Denver Journal of International Law & Policy

Volume 2
Number 1 *Spring*

Article 8

May 2020

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MONEY, MONOPOLY AND THE CONTEMPORARY WORLD ORDER

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Whatever else they have accomplished, President Nixon's dramatic policy moves last August have stimulated a lot of rethinking about political-economic trends in the contemporary world. In my case, the result has been accelerated change in my views about the relative importance of the questions of government economic policy which face the inhabitants of spaceship Earth, about the possible answers to these questions and about the characteristics of the social decision-making processes that will generate the answers. In these terms, this "comment" sketches a comprehensive but tentative hypothesis about current developments. A key feature of the hypothesis is the importance it attaches to monetary and financial arrangements as determinants of the world political-economic order.

IMPORTANT ECONOMIC POLICY QUESTIONS AND ANSWERS

Government exchange rate policies

The question of what national governments should do about exchange rates among important international monetary assets, including gold, was raised by President Nixon's unilateral decision in August to close the American gold window. Like the British decision to "go off gold" in 1931, President Nixon's decision followed a long period of commitment, in practice as well as theory, to the principle of governmental exchange rate "pegging" via open-market operations involving gold and currencies.

I am convinced that national governments will not in the foreseeable future refrain from buying and selling large quantities of gold and other international monetary assets for the purpose of influencing market exchange rates and expectations. The wealth position of too many important "private" interests (which government officials choose or feel obliged to serve) are affected by these rates. In particular, the governments of major non-U.S. trading nations will continue to intervene in foreign-exchange markets for the purpose of dampening short-

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run fluctuations in the prices of their currencies with respect to other major currencies. But they will not try to eliminate short-run fluctuations entirely, and I believe they will permit "average" or "central" exchange rates to "crawl" (whether or not this is officially announced), especially if the alternative is endless hikes in central bank dollar holdings. Similarly, the U.S. Government will peg the dollar price of gold only so long as this is convenient; when it becomes even slightly inconvenient, the gold window will close or the price will change.

Such a pattern of behavior by important foreign governments will very much enhance the attractiveness of the dollar to foreigners for use in domestic as well as international transactions, and also for precautionary and speculative purposes. This is because the stability of the dollar's real purchasing power (stemming initially from the breadth, depth and "openness" of the American marketplace plus the existing world-wide popularity of the dollar) will rise relative to the other major currencies, insofar as their exchange rate against the dollar becomes more changeable.

Government reserves and the intergovernmental financing of payments deficits

The question of what international monetary assets national governments should hold and use for exchange-rate pegging operations or other purposes was technically raised when the American gold window closed, but was quickly put to rest when it became apparent that the primary purpose of this move was to free-up the price of the dollar in terms of other major currencies, not to demonitize gold. A unilateral decision by the U.S. to demonetize its still enormous gold stock and to "go off gold" permanently would indeed go a long way toward eliminating the monetary role of gold in both governmental and private international transactions. But it would probably not be sufficient for this purpose and, in any event, it is not a necessary conditon for dollar pre-eminence around the world. Indeed, the *threat* of such action, directed against governments which (foolishly) are committed to the monetary role of gold, is far more useful than the action itself to those who manage the dollar — namely, the President, Congress, the Federal Reserve Board, and important commercial bankers. Thus, I believe that the monetary role of gold insisted on by some governments will persist but will hence forth serve mainly to amuse (perhaps to enrich) private speculators and to strengthen the political-economic hand of the U.S. Government.

The needs of governments for international monetary reserves will be met by a combination of gold, dollars, and Special Drawing Rights. Since the U.S. will not undertake to peg the dollar to anything but gold — and even that, if it becomes inconvenient — it needs no other reserves than the ten billion in gold which it already holds. Non-U.S. governments must, for the most part, choose between dollars and SDR's. From the U.S. point of view it matters little which is chosen since the U.S. Government and American bankers will be the largest creditors and beneficiaries via seignorage and control. Nor do I anticipate much disagreement concerning the aggregate quantities of dollar-SDR reserves held by non-U.S. governments. For the U.S. has much to gain and little to lose by financing the deficits and the dollar accumulations of other countries. The cost is limited to the bank ledger entries involved, plus slower short-run growth in consumption and investment at home (due to trade surplus) — a small price to pay for huge seignorage gains and a financial stranglehold on foreign countries, especially when foreign investment is rapidly becoming as American as apple pie.

