finance ministers all over the world understood that the dollar was devalued. The government of Thailand noted that the dollar also weakened by six per cent versus the baht (the Thai currency).

QUANTITATIVE EASING 1

This first quantitative easing was supposed to nurse the US economy back to good health at a moment when the Fed printed $1 trillion. At that tense period, the international financial system was in such a serious crisis that there was a wait-and-see in most parts of the world. Many with large reserves fled the dollar and bought gold. The US economy did not recover after this first devaluation. It was noted all over that the principal effect of QE1 was to reheat the US and European stock markets, weaken the dollar, lift commodity prices and make central bankers in the BRICS economies and other countries jittery because the devaluation sent hot money from the US chasing real assets outside the United States.

In the midst of the crisis there was some political pressure to regulate the banks and there was a Bill passed called The Dodd–Frank Wall Street Reform and Consumer Protection Act. This Dodd-Frank Bill was consciously undermined by the bankers and by 2010 they financed the most conservative sections of the US political establishment so that the Republicans regained control of the House of Representatives. After that the call for regulation of the banks subsided. Neil Barofsky, one of the administrators of the TARP rescue package, has since written for posterity how the bailout worked against the ordinary citizens. His book, ‘Bailout: An Inside Account of How Washington Abandoned Main Street While Rescuing Wall Street’ is recommended by this writer.
QUANTITATIVE EASING 2

The second Federal Reserve quantitative easing programme (QE2) was first signalled in August 2010, and implemented from November 2010 to June 2011. This second round of devaluation (called bond buying in the financial press) inspired the Bank of England and the European Central Bank to embark on ‘monetary easing’ or their own form of quantitative easing. By the time this second round of devaluation was coming to an end, the reality of the depth of crisis of capitalism exploded with the information of the insolvency of the top banks in Greece, Italy and Spain reverberating throughout the European Union. It was after this second round of devaluation when there was open talk of currency wars. From Singapore, one of the outposts of financialization, the writers from the financial press noted,

‘There was a time when the kind of monetary easing tactics being adopted now by the US, Europe and Japan - joined last week by China - would have been termed 'competitive devaluation'. But since the world's four biggest economic powers are not anxious to publicise their game, they refer to it instead under the rubric of 'quantitative easing'.

‘Competitive devaluations are, of course, ultimately self-defeating since no country can stay ahead for very long in a ‘race to the bottom’ of the currency league. And monetary easing when practised almost without restraint - as is being done now by the QE quartet - must at some point result in renewed inflationary pressures around the world. What is odd is that the competitive devaluations now in full swing are not being recognised as such. This is because the exercises did not all begin at the same time and each successive country that launched them found it convenient to keep quiet about what they were doing, and why. The US set the ball in motion with its QE1 and then QE2, which appeared quite radical because they amounted to monetary easing on a hitherto unprecedented scale, but which would have been seen as more controversial still had the secondary motive of competitive devaluation been more widely described.’

COMPETITIVE DEVALUATION AND CURRENCY WARS

In his book ‘Currency Wars: The Making of the Next Global Crisis’, James Rickards described currency wars as being characterized by, ‘successive competitive devaluations by major economies of their currencies against the currencies of their trading partners in an effort to steal growth from those trading partners’. Rickards drew attention to two previous periods of currency wars.

‘Currency War I (1921-1936) was dominated by a deflationary dynamic, while Currency War II (1967-1987) was dominated by inflation. Also, CWI ended in the disaster of World War II, while CWII was brought in for a soft landing, after a very bumpy ride, with the Plaza Accords of 1985 and the Louvre Accords of 1987.

‘What the first two currency wars had in common, apart from the devaluations, was the destruction of wealth resulting from an absence of price stability or an economic anchor.’

What is of importance for all to bear in mind was the relationship between the currency wars, competitive devaluations, trade wars and actual warfare that cascaded into the global war called World War II. The writing of this author is instructive in so far as in the past he has been a financial war games consultant to the Pentagon.

After the announcement of the second quantitative easing, the finance Minister of Brazil, Guido MatengaIt spoke out firmly against the US devaluation and the impact of hot money from the USA on the economies of Latin America. Guido MatengaIt understood clearly that with the cheap money from QE, US capitalists were going into the emerging markets buying up real assets and speculating on commodities.

When the third round of quantitative easing was announced in September 2012, he again warned that, ‘It has to be understood that there are consequences.’ The Fed’s QE3 program would ‘only have a marginal benefit [in the US]’ as there is already no lack of liquidity … and that liquidity is not going into production. It was instead depressing the dollar and aimed at boosting US exports.’
QUANTITATIVE EASING 3, September 2012

When Quantitative Easing 3 was announced on 13 September, it was immediately grasped by the progressive economists that this was another ‘stealth bank bail out in the US.’ Newspapers from left to right stated simply that the ‘US Federal Reserve extends unlimited support to financial markets.’

