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The Global Currency Wars

Are Inter-Capitalist Rivalries Intensifying?

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Capitalism is by nature based on intense, and often destructive, competition. Not only between capital and labor, but between capitalists themselves. But not all competition is the same. There is competition when the global economic pie is growing; and there is competition when it is stagnating or declining. And in recent months signs are growing that new forms of more intense, aggressive inter-capitalist competition are emerging as the global economy continues to slow in general, and even stagnant and slide into recession in a growing number of countries.

Competition in 'good' times of steady economic growth occurs within certain generally accepted rules of capitalist competitive behavior: permitted, and even expected, are inter-capitalist competition over who can cut costs and prices the most or fastest to grab another capitalist's market share, who can get a bigger investment foothold in their competitor's home market, or get a competitive product faster to market, who can leverage new production technologies faster, or who can get one's government to provide a better tax cut, better manipulate free trade to open up foreign direct investment into another capitalist's local economy, and so on.

Governments always have played a key role in the inter-capitalist competition game. But the forms of assistance that governments undertake in support of the competition game also can change over time: manipulating domestic tax policy, lowering interest rates, cutting benefits costs, and assisting companies in holding down wage gains, are all typical measures governments employ on behalf of their home-grown capitalists (and electoral campaign contributors) in ‘good’ times. Such measures represent enhancing capitalists’ competitive positions at the expense of their domestic working class, consumers, and/or wage earning taxpayers. But there are still other potential measures, ways for ‘taking away’ shares of income not only from workers but from other capitalists outside the home market, i.e. in other countries and economies.

As the ‘good’ times have transitioned to ‘bad’ in recent decades, and especially since 2008, the rules of the competition game have been changing—not only with regard to ‘taking away’ income from workers and consumers, but from gaining income at the expense of foreign capitalist competitors.

When the rules of the competition game between capitalists break down altogether, the result is war—i.e. the ultimate form of inter-capitalist competition. The two World Wars of the 20th century immediately come to mind. The fight for colonies and resources was particularly obvious in the case of the First World War, while the Second War was the consequence of unresolved issues left over from the First World War, as well as the consequence of the economic collapse of global capitalism in the 1920s and 1930s.

More recent and on-going, USA led wars in the middle east this century are also testimony of the periodic resort to war and military conflict on behalf of national capitalists interest. The Middle East wars starting in 1990 and intensifying in the early 21st century, have been fundamentally about ensuring resource availability to USA and the other advanced economies, especially oil.

Memoirs of key members of the US economic elite after the 2003 invasion of Iraq have admitted that the Iraq invasion was fundamentally about oil—even if that acknowledgement by US politicians and the press still has not been forthcoming.

More contemporary still, there’s the USA direct intervention to pull off a coup d’etat in the Ukraine last year, and then subsequently the setting up of USA neocon-cum-shadow bankers to run that country’s economy that took place last December 2014.

Competition by war may be forbidden within and between the advanced economies, but Ukraine is viewed as an acceptable ‘border conflict’ outside the ‘no military economic competition zone’, at least to the USA. To the Europeans, on the other hand, the Ukraine is viewed as more internal to the zone. Hence, they are more nervous about the conflict.

The related case of Russia is even more interesting. The Europeans are more nervous than the USA about the new ‘rules of the competitive game’ in the case of Russia. Those new rules mean severe economic sanctions to undermine Russia’s economy. Strongly favored by the USA, for Europeans economic sanctions are considered risky. Not only because of the reverse impact those sanctions are having on their European economies, but also because of the potential precedent setting they represent. If Russia is within the ‘no military competition’ zone, as many Europeans see it, then to economically compete with Russia by means of sanctions is a dangerous precedent. Like competitive devaluations, economic sanctions can cut both ways. Both competitors can resort to the same, and neither typically prevails in the end economically.

Furthermore, where do sanctions stop? What if Greece refuses to abide by the European Troika's demands for a new debt agreement? What if Greece unilaterally leaves the Eurozone? Are economic sanctions against Greece a proper response to force them to pay up the $270 billion Greece owes the Eurozone bankers and governments should Greece leave?

Recent wars in the Middle East, Ukraine, and elsewhere have not involved military conflicts between the advanced economies of North America, Europe and Japan. Instead, what they represent is the advanced economies beating up on local emerging market capitalists and their governments, as the former maneuver to secure key interests on behalf of their respective capitalist classes at the direct economic expense of those emerging markets.

Obviously, inter-capitalist competition by means of military conflict between the advanced economies (USA, Europe, Japan) is not on the global agenda today. Not even close. It is reserved for those countries and economies outside the advanced economies' orbit. But the rules of the competitive game within and between capitalists in the advanced economies, rules that that were in effect in previous years, also appear to be fading.