Thus the "international liquidity" of non-U.S. countries will be adjustable by them in accordance with their own preferences, and questions concerning liquidity will cease to hold the center-stage position which they have occupied for the last ten years.

Government restrictions on international capital transactions

The question of what restrictions governments should impose on international capital-fund transactions is also more likely to be decided without turmoil in the future than it has been in the past. Wider and more flexible "crawling bands" for exchange rates seem likely to reduce the volume of short-term capital flows that have caused so much distress among national monetary officials in recent years. Those which remain will be regulated along with long-term capital flows as minimally as possible. In order to cash in on the benefits of world-wide dollar hegemony, the U.S. Government is almost certain to remove the few restrictions it now imposes on international dollar capital flows. Other countries which do not follow suit will, to that extent, suffer exclusion from the benefits of the huge and growing volume of world trade and investment conducted with dollars.

Thus crawling bands, coupled with the economic inducements of growing dollar hegemony around the world, favor the minimization of governmental restrictions on international capital movements involving dollars. Such minimization will, in turn, enormously increase the attractiveness of the dollar and the political economic power of those who manage it.

Government restrictions on international trade

The question of what restrictions governments should impose on international transactions involving real goods and services is also destined for smoother disposition and therefore less attention than it has previously received. The reason is analogous to one of the reasons which suggest the lowering of restrictions on international capital movements: countries which choose to engage in a trade war with the United States will lose out economically while others prosper. Only if non-U.S. countries engage in collective bargaining *and* if the U.S. overreaches — only then will trade restrictions become an important issue. The first of these contingencies is farfetched for the simple reason that there are too many non-U.S. countries with ancient traditions of rivalry and double-cross. Moreover, the many influential Europeans who are getting rich from U.S.-European trade are not likely to permit their governments to engage in a trade war with the U.S. In the unlikely event that the members of an expanded European Economic Community can agree on a strong anti-U.S. position, the U.S. can threaten increased trade with Japan, Eastern Europe, Russia, and Latin America, not to mention Africa and China.

Government monetary and fiscal policies

The question of whether and, if so, how governments should employ monetary and fiscal policies for balance-of-payments or other international purposes will become more alive than it has been, although I believe that some of the answers are foreordained.

Parochial monetary policies have recently been blamed for international economic difficulties. Added to such disfavor is the increasing impotence of (non-U.S.) monetary policies in a dollar-dominated world. Non-dollar money stocks and interest rates will continue to become both less important than their dollar counterparts and more helplessly tied thereto. This will cause much agony among non-U.S. officials who are thoroughly addicted to monetary sovereignty, even though they have already lost most of it in practice. Kicking the habit will not be easy, but it will happen simply because the drug will become more and more scarce.

With the gradual demise of (non-U.S.) monetary policy as a governmental policy instrument, fiscal policy will receive much more attention and stir more controversy than it has in the past. Governments will increasingly rely on special patterns of expenditure and taxation for international as well as domestic purposes. Border tax adjustments and discriminatory investment tax credits, for example, will become more popular and more controversial.

U.S. monetary policy, of course, will be supremely important.

The United States balance of payments

The question of what the United States and other governments should do about the U.S. balance of payments and in particular, its currently large "deficits", has effectively been removed from international debate by President Nixon's unilateral moves and all of the developments which I have discussed above. So long as the U.S. economy remains richly productive, open to outsiders, and relatively inflation-free the U.S. has no reason to worry about its "overall deficit", however defined and measured. Occasional dissatisfaction with the structure (composition) of trade or capital flows may call for minor changes in government policy, but this is quite a different matter from sweeping changes in monetary, fiscal, commercial, or exchange control policies in response to the fact that many more dollars are being transferred by Americans to foreigners than *vice versa*. For a world of dollar supremacy, this fact is to be welcomed as the source of additional seignorage and influence!

