The Implications of Dollar Hegemony*

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How exactly is the dollar's status as reserve currency related to imperialism? This question has two parts: how this status of the dollar is related to U.S. imperialism, and how it is related to the overall imperialist arrangement. The dollar's being a reserve currency makes it (and dollar-denominated assets in general) a medium of wealth-holding in the world economy, a role that precious metals, like gold, and to a lesser extent silver, have played historically. Currencies have for a long time played this role by being convertible to gold at a fixed rate, which was also the case under the post-war Bretton Woods system. The dollar at present is not so convertible officially; nonetheless the world's rich consider the dollar to be as good as gold in two ways.

First, unlike commodities it has negligible carrying costs; and second, its value in terms of commodities is not expected to decline secularly, notwithstanding year-to-year fluctuations in this value. This is ensured by having an adequately large reserve army of labour (to keep down dollar wages in the U.S.) and by imposing income compression, through political compulsion and through IMF "conditionalities", on third world primary commodity producers to keep down their prices.

But if the dollar is considered "as good as gold" by the world's wealth-holders, then in effect it makes the U.S. sit on an inexhaustible gold mine, with which it can finance its current account deficits, without having to depreciate its currency. To be sure, the dollar is not the only currency in terms of which the world's wealth is held; there are other currencies like the euro, the pound sterling, and the yen in terms of which (or in assets denominated in terms of which) the world's wealth is also held. But all these currencies become vehicles for wealth-holding only because their values in terms of dollars are not expected to decline secularly. These other advanced countries adjust their levels of aggregate demand and hence rates of unemployment in order to ensure that their currencies do maintain their relative values vis-à-vis the dollar, and hence that these expectations continue to be sustained. The wealth-medium status of these other currencies in short is derived from that of the dollar; it is the dollar that is the basic "as-good-as-gold" currency, and this fact allows the U.S. to finance its current deficits without any hitch.

But why should such deficits arise in the first place? Throughout the history of capitalism, the leading capitalist country has generally maintained a current account deficit vis-à-vis other emerging capitalist powers, giving them access to its own market (even when these rival powers have protected themselves against the leading country) in order to accommodate their ambitions, and thereby maintain its own leadership role; in fact it is a condition for its being the leader that it should run a current account deficit vis-à-vis them. When Britain was the leader of the capitalist world, it ran a persistent current account deficit vis-à-vis continental Europe and the United States, which were then emerging as rival powers. But Britain offset its deficits vis-à-vis these countries through an unrequited appropriation of the large gold and exchange earnings from the world by its colonies, by imposing administered liabilities on them, a process that is rightly called a "drain". This was supplemented by pushing out deindustrializing exports to its colonies and semi-colonies, so much so that taking its balance of payments as a whole it was actually able to show a current account surplus, that is, undertake capital exports. Ironically it was making capital exports to those very countries (taken as a group) vis-à-vis which it had current account deficits, namely continental Europe, the U.S. and other temperate lands of white settlement.

The U.S. cannot extract a "drain" today on the same scale; nor can it make sufficient deindustrializing exports to third countries (countries other than the emerging capitalist powers); it perforce therefore has to run an overall current deficit, which it meets by printing dollars (or exporting dollar-denominated IOUs). The dollar's reserve currency role therefore is crucial for the U.S. to maintain its hegemony vis-à-vis the capitalist world.

It is also what determines the level of activity within the U.S. and hence in the entire capitalist world. While every other country is constrained by the fact that its government cannot increase aggregate demand through larger expenditure, as it had done during the Bretton Woods period, because globalized finance capital imposes a limit on its fiscal deficit relative to its GDP, the U.S. is free of this constraint; there can hardly be a financial flight from the U.S. since its currency is deemed to be "as good as gold". Therefore, barring "asset-price bubbles", expenditure by the U.S. government is what determines, for any given level of income distribution in the world, the level of activity in the capitalist world economy. The U.S. government may itself choose to limit its expenditure to avoid getting into debt vis-à-vis the rest of the world (through the latter's holdings of dollars and U.S. government bonds); but it is not constrained to do so. What it does is a matter of its policy, and it determines what happens to output and employment in world capitalism.

This entire matter can be looked at in a different way. Let us suppose for a moment that the dollar was not a reserve currency. Then the U.S. would have to attempt to eliminate its current account deficit through a depreciation in the external value of the dollar. Such a depreciation, if it is to be effective and not just dissipate itself through an equivalent rise in money wages and prices within the country, would necessarily squeeze real wages, which would arouse domestic working class resistance (to counter which unemployment would have to be increased sufficiently to beat down workers' wage-bargaining strength); and even if depreciation becomes effective by weakening the workers' resistance, it would arouse retaliation from other advanced capitalist countries at whose expense the U.S. would be expanding its sales for reducing its current account deficit.

Thus if the dollar was not a reserve currency then the U.S. could not remain the leader of the capitalist world; it would be engaged in a beggar-my-neighbour conflict vis-à-vis other advanced capitalist countries (each trying to snatch markets from others), and facing even stronger workers' resistance than it does today. And if unemployment within the U.S. was raised to beat down the workers' wage-bargaining strength, then this would mean a lower level of economic activity for the capitalist world as a whole. (The effect of such reduced levels of economic activity in other advanced capitalist countries could not have been countered through larger state intervention there, since such state activism within each country is not possible in a world of globalized finance).

This also explains why the dollar's role as a reserve currency is beneficial for the system as a whole, not just for the US but for the entire advanced capitalist world. It is what gives coherence to the system and makes it function smoothly. But it is also what sustains the entire imperialist arrangement, for the system rests on imperialism.

The dollar, as the reserve currency, is not only a medium of wealth-holding but also a medium of circulation. In fact it cannot be a medium of wealth-holding without also being a medium of circulation; countries need dollars for trading with one another. If there is a scarcity of any raw material or tropical wage good produced within the third world relative to its demand in the world market, then its price rises. But obviously the overall extent of such inflation will be higher in an economy where it is the only product, or even the only major product, than in an economy where it is just one input into a whole range of products, i.e. within the third world economy compared to the advanced capitalist economies where there is substantial value addition. Because of this higher inflation, there would be capital flight in anticipation of a depreciation of the third world currency relative to dollar, which would cause an actual depreciation that may go on and on. To stem such depreciation, "austerity" measures would then be imposed upon the third world, greater unemployment would be generated, and incomes would be compressed.

The growing wage goods and raw material needs of the metropolis as a whole therefore are met, even when there is no increase in their output, through compressing incomes and hence demand for such wage goods and raw materials within the third world itself. This would not happen if the third world did not use dollars and traded largely within itself. Dollar hegemony thus constitutes the basis of contemporary imperialism.

This hegemony is currently under threat. Trading arrangements with local currencies, or with new currencies such as what the BRICS countries are reportedly planning to introduce, are gaining ground, encouraged in particular by the number of countries against whom the advanced capitalist countries have imposed "sanctions". Not that a collapse of dollar hegemony is imminent; but a process of its decline over time has been surely initiated.

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