New rules are emerging. More accurately, the old rules are breaking down over what's 'off limits' in terms of acceptable forms of inter-capitalist competition within and between the advanced economies. The advanced capitalist economies are thus entering a stage—a kind of competitive 'no man's land'—where new and more aggressive forms of competition between them are emerging.

In between the one extreme of government intervention on behalf of home-grown capitalist interests in the form of direct military conflict—and the other of advanced economy governments engaging in normal competitive measures (such as domestic tax, trade, monetary, and wage policies on behalf of their respective capitalist interests)—lay a 'middle ground' in which new forms of inter-capitalist competition that are more confrontational are emerging, but which are yet short of direct violence and war. Not the 'normal' forms of competition based on trade, technology, cost reduction, etc., and not yet military confrontation to secure economic interests, but something in between in terms of intensity and aggressiveness.

Some of the more obvious forms of this new, more aggressive, intensifying capitalist competition include the following:

*The USA government going after the European banks by levying and extracting multi-billion dollar fines and by introducing measures making it more costly for Euro banks to do business in the USA market—both measures of which are undertaken in order to boost the poor economic performance of US commercial banks

*The European governments, in a tit-for-tat response, going after USA tech companies, requiring multi-billion dollar equivalent payments in taxes, levying fines, demanding organization divestment and break ups of the US companies in Europe, in an effort to make their own European tech companies more competitive with USA tech giants like Google, Microsoft, and others.

*The eruption of the global fight between the US shale gas/oil producers and the OPEC oil producers, led by Saudi Arabia and its neighbor oil emirates.

*The massive Quantitative Easing (QE) programs introduced by Japan in 2013 and 2014, and the Eurozone's imminent QE in 2015—both programs of which designed to gain exports at the direct expense of other capitalist economies (including each other) and to stimulate capital inflows from other economies into their own to boost their stock and bond markets, make up for failing Euro bank lending, and promote foreign direct investment into Europe from Asia, China, and emerging markets.

*The increasing use of economic sanctions as a means to drive competitors out of targeted regional markets, and open up the same to one's own capitalist producers

Since the 2012 national elections in the USA, the Obama government has been leading the charge on behalf of major commercial banking interests in the USA against Eurozone banks in particular. Fines for having violated US rules have been levied heavily on Euro banking counterparts, especially on Swiss, French and even UK banks—most notably recently the giant UK bank holding company, HSBC.

The USA has also mobilized its central bank, the Federal Reserve, in the effort. The Fed is about to employ the heretofore unprecedented tactic of subjecting the Euro banks to US 'stress tests' for the first time, to force the Euro banks to set aside more capital. This is allegedly to ensure against future financial crises. But that's only the cover. Forcing the Euro banks to set aside more capital means less competitive lending to USA banks. Two of the largest Euro banks—Deutsche Bank and Banco Santander, the largest Euro bank in terms of assets—are expected to fail the Fed's imminent stress test. Previously, the USA allowed Europe to conduct its own stress tests, which it accepted. And both Deutsche Bank and Santander passed Euro stress tests late last year. But they likely won't pass the US Fed's.

If the Euro banks fail the US tests, it is possible their lending limits in the USA economy will be curtailed. That in turn will allow US banks like JP Morgan, Bank of America, and others to pick up their business. Less for Deutsche means more for JP. The Euro banks' test failure could also mean less investment in Euro banks by US stock investors, thus boosting the stock values of US banks.

Not to be outdone, the Europeans have launched an offensive of their own against US tech companies. The primary target is Google. Europe sees Google not only as an obstacle to it building its own tech industry, but as a threat to various Euro industries in the future, as Google plans to expand into new markets. Google threatens the Euro advertising and publications industries as well. The fact that the company manipulates Euro tax rules to avoid billions of tax payments also irks Europe, not to mention its central role in USA direct surveillance of the Euro population and even its governments. In November 2014 the European Parliament took the unprecedented vote to break up the company in Europe.

Other USA tech companies like Apple, Facebook, Amazon and Uber are also targets, given their well-known tax avoidance schemes. The UK even announced it was introducing its own 'google tax'. Not only US tech companies, but US corporate giants like GE and Exxon, and many US pharmaceutical companies, regularly manipulate tax rules to avoid paying both US and European governments hundreds of billions of dollars every year. But the intensity and broad-based European offensive against US tech and other large corporations would not likely have occurred, were it not for the USA's parallel and unprecedented offensive against European banks. In short, capitalists and their governments within the advanced economies are now targeting entire industries in order to improve the competitiveness of their respective industries as the threat of a continued global slowdown appears more likely.

In times past, such extreme forms of government-assisted corporate competition would have been quietly worked out between US and Euro representatives. But in a world of slowing economic growth, declining government spending and revenues, and different degrees of austerity fiscal policies, major offensives against entire industries by different sectors of the advanced economic elites are now being launched—with the major participation and direction of their respective governments. This is something new, a disregard for prior 'limits' and competitive rules of the game.

