

THE IMPACT ON THE U.S. DOLLAR OF THE CONFLICT
BETWEEN THE AMERICAN LOCOMOTIVE'S MODEL AND THE
EMERGING ECONOMIES' AUTOPOIETIC GROWTH

by

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Abstract. The purpose of this paper is to put the future of the US dollar into a logical framework which comprises the global development mechanism. Two models of growth collide: the US «locomotive», based on the international use of the dollar, and which requires exogenous pushes coming permanently from the foreign deficit and periodically from the public deficit, and the «endogenous», or «autopoietic». The engine of autopoietic growth is the process of globalization, alimeted by foreign investments and the emerging economies' domestic demand, which in turn require the establishment of an international monetary standard. In absence of a real international cooperation, the conflict of the two models might bring a global currency crisis and a fall in the global growth rate, with a possible negative impact in foreign relations and policies at the global level.

1. Introduction¹.

The world is puzzled by the future of the US dollar. Many scholars, predicting that an adjustment of the current account of the US balance of payments is necessary, are estimating the extent of the necessary, further devaluation of the dollar². On a purely logical basis, we could say that the dollar, starting from

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² See for example Obstfeld and Rogoff (2004) or Roubini and Setser (2004, 2005). For a survey, see Menville (2005).

the current, depreciated levels, could furtherly depreciate or even appreciate. However, instead of giving a forecast of its value in the next future, this paper will try to provide a logical framework for giving a reply to the puzzle.

The starting point of the analysis, in our opinion, should be the global development models. On the one hand, the US expansionary policies helped the development of the western countries after the second world war, giving birth to the so-called “American locomotive” model. This model, based on the US current account deficit financed by larger and larger capital inflows, uses the dollar as the international currency, but has no formal or informal agreement to regulate that. On the other hand, the entrance on the market of about three billions of new potential consumers and a growing number of new potential producers, potentially doubling the people participating in the economic activity on the planet (with consequences still largely unknown) creates a new model of development, which does not need the American locomotive and has an endogenous (or “autopoietic”) capacity of growth. Needless to say, this kind of model does not need either the dollar as the international currency.

If the first goal of this paper is to evaluate the relevance of a substitution of the locomotive model with the autopoietic model, the second goal is therefore to understand whether the current co-existence of the two models can cause problems to the international monetary system centered on the dollar and, through this, to the world development.

The third goal of this paper is to verify the relations between the current international monetary order and competition in the global market. If the cost of dollar devaluations is different among traded (i.e. exposed to competition) and non-traded (i.e. non-exposed) sectors, and in fact the burden of it is only on traded sectors, which are price-takers, the rents are strengthened

with respect to the profits³, penalizing the trend of the real growth.

2. Two models of economic development and the international monetary regime.

The development of the modern industrial economies, starting from the second half of the 20th century, is based on the tow of the «American locomotive» and on the use of the dollar as the international currency. This well-known mechanism needs a permanent current account deficit of the US, i.e. it needs that the US absorb a growing share of the world savings to live above their resources. It also needs a transitory public (federal) deficit, i.e. an exogenous push of domestic demand, creating the well-known «twin deficits».

In the last part of the 20th century, a new pattern of growth started to emerge, following the entrance of new consumers and producers after the fall of the iron curtain, the associated wave of liberalizations and the growth in foreign direct investments and domestic demand in emerging countries. This new mechanism, which we call «endogenous» or «autopoietic⁴» (Varela, 1992), does not require the twin deficits because it is based on an endogenous demand which renders the exogenous pushes unnecessary. Given these characters, the locomotive model could become anachronistic and dangerous (Savona, 2004).

Before August 1971, when the Bretton Woods Agreement was still in operation, the rest of the world had the possibility to control excessive foreign deficits of the US by converting dollars in gold at a fixed price. There was therefore an instrument which allowed the control at margin of the international money supply denominated in dollar.

³ See Baffi (19xx) for a discussion of the relevance of the problem for Italy.

⁴ «Autopoiesis» and «autopoietic» are concepts identified by biologists Humberto Maturana and Francisco Varela. “An autopoietic system is organized (defined as unity) as a network of processes of production (synthesis and destruction) of components such that these components: (i) continuously regenerate and realize the network that produces them, and (ii) constitute the system as a distinguishable unity in the domain in which they exist.” (Varela 1992).