The "burden of adjustment" will be on foreign governments, whether they like it or not and, for reasons already indicated, they will almost certainly resort to exchange rate flexibility as their primary instrument of adjustment. This will further strengthen the dollar, as argued above.

Government regulation of the "Eurodollar" market

However much European governments may wish to regulate the Eurodollar market (out of existence!) neither they nor their influential banker and industrialist constituents will be willing or able to do so. For the Eurodollar market exists precisely because the dollar not only facilitates but is necessary to current levels of business profit in today's international economy. It is a subsystem in the world-wide pattern or matrix of dollar-financed trade and investment.

Economic policies of non-U.S. countries toward each other

Because there is so little that non-U.S. governments can profitably do about American policies except make the best of them, the most critical questions of economic policy for them will be how to regulate economic transactions among themselves — in plainer language, how to conduct themselves so as to maximize their respective shares of whatever is not gobbled up by the American monolith — and how to obtain special favors from those who control it. These will also be important questions for the United States government, if only because the joys and profits of empire can only be reaped under conditions of general tranquility. Thus the future role of the U.S. as arbiter-patron will be crucial to it as well as to other governments.

Economic policies toward less-developed countries

The scramble around Goliath's feet has special importance for the "developing" or "less-developed" countries. For unless they very much improve their bargaining positions and skills, they are likely to lose ground relative to western European governments, Japan, and Canada. This would provide excellent opportunities for sphere-of-influence expansion and rivalry by Russia and China. Thus the question of what economic policies the industrialized western countries (especially the United States) should adopt with respect to the less developed countries assumes great importance. This importance is enormously increased by the continuing fact that the vast bulk and the most, rapidly growing portions of the world's population resides in less-developed countries, in a state of unmitigated squalor and misery.

Economic policies regarding the use of irreplaceable resources: pollution

Insofar as the U.S. dominated international economy continues to expand output with currently popular technologies, there is a high and increasing likelihood that human life — perhaps all life — will become impossible by the end of this century. It hardly needs stating that this raises the most important of all questions about government economic policies: what should governments do about the immiment prospect of ecological disaster?

Summary

It seems likely then, that familiar questions of government economic policy concerning exchange rates, international liquidity, trade restrictions, capital flow restrictions, the U.S. balance of payments, and the Eurodollar market — have rather suddenly become less important as a result of President Nixon's decision to use and exploit the international political-economic muscle of the United States. This muscle results from a *combination* of pre-eminence in resource control, economic output, technology, managerial and financial know-how, lending capacity, and monetary importance — not to mention military power. In short, it results from a *monopoly position* in *all* the essential ingredients of political-economic power, a combination which far exceeds even the wildest dreams of nineteenth century Britain.

New relative importance attaches, under these conditions, to questions concerning government budgets, U.S. monetary policy, economic relations among non-U.S. countries, less-developed countries, population growth, and pollution.

CHARACTERISTICS OF THE RELEVANT DECISION-MAKING PROCESSES: CONSTITUTIVE MATTERS

Now we come to a series of questions which may have more inherent interest for lawyers and less for economists, as compared with the foregoing.

Who will participate in or influence the decisions which will emerge, as a matter of history, to answer the questions of government economic policy discussed above — especially the questions whose answers are *not* largely foreordained by overwhelming political-economic realities?

Which of these participants will perform each of the various decision-making activities — informing, recommending, prescribing, invoking, applying, and sanctioning?

Following what procedures?

Applying what sanctions?

The answers to these questions will vary to some extent with the economic policy question involved. For example, the large, varied, and mobile currency holdings of the big multinational corporations make them key participants in decision-making about foreign exchange rates, whether governments like it or not. When it comes to questions about reserves and liquidity, on the other hand, central bankers will play the dominant role. I will not attempt to make such distinctions here, however. Instead, I will generalize without reference to particular policy questions, leaving the reader to make appropriate qualifications.