Yet another major event that represents a disregard of prior 'competitive rules of the game' is the eruption of the intense economic conflict last year between the major oil producing states of OPEC, especially Saudi Arabia and its emirate neighbors, on the one hand, and the new fast growing shale oil and gas interests in the USA. In the past, the Saudis and other OPEC players would not risk a collapse of the global oil market, which is potential, in order to counter the strategic competitive threat posed by the shale revolution, which is centered largely in north America. The Saudi's are consciously driving down the price of oil in the short run, in the hope of driving the shale companies into bankruptcy. The extreme response by the Saudis and OPEC to the shale competition not only threatens global oil and other commodity prices, but also the global financial market in corporate junk bonds.

In the past, the very great risks that the current Saudi offensive poses to the very stability of the global capitalist system would not have occurred. Understandings would have been quietly worked out behind the scenes. But in a global economy slowing and an already naturally falling demand and price for oil, the stakes for the Saudis and all of OPEC are high. Inter-capitalist competition is thus assuming new and more destabilizing forms.

The resort to extreme forms of quantitative easing by the central banks of Japan and the Eurozone marks another new form of competition. Since 2010 both the Japanese and Eurozone economies have been the worst performers globally, each slipping in and out of repeated recessions. The political systems of both are in turn beginning to fray and fragment. Both of these sectors of the advanced economies region of the global economy, representing perhaps $20 trillion in annual GDP, recognize they cannot continue on their present economic and political paths much longer. Given that both Japan and Eurozone are heavily dependent on exports production to regenerate their domestic economies, and equity and bond markets, both have introduced massive central bank liquidity injections in the form of multi-trillion dollar equivalent QE programs. The goals are several. But the main objective is to drive down the values of their currencies, the euro and the yen, in order to 'de facto devaluate' by means of monetary policy. It is hoped the devaluation will lead to cheaper exports, export growth, and an export-driven economic recovery.

But what their desperate QE initiatives fundamentally means is that Europe and Japan have engaged in government-assisted programs, aimed at 'stealing' global export market share from other capitalist economies, both in the advanced economy sector, as well as from China, the BRICs, and emerging markets in general. Their QE programs represent a desperate competitive move, after their prior policies for five years have proved dismal failures, as their economies sink further into stagnation or worse. Were it not for the economic desperation now engulfing these two important wings of the advanced economies region of the global economy, their shift to 'competition by competitive devaluation'—a development not seen since the 1930s—would not be occurring.

A final area of emerging new rules for inter-capitalist competition is the emergence of greater resort to introduce economic sanctions as a competitive measure. The best case is Russia today, and the US-led sanctions. It should not be misunderstood: the sanctions on Russia are in the last analysis an economic competitive measure, not a politically motivated initiative. Behind the sanctions is the USA objective of driving Russia out of the European economy. Europe was becoming too integrated and dependent on Russia. Not only its gas and raw materials, but trade relations and money capital flows were deepening on many fronts between Russia and Europe in general prior to the Ukraine crisis that has provided the cover for the introduction of the sanctions. Russia's growing economic integration with Europe threatened the long term economic interests of US capitalists. Strategically, the US precipitated coup in the Ukraine can be viewed, therefore as a means by which to provoke Russian military intervention, i.e. a necessary event in order to deepen and expand economic sanctions that would ultimately sever the growing economic ties between Europe and Russia long term. That severance in turn would not only ensure US economic interests remain dominant in Europe, but would also open up new opportunities for profit making for US interests in Europe and Ukraine as well.

In summary, the economic offensives by the USA and Europe impacting entire industries, not just companies, represent a new phase in global inter-capitalist competition within and between the advanced economies. This industry for industry tit for tat is something new in terms of inter-capitalist competition within the advanced economies. The fight over global energy market share, between the advanced economies' once reliable OPEC partners, signals another major qualitative change in global capitalist competitor behavior. It represents not only a new kind of qualitative clash in the energy markets, but one that raises the risk of multiple threats to the global financial markets in general. Monetary policy-driven currency devaluation and export competition by exchange rate manipulation also reflects a desperate resort to new competitive strategies within the advanced economies not seen since the 1930s depression—a strategy that failed in that former period and likely extended the depression period, and a strategy that will likely have similar effects on the global economy today.

Capitalists have begun fighting over a smaller export economic pie. That fight has set in motion global currency wars, and a crash of interest rates into negative territory as well, the consequences of which may prove highly risky and are yet unknown. Finally, the resort to economic sanctions as a inter-capitalist competitive measure, while taking the apparent form of a political event, in fact also represents a shift to a more risky long term form of inter-capitalist competition between entire macro-regions of the global capitalist economy.