After August 1971, the US unilaterally decided to break this monetary bound to their growth, forcing the other countries to take autonomous decisions to react or not to the floating of the external value of the dollar. Under this new international monetary regime, the only way to protect the exchange rate of any country from the flooding of dollars is buying them as official reserves, creating domestic base money. If this creates an excess supply of domestic money, the monetary authorities are forced to sterilize this excess.

Under this regime, therefore, non-US monetary policies are not targeted to domestic goals anymore, but to the course of the dollar. This of course could imply a choice between development and sovereignty. If an economy is dependent on exports, and wants to have an exchange rate stability, it has to give up its monetary sovereignty because monetary policy is subjected to the volatility of the dollar exchange rate.

Given these premises, it is correct to say, as originally stated by former US Treasury secretary Connolly and recently restated by Treasury secretary Snow, that «the dollar is our currency, but your problem,» where «your» means the rest of the world. However cynical, this statement correctly recognizes that the dollar is a problem, but transfers it from economic to foreign policy.

Given that the dollar, in this system, has become the world's *fiat money*, we argue that the US should agree – at least in principle – on the necessity of a cooperative policy on exchange rates, to obtain a monetary standard governed by some rules. The absence of an international monetary standard created through an agreement transfers the burden of the adjustment from the US to the other countries or, worse yet, assigns the government of the exchange rates exclusively to the market. Both of these solutions could have very serious consequences, from the economic and political points of view.

If the «locomotive» model were the relevant one for the global growth mechanism, the current international monetary order could still be accepted, albeit with some institutional changes. If,

instead, the «endogenous» model becomes relevant in dimension and dominant in impact on global growth, the current monetary order is not useful and therefore cannot be accepted anymore. Leaving the currency regime as it is, the subjection to an heavily floating dollar can be reduced by paying a price in terms of real growth. By using flexible exchange rates for the euro, the Eurozone achieved such a goal. But, given the perverse effects on EU exports due to their high elasticity to price, the result of the floating regime of the euro with respect to the dollar is that monetary and financial disequilibria have been transferred to the real sector.

This is the main reason why China has adopted a peg on the dollar instead: history of post-WWII development teaches us that fixed exchange rates can be a relevant instrument of development and of exports and domestic growth rate. The catch here, of course, is that the real sector is isolated from external monetary shocks; but these shocks risk of being transferred, sooner or later, to the domestic monetary sector through the monetary base created by the pegging of the yuan to avoid its revaluation.

As we see, negative effects are not limited to the countries which adopt fixed exchange rates, but are relevant for any country, given the current levels in the of dollar supply coming from the US or from the foreign central banks reserves.

There is a widespread consensus on the interpretation of the «American locomotive» model. As an example, we can cite the relationship between export and growth in Italy⁵. Starting from 1960s, Italy has experienced strong growth rates depending mostly on products by some industrial sectors, generally denominated “made in Italy” sectors. The elasticity of growth to these exports is still very relevant, on average 0.30% according to some our recent estimates⁶. Before joining the EMU, therefore, one of the possible policies to stimulate growth was the competitive devaluation of the lira: after the EMU, these policies were not possible anymore, and the loss of exchange rate

⁵ See Graziani (1992).

⁶ Viviani (2005).

sovereignty has become a problem for Italy when the US started the current depreciation phase of the dollar.

We must say that Keynes was right in seeing a close relationship between fixed exchange rates (but multilaterally adjustable) and economic development, at least in the «western» area. However, he added, for this scheme to work, some limitations in short-term capital movements are necessary, at least as substitutes of an adequate control in domestic monetary creation. This means that domestic monetary disequilibria had to be contained within the national boundaries and, should structural differences in inflation rates arise, they should have been treated by international cooperation within the International Monetary Fund.

The other precondition that Keynes proposed, and which was not accepted either in the Bretton Woods Agreement or in the Rio Agreement in 1968, was the creation of an international monetary standard for every country including the US, that he called *bancor*, to state that it should have been managed to be *good as gold*. Those proposing the term «special drawing rights» surely were less imaginative than Keynes!

Under the pressure of the American interests, effectively supported by liberist economists, the Bretton Woods international monetary regime was abandoned with an unilateral decision by the US, switching to a flexible exchange rates regime, encouraging and supporting a growing liberalization in short-term international capital flows, and igniting a system in which all the countries except one had to try to accumulate current account surpluses in order to obtain dollars. In the growing currency confusion that followed, a number of financial innovations were born, generally known as «derivatives».