Central bankers will play a much more modest role than they did before August, 1971. Finance ministers and heads of state will dominate center-stage — as they have done since August. The International Monetary Fund and the General Agreement on Trade and Tariffs will, more than ever, function and appear as a thin disguise for American dominion over the world economy; they will in fact serve little purpose and may well be discarded. The Group of Ten, or an even more exclusive inner circle of major governments — dominated by the U.S. — will prescribe, apply, and enforce the international law of government economic policy, following the procedures of traditional diplomacy instead of procedures like those used in the International Monetary Fund. Such procedures will be less formal, more secret, and less richly recorded than those which were followed prior to August, 1971. The "inner" group will probably include Britain, Germany, France, and Japan — in addition to the U.S.. "Non-member" countries will of course be able to inform, recommend, and invoke — but probably with less effect than in the IMF or GATT contexts. This is especially true for the less-developed countries which will be left with even less of an authoritative role in international economic lawmaking than they previously enjoyed as in the Fund and the GATT.

The few hundred largest multinational banks and industrial firms, most of them American, will increasingly (though privately) coordinate their decision-making and lobbying in such a way as to become legislature-court-policeman for the whole world, rivaling the major governments and thoroughly dominating the lesser ones.

Inside the U.S. — the locus of awesome international political-economic clout — there may develop an acute struggle between the Federal Reserve, now primary bank of issue for the world, and the White House, which has charge of all but the monetary instruments of government economic policy. (I assume little or no interference by Congress.) Very strong pressures will develop, I believe, for the subordination of Federal Reserve policies to the White House world economic master plan. In addition, it is likely that important conflicts about international economic matters will develop from time to time among various multinational industries, between American labor unions and multinational management, or between groups of multinational firms and the federal government.

Concluding observations

All signs points to the grandest and final flowering of

American empire during the next ten to twenty years. Giant American multinational industrial and banking firms, collaborating with the U.S. government and two or three others, will make decisions that will shape the near and long-term destiny of the human species. Those who see the United States today entering a period of political-economic decline fail to understand, in my opinion, the importance of monopoly in human affairs and the organizing potency of the social institution we call money. Only general nuclear war, new forms of pestilence, ecological disaster, escalating domestic strife, or hyper-inflation of the dollar could prevent the increasing American preeminence I foresee. Of these I believe that ecological disaster is the most likely.

An absolutely crucial device for communication and sanctioning in this enormously complex and highly centralized social system is MONEY — in particular, the American dollar, which has emerged as the basic unit of account, medium of exchange, and store of value in the world economy. This makes the Federal Reserve Board central banker for the world, and it makes the "soundness" of the dollar the most important of all the U.S. government's political-economic objectives. For the whole system is likely to fail if the dollar is badly managed — *e.g.*, if U.S. inflation gets out of hand.

The moral of the story is that when one tribe gets much bigger and richer than all the others *and* when it uses the money device shrewdly, it can dominate the world and do anything it wants to do within reason, all the while strengthening its position *without relying primarly on military force.* The other tribes, at least so long as they remain relatively ununified, have no choice but to search, beg, or fight among themselves for crumbs from the giant's meal. It's the company town writ large: everyone is compelled by the lack of alternatives to sell and buy in large quantities at the largest store in town.

I believe that somewhere in the White House files there is a confidential study with conclusions much the same as mine. I believe that President Nixon agrees with these conclusions, has acted on them, and will continue to do so, with the object of realizing the fullest possibilities of American empire — probably without regard to the impact on masses of underprivileged peoples at home and abroad. The question I raise, then, is: who will benefit and who will suffer from this flowering of American empire? To what end do we facilitate profitable international trade and investment by our huge multinational corporations with a skillfully contrived and managed monetary and financial system?

The most urgent task for lawyers, economists, business executives, union leaders and others who more or less share my view of current developments is to use their knowledge of the relevant decision processes to increase the probability that important decision-makers around the world will switch their attention from old, familiar concerns such as exchange rates and international liquidity to the really important issues of the day such as pollution, poverty, and population, and then come up with life-sustaining decisions.