In the announcement of this round of bond buying, Ben Bernanke steered clear of the formulation Quantitative Easing and called this Operation Twist. Unlike the other two devaluations where the bond buying was for a specific time period, in this third round of QE, Fed said ‘it would persist with the policy until the outlook for the jobs market improved substantially.’ Bernanke announced that the Federal Reserve would purchase $40 billion worth of mortgage-backed securities a month. Unlike the two earlier rounds, the new program does not have a defined time limit. Under this new Twist, the US Federal Reserve would sell short-dated Treasury bonds and use the proceeds to buy longer-term bonds; the new program means the central bank will be pumping around $85 billion per month into financial markets. This will go on for an indefinite period.

The Financial Times grasped the fact that the US Federal Reserve was grasping at straws and commented accordingly:

‘The Federal Reserve’s attempt to push aid into the heart of the US economy is being blunted by banks struggling to process mortgage applications fast enough, keeping rates on home loans elevated, according to the largest lenders. In the very near term [QE3] has virtually no transfer mechanism whatsoever to the customer,’ said one executive at a leading lender, who requested anonymity. ‘Originators are massively backlogged in terms of origination volumes.’

‘Steven Abrahams, MBS analyst at Deutsche Bank, noted that the yield on mortgage-backed securities fell more than 30 basis points after the Fed announcement. ‘Very little of that is likely to make it through immediately to consumers,’ he said. ‘There’s nothing that will force mortgage originators themselves to lower the rates that they’re offering to consumers. Right now they have their hands pretty full in terms of the pipeline and managing paperwork and making loans. These folks are busy. There’s not a bunch of people on long cigarette breaks.’

WORLD REACTION

As this crisis deepened all over the world, citizens were asking for how long the world would be held hostage to the propping up of the financial oligarchs in the US. Readers of this space will recall the commentaries on the expectations from the G20 summits and the real lack of alternatives that were being discussed as financial summits replaced boldness and audacity to nationalize the banks. From inside the US itself, the unanimity among the financial class was breaking and no less a person than Sanford I Weill, former head of Citigroup – and a previous proponent of ‘financial supermarkets’ – argued that megabanks should be broken up. Speaking on the financial news show CNBC he said,

‘What we should probably do is go and split up investment banking from banking, have banks be deposit takers, have banks make commercial loans and real estate loans, have banks do something that’s not going to risk the taxpayer dollars, that’s not too big to fail.’

It is most noteworthy that in this election year in the United States there are so many voices calling for the breaking up of the banks. The more farsighted of these voices from the mainstream understand that with every passing day the pressures for the nationalization of the megabanks will grow. Whether it is the former IMF official Simon Johnson or Sheila Bair, the former head of the FDIC, there is a chorus that that allowing megabanks with their current scale and scope to speculate makes no sense at all.

The book issued this week by Sheila Bair is instructive. Bair, a self-declared Republican appointed to her position as head of the Federal Deposit Insurance Corporation by George W. Bush, argued in the book that the Treasury of the United States served the interests of Citigroup. Earlier this year there was another book by Jeff Connaughton – ‘The Payoff: Why Wall Street Always Wins?’ This book went further to note the disinformation on the reality of the US economy that is spewed by the US
Devaluation of the US dollar: Quantitative easing 3
Published on Pambazuka News (https://www.pambazuka.org)

financial oligarchs. In the same period, the book by Charles Ferguson came out, ‘Predator Nation: Corporate Criminals, Political Corruption and the Hijacking of America’.

At the same moment when this book, ‘Predator nation’, was giving a historical account of the criminal activities of the banks, the scandal of rate fixing by the LIBOR banks hit the press. Space and time does not allow for an elaboration of this LIBOR scandal, but suffice to say that the political fallout is not yet clear and all sides are looking to the level of literacy among the population as the electoral process continue in the United States.

The bankers and the forces of Capital Equity are moving with speed to control the sources of information so that the progressive forces will have to fight to keep channels of information open. These books by Jeff Connaughton, Charles Ferguson and Neil Barofsky exposed the real vulnerability of the top capitalists. Sheila Bair brought out vividly how these oligarchs were simply concerned about the levels of their compensation after the depression set in September 15, 2008.

WE MUST AVOID ALL-OUT WAR

At present there is an all-out war against the peoples of the world by the bankers. This war has intensified with the pressures on governments to impose austerity measures in order to place the burden for the recovery of capitalism on the backs and shoulders of millions around the world. This austerity is being pushed to the point that there are no other real alternatives being placed in the court of public opinion. For thirty years these austerity measures were promoted by the Bretton Woods Institutions in the non-aligned world. As societies such as Brazil and China broke from the clutches of the IMF and the World Bank, new spaces were created for other societies to negotiate with the IMF. This space is now extended by the formation of the BRICS bank.

As the capitalist crisis deepened in Europe and the United States the forces of Global NATO have unleashed the military power of the west against Africa. This was explicit in the NATO intervention in Libya. During the last depression, Europeans could move into African villages and seize crops and cattle under all sorts of pretexts. Now, with the rise of emerging societies willing to do barter and resource for infrastructure contracts, Europeans are constrained. Hence the military option in Africa.