With the introduction of derivatives, the fundamental rule of monetary creation, i.e. that the market was not able to determine the optimal quantity of money and that this task had to be allocated to an independent authority, was twisted in favor of the market (Savona, Maccario and Oldani, 2000) with different reactions country by country.

In South America there was a series of failed trials of dirty floating, and a case of dollarization, in Argentina, ended in a default and heavy losses to bond holders throughout the world. We must add that dollarization experiments leave open the question of the political legitimacy of surrendering the monetary sovereignty to another Government, which in turn is neither interested nor disposed to discuss its monetary policy.

In Europe, a system with the maximum possible rigidity of exchange rates, the one corresponding to a monetary union with a common currency, was established, with 12 of the 25 countries of the EU joining it and the 10 new entrants irrevocably committed to do the same within a relatively short period of time. The external value of the Euro was left floating.

In Japan a form of dirty floating was adopted, sometimes coming very close to a fixed exchange rates regime. In China, and in other East Asian countries with export-oriented economies, fixed exchange rates were adopted, although successfully only for China (if we are authorized to judge that!), while for other countries like Indonesia and Thailand the mismanagement of short-term credit and derivative contracts generated perverse and disastrous effects.

The expectation on the stabilizing virtues of floating exchange rates regime was not fulfilled: the US foreign deficits have grown to a disturbing share of American GDP, and it seems that larger and larger devaluations are required to adjust the imbalances. As we said, public deficits in the US have been the preferred instrument to support domestic demand, while being short of domestic savings. This confirms the close relationship between the characters of the international monetary regime and the American policy of leaving American citizens live above their means, i.e. above the domestic real supply.

On the other hand, the process of globalization, pushed by several tendencies which one of the authors of this paper (Savona, 1988) synthesized in the «LISCA effect» (Liberalization, Internationalization, Securitization, Computerization and Apoliticization), has the merit of exploiting

in economic terms the end of the political blocks following the fall of the iron curtain.

Globalization also has the merit of starting a new development model, which substitutes foreign demand with domestic demand. This happens through the impulse of foreign direct investments (FDI), which provide less developed countries with an initial endowment of advanced technology, and a growing autonomous purchasing power.

The start of the exponential growth in FDI coincides with the fall of USSR and the consequential end of the division of the world in two political blocs. Between 1990 and 2003, the stock of incoming FDI per capita has grown from \$395 to \$1310 in the world; in East Asian developing countries from \$127 to \$394, in Eastern Europe and in the CIS from \$4 to \$385⁷.

The main effect of FDI on these developing countries was, as predicted by economic theory, the technology transfer, and subsequently higher rates of growth, of course also ignited by liberalizations and an opening to market economy. As a result, some developing economies started by producing goods which required low skills and low salaries, attracting therefore *vertical* FDI; but the technology transfers contributed to render them competitive in the production of higher-skilled and higher value-added goods, while salaries grew, but remained lower than in western developed countries. This started an *endogenous* mechanism of growth, which doesn't necessarily need FDI for development, or attracts more *horizontal* FDI, that is FDI oriented to satisfy the internal demand. China, as an example, is switching more and more from traditional to innovative sectors, directly competing with more developed countries, and on the other hand sees a very strong growth in internal demand.

This kind of model, of course, does not need the American locomotive anymore, because it does not depend on American (or European) demand to grow. At the same time, the dominance of the dollar is no longer justified.

⁷ Source: UNCTAD (2005).

3. The future of the dollar and the need for a political perspective.

We can now turn to the original question: the value of the dollar in the next future. Will it stay at the current levels or will it depreciate furtherly? Given the current status of the international monetary regime, we argue that the exchange rate of the dollar will remain weak. In the best-scenario case, it will remain around the current levels, waiting for the US monetary and fiscal policy restrictions already adopted to have their effects on the current account of the balance of payments.

However, if the ECB will adopt a more restrictive monetary policy stance, given the recent relaxing in European fiscal policy rules (the so called “Stability or Amsterdam Pact”), the effect could be a neutralization of American decisions, strenghtening the external value of the euro and keeping the dollar weak or even weaker.

Following a simple, traditional «absorption approach», if the «soft landing» of domestic demand pursued by the Chinese authorities should evolve in a search for external demand, the raise in export could increase the probability of further currency disturbances, which could lead to a change in the yuan exchange rate regime or, more simply, to a negotiated change in the pegged value of the yuan towards the dollar.

