INTERVIEW

Director of Geopolitical Economy Research Group

# Prof. Dr. Radhika Desai

# "Systematizing Alternative Financial Cooperation is the Key to the Solution"

*Dr. Radhika Desai is Professor at the Department of Political Studies, and Director, Geopolitical Economy Research Group, University of Manitoba, Winnipeg, Canada. She is the author of Geopolitical Economy: After US Hegemony, Globalization and Empire (2013), Slouching Towards Ayodhya: From Congress to Hindutva in Indian Politics (2nd rev ed, 2004) and Intellectuals and Socialism: 'Social Democrats' and the Labour Party (1994), a New Statesman and Society Book of the Month, and editor or co-editor of Russia, Ukraine and Contemporary Imperialism, a special issue of International Critical Thought (2016), Theoretical Engagements in Geopolitical Economy (2015), Analytical Gains from Geopolitical Economy (2015), Revitalizing Marxist Theory for Today's Capitalism (2010) and Developmental and Cultural Nationalisms (2009). She is also the author of numerous articles in Economic and Political Weekly, International Critical Thought, New Left Review, Third World Quarterly, World Review of Political Economy and other journals and in edited collections on parties, political economy, culture and nationalism. With Alan Freeman, she co-edits the Geopolitical Economy book series with Manchester University Press and the Future of Capitalism book series with Pluto Press. She serves on the Editorial Boards of many journals including Canadian Political Science Review, Critique of Political Economy, E-Social Sciences, Pacific Affairs, Global Faultlines, Research in Political Economy, Revista de Economía Crítica, World Review of Political Economy and International Critical Thought.*

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**“It’s best to think about the dollarization in terms of two distinct but related processes. The first is the mounting contradictions of the dollar system itself. The second is the increasing availability of alternatives. The proliferation of these alternatives is not systematic it has a certain ad hoc character and it will retain this character until a sizable number of countries are able to come up with a plan for alternative unified international monetary arrangements. This is necessary because the ad hoc arrangements being made today are not systematic or complete solutions. So a systematic solution is necessary and this will only come into being when a sufficiently large number of countries representing a sufficiently large part of the world economy can mutually agree to create one. Another important option to U.S. financial dominance is to create a strong financial sector at home that is not relent on foreign capital. Such a financial sector must be oriented towards productive investment including investment in those sectors which have the greatest possibility for being competitive on export markets. Not only will expanding productive capacity increase the possibilities of international cooperation among countries that are increasingly dealing with one another on a more and more equal basis because the spread of multipolarity will reduce the power differentials among countries, it will also make all sorts of financial cooperation possible.”**

**Dr. Radhika Desai, Professor at the Department of Political Studies and Director, Geopolitical Economy Research Group, University of Manitoba, answered BRIQ Editorial Board