There are other sections of the conservative wing of the US foreign policy establishment who want an all-out war against Iran. The drumbeats for war are evident from the amount of space given to the advocates for war.

From Germany, we have read commentaries in the top newspapers that have seen this drumbeat for what it really is: a pretext for war in Asia. Der Spiegel in a commentary on the present currency wars stated that when the US House of Representative passed H. R. 2378, Currency Reform for Fair Trade Act in October 2010, it was a major salvo in the trade war with China. The bill calls for the US Department of Commerce to start imposing -- even without approval by US President Barack Obama -- punitive tariffs on certain countries. The initiative specifically targets countries that have ‘a fundamentally undervalued currency’, ‘persistent global current account surpluses’ and very large currency reserves -- in other words, China.

As with the anti-japanese propaganda of the 1980s during the second currency war, prior to the Plaza Accords of 1987, China has become a convenient whipping boy for many US politicians looking to tap in to populist jingoism. The argument runs that the Yuan's effective peg to the dollar amounts to currency manipulation, which has allowed China to artificially boost the competitiveness of its exports.

Mitt Romney, the candidate for the Republican Party and a known investor in Chinese manufacturing sectors, has been out front claiming that China is manipulating its currency. The same Romney was not shy to say openly in the Republican Convention that the US should revert to the confrontation with Russia, like the old days of the ‘Cold war.’

In an effort to keep up with this populism Barack Obama filed a complaint over Chinese automotive and auto-parts subsidies with the World Trade Organization. This announcement made in the state of Ohio was a clear move to curry favour with workers in Ohio prior to the November elections. Obama
said of the Chinese, ‘These are subsidies that directly harm working men and women on the assembly lines in Ohio and Michigan and across the Midwest.’

WORKERS AND THE INTERNATIONAL LABOR ORGANIZATION

Working people all over the world are feeling the weight of the depression. From 1870, every moment of crisis has meant the transfer of the burden on to the poorest of the world. There have been two major ways to offset depressions and the falling rate of profit.
1. Increase austerity and intensify exploitation of the working peoples.
2. Expand international plunder by deepening non-economic forms of surplus extraction.

The last depression ended with the rise of fascism in Europe and a global war. Africans felt the brunt of these forms of exploitation and at the end of the First World War the working peoples of the world had pressured for the formation of the International Labour Organization (ILO). The need for international standards for the health, safety and wellbeing of workers all over the world is now more urgent than ever. After World War II the peoples of Africa fought to recover their independence. When these peoples recovered independence, the West went on a massive ‘development’ campaign to undermine independence and reinforce western control over African societies.

The intensified exploitation of the working peoples all over Africa is being documented every day. There is a New African Awakening and this upsurge has created a base for new social consciousness, organizing and political action. It is in South Africa where the people struggled against apartheid for a century where the new black economic elites shot workers who were struggling for their rights. The killing of workers and the expanded industrial struggles in Africa all point to a period of deepening class warfare all over the world.

DOLLAR ON THE ROAD TO RUIN

The present South African leadership is seeking political and economic leadership in Africa. These social forces have put forward the neo-liberal policy of NEPAD at a moment when neo-liberalism is being buried by the Occupy Movement all over the world. A new round of emancipatory activism is being born from among the most oppressed sections of society. The progressive forces internationally will need to increase their literacy as to the alternatives before humanity. In the specific case of Africa, the European crisis along with the road to ruin of the dollar will speed the need for a clear break with old economic arrangements. In the short run, the devaluation of the dollar will not likely lead to Africa adopting its own currency or system. But like in Asia the negative impacts of the dollar devaluation on African societies should serve as a wake-up call for greater financial cooperation, a pre-requisite for building trust, popular support and the institutions required for creating an alternative African monetary instruments or systems. Africans are learning from Europe that there can be no common currency without political union. Quantitative easing is sharpening the contradictions at all levels. As the dollar is devalued over the medium term, the pressures from below for unity will become too strong to be resisted.

* BROUGHT TO YOU BY PAMBAZUKA NEWS

* Please do not take Pambazuka for granted! Become a Friend of Pambazuka [3] and make a donation NOW to help keep Pambazuka FREE and INDEPENDENT!

* Please send comments to editor[at]pambazuka[dot]org [4] or comment online at Pambazuka News [5].

* Horace Campbell is Professor of African American Studies and Political Science at Syracuse University. He is the author of ‘Barack Obama and Twenty First Century Politics: A Revolutionary Moment in the USA’. Professor Campbell is Special Invited Professor at Tsinghua University in Beijing, China.

**Categories:** Features [6]
**Issue Number:** 599 [7]
Article-Summary:
Propping up the US financial system is a clever ploy that vests power in the top one per cent globally, with dire consequences on commodity prices and forward planning. The peoples of Africa and the global South must adopt measures to respond to this cascading economic and political maelstrom.

Category: Governance [8]

Source URL: https://www.pambazuka.org/node/82030

Links:
[1] https://www.pambazuka.org/taxonomy/term/3988
[4] mailto:editor@pambazuka.org
[8] https://www.pambazuka.org/taxonomy/term/3274