In any case, we expect the American foreign deficit to remain close to the current (high) levels, because it depends mainly on the American domestic demand that no government, be it Republican or Democratic, can afford to curb beyond a given limit by using fiscal policy instruments. This is confirmed by Bernanke (2005), who in an official speech downplays the role of the federal deficit in the current account, although he still believes that «reducing the federal budget is a good idea.»

Judging by Bernanke words, the view of the Federal Reserve Board – or at least the view of one of its most authoritative members – is that the American current account deficit

essentially depends on causes external to the US, namely – among the others – the global (excluding the US) savings glut, and therefore that no strong internal action should be taken to curb the foreign deficit. In his view, the US economy still presents interesting investment opportunities, thereby attracting large capital flows from the rest of the world. This implies, however, attracting capital from the «younger», developing economies, and «for the developing world to be lending large sums on net to the mature industrial economies is quite undesirable as a long-run proposition (*ibid.*)»

On the other hand, «the large current account deficit of the US [...] requires substantial flows of foreign financing. [...] the situation will eventually begin to improve, although a return to approximate balance may take some time. Fundamentally, I see no reason why the whole process should not proceed smoothly.» (*ibid.*)

Although omitted by Bernanke, the exchange rate of the dollar is often viewed as a suitable instrument for reducing the current account deficit, as predicted by economic theory.

The problem, however, is that the level of the current account deficit is such that it cannot be adjusted by means of an «ordinary» exchange rate devaluation. Among other things, we must consider the low value of the American imports elasticity to the exchange rate, even if politicians can try to let American voters believe that the exchange rate can be effective in reducing the deficit. Estimates, such as the one produced by Obstfeld and Rogoff (2004), that a 20-40% depreciation in the real trade-weighted value of the dollar is necessary to adjust the American current account, seem to confirm the failure of the dollar devaluation mechanism to adjust the current account, and are therefore a proof of the inadequacy of this regime.

American citizens are indifferent to the external value of the dollar because it is their own currency. However, they cannot be indifferent to their external debt, which grows at \$1.8 billions a day, and to the interest paid on it, that reduces their actual

purchasing power⁸. At the same time, they cannot be indifferent to the growth of their public debt⁹, which is largely – more than 40% according to estimates¹⁰ – in the hands of the central banks of China and Japan.

These banks and the other Asian central banks are growingly nervous with the value of their reserves, and could indeed decide to modify their composition, which could lead to a dollar sell-off and a further, catastrophic depreciation (at least for the European interests) of the dollar. As Roubini and Sestser (2004) say, «no doubt the dollar's position as the world's reserve currency and the depth of U.S. financial markets creates an intrinsic source of demand for both dollars and dollar denominated assets. However, this could prove to be mixed blessing. The dollar's privileged position could increase the risk that the world will finance large U.S. trade deficits for too long, leading to excessive U.S. debt accumulation. This will let U.S. delay needed adjustment, but increase the cost of the adjustment when it finally happens.»

In the long term, therefore, independently from national economic policies, the dollar will remain structurally weak. And even if this weakness is manageable, the risk of a crisis will remain high. This crisis would involve politics, perhaps more than economics: it would be then advisable to treat it, or much better to anticipate it, by activating some foreign policy instruments. An international agreement involving the G8 and China could establish an international monetary standard and fix new rules to manage and to avoid international currency crises.

This has two meanings: the first is that the countries participating in the globalization process under the WTO rules must recover their monetary sovereignty, wrongly left in the hands of financial

⁸ See for example Bank of England (2005) for a discussion of this point.

⁹ As of 31 march 2005, according to the data published by the U.S. Bureau of the Public Debt, the total public debt of the USA was \$7.78 trillions including intragovernmental holdings, or \$4.57 trillions only considering the debt held by the public. Between 31 march 2004 and 31 march 2005 the growth of the total public debt was 9.06%.

¹⁰ Department of the Treasury and others (2004).

markets, which today fix both the quantity of money and the interest rates.

The second meaning involves the costs and benefits of cooperation, in economic policy as much as in foreign policy. We believe that any State has its own set of preferences and interests and that its behavior is guided by these preferences and interests. It would be therefore misleading to think that any State should cooperate on exchange rates – or on any foreign policy issue – purely on the basis of a superior and abstract common interest. But it would be equally misleading to ignore the benefits that can arise from a cooperative behavior, as game theory teaches us. As the history of European integration shows, cooperation can be successful if it is based on a common interest, and not successful when it proves to be too strong a limit (as in the case of the Stability and Growth Pact) for the preferences and interests of the governments.

