Multi-Polar Capitalism: The End of the Dollar Standard

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Finance-Led Capitalism


• 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 π-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 19th 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.
  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.


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.