It becomes therefore relevant to understand how to convince the governments of the US, of European countries, of China and Japan that cooperation in exchange rate management is beneficial for all. International political economy theories could give us some interesting insight.

The realist perspective, in particular, shows us that cooperative behaviors arise between states only when non-cooperation determines some kind of vulnerability. The existence of *asymmetric vulnerabilities* implies the existence of *issue areas*, not necessarily interconnected, on which the governments confront their preferences and positions. The ability (or of course the inability) of one government to link issue areas between them is crucial to obtain a cooperative behavior from another. But, before that, it is necessary that a government understands the existence of an exchange rate issue. What we mean here is that, in absence of a common position of the European governments, at the Council level, on exchange rate, there is no policy position on this issue but the one of the American Treasury. The first step of action required is therefore that E(M)U governments

understand the relevance of the issue, find an agreement, and start talking to the US on the basis of a concerted effort.

Until now the behavior and the exchange rate strategy of US governments has been purely guided by a narrowly defined national interest. But we believe that an heavy international currency crises would damage also American interests. Therefore, it should be in the American interest to cooperate in order to anticipate and avoid it.

4. The effects of the current international monetary order on global competition.

Monetary and currency disturbances can hamper fair competition in any market. A stable monetary standard is a necessary requirement for any market to work, and therefore any policy curbing inflation is a policy that helps to establish a fair competition.

While there may be different interpretations on the causes of inflation and on the instruments to anticipate and reduce it, there is a complete agreement on the fact that money supply and inflation must be managed by an independent public authority.

This agreement has solid economic foundations, but also political ones. The «no taxation without representation» principle involves inflation as much as traditional fiscal instruments, because inflation is a hidden tax and therefore an income redistribution instrument. If not managed, inflation violates the above said principle of democracy.

However, the same agreement reached on the necessity of fighting inflation has not been reached in the case of an inflation deriving from exchange rates devaluations. On the one hand, it can also be said that inflation is a cause of devaluations. On the other hand, the idea, expressed by Piero Sraffa (1920), that internal monetary stability cannot be achieved without external monetary stability, has never been logically deepened and empirically tested.

This dispute has been solved in the European Monetary Union to promote a common market with fair competition: it adopted one money. To promote a common global market with fair competition we should have one global money. If we think that this global money can be the dollar with floating exchange rates, we implicitly admit that we do not want a global market with a fair competition, but only a process of economic integration called globalization without a proper monetary standard and without an independent institution which manages its offer.

It must be remembered that in the European Monetary Union the problem of the external value of the euro has not been solved. The treaties say that the Council has the political responsibility and the power to sign international agreements regarding the euro. Apart from this institutional framework, however, the managing of the exchange rate lays in the hands of the ECB, because the Council has never shown any interest in doing that. Apart from ordinary management, this is equivalent not to have any exchange rate policy at all, or better said to adopt the currency policy of the US, because the ECB only targets the inflation rate, subjecting any other target to this one. While this is correct from the institutional point of view, it is less acceptable from the political point of view, because the exchange rate responsibility cannot be delegated to another government.

If, instead of admitting that we have no policy, we say that the only thing that matters are purchasing power parities, and that therefore the euro exchange rate should be determined purely by the markets, our behavior risks to be hypocritical and to put at risk the fundamentals of European and American relations, also rendering empty the frequent invocations of the «rules of the market» done by governments to encourage the acceptance of reforms regarding pensions, the welfare state or competition.

The alternative solution to the European one has been to stabilize more or less rigidly the external value of the currency, accumulating both dollar-denominated reserves and domestic and external tensions of the kind we already described.

There are other dangerous effects of market-managed exchange rate variations, especially regarding the different behavior of traded and non-traded sectors. As we said before, an appreciation of the exchange rate can harm traded sectors while leaving indifferent non-traded sectors.

Be it for any reason, ranging from historical tradition to political influence, any economy has traded and non-traded sectors. We can roughly say that primary and tertiary sectors are on average price-makers, working shielded from external competition and with limits to internal competition too, while the industrial sector generally is a price-taker. The weight of traded and non-traded sectors is difficult to precisely estimate for each country: but we can say that it usually ranges respectively between 30 and 40% for the former and 60-70% for the latter.

Given their nature, traded sectors are greatly influenced by exchange rates: in the case of inflation caused by a depreciation, they cannot transfer to the consumer the increase in prices. On the other hand, in case of an appreciation, they cannot recover the lost margins, because they do not make the price. If exchange rates variations depend upon differences in inflation rates, and these differences depend in turn upon the different relative weights of traded and non-traded sectors, the logical consequence is that price-maker sectors (or non-traded) determine inflation, while traded sectors endure it. If the exchange rate depreciates, the non-traded sectors transfer on prices the imported inflation, while perpetuating the circle between inflation and depreciation. On the other hand, traded sectors can adjust prices only if their foreign competitors do it.

The case of Italy before the euro is a clear textbook example (Savona, 1993) of the damages suffered by traded sectors and advantages of non-traded ones due to exchange rates variations.

The logical conclusion is that – independently from their causes – exchange rates variations harm traded sectors and benefit non-traded ones. The consequences are market failures and a bad performance of the economy. Finally, the social organization itself is harmed due to the strengthening of rent sectors and the

weakening of profit ones, i.e. the protectionism will prevail on the innovations.

5. Conclusions: the dollar is the American currency, but a problem for all countries.

A dollar reflecting the American policy choices, which can be synthesized in an extraordinarily high foreign deficit (around 6% of US GDP), and a relevant (5 to 4%) public budget deficit, harms the economies of the rest of the world, especially those which growth is of export-led type.

In the Eurozone exports are certainly relevant. Our problems are both quantitative, because growth and employment are harmed by the euro appreciation, and qualitative, because rent sectors are being benefited and profit sectors harmed. This result produces a worse social order. Directly, because less growth means less taxes and therefore less welfare; and indirectly, because benefiting non-traded sectors means discouraging the emergence of the benefits of competition. Our society becomes less meritocratic and more parasitary.

If China adopted flexible exchange rates and accepted the outcome of the market, or accepted a negotiated revaluation of the yuan, its growth rate would be reduced, adding new unemployment to the set of unresolved problems of this country. This could deteriorate political relations with the US, in an area where international relations are already exposed to the unresolved Taiwanese problem. Even in the case of a successful «soft landing» of the Chinese economy, the tendency to appreciate the yuan will be strengthened by the substitution of domestic demand with exports and the system will strenghten its vicious circle.

The consequence is that the market is giving its own answer to the foreign currency disequilibria created by the US and by the currency policies in the rest of the world, but it is not able to manage the conflict between the American-led (exogenous) and the autopoietic-led (endogenous) growth models. The market is

neither able to manage the potential foreign policy effects of this conflict, particularly evident in East Asia, as it cannot pursue political or social goals, but only goals related to the rational use of the scarcity of resources. In our opinion, the *laissez-faire* has definitely come to an end, eighty years after Keynes (1926) declared it. The «market capitalism» needs today more politics, or better said more geopolitics, than it needed before the globalization process started.

We cannot exclude either logically or practically that the dollar-denominated official reserves owned by the Chinese authorities will be sold on the market to gain a foreign policy advantage, or to regain internal political control in case it is lost by the Chinese Communist Party. We should not forget that, at the height of the oil crisis in the seventies of the last century, Saudi Arabia defined their dollar reserves as *monetary weapons* (war instruments), which could have put the US and other governments in serious difficulties.

We must also consider the effects on the dollar reserves of oil exporting countries, which announced they are considering a diversification of their reserves, pushing an appreciation of the euro vis-à-vis the dollar and strengthening the vicious circle in the international monetary system.

In the US, as stated by Bernanke (2005), capital inflows are attracted mostly by non-traded sectors, thereby making traded (and exporters) sectors less profitable. In the long run, this makes more difficult to pay the external debt.

While all countries look at economic variables on a global basis, they pay less attention to the relationship between economic policy and foreign policy. The US appear moderately interested in this perspective, while European governments are concentrated on talks regarding internal stability and infraeuropean cooperation. It is highly probable, instead, that the Chinese government is interested, given the traditional long-term approach of their culture. They could however be forced to react quickly to real and currency disequilibria coming from outside or to political problems coming from inside.

The world does not show at the moment the “vision” needed by the situation. However, all governments have an interest in the exchange rate issue, provided that they see it. The time has come therefore to switch from pure economic policy to geopolitical economy, also considering the geopolitical effects of the deep modifications in the global development model, including the demand for democracy and social welfare.

Popular wisdom says we cannot eat the cake and have it too, meaning we cannot passively let the two models of development co-exist without a cooperative effort to minimize the potential dangers. If we let this happen, it could be the model driven by the stronger to prevail, which is not necessarily the better. In this case, we could continue to face, as it happened many times in the past, an international monetary regime deeply inadequate to the needs of world development and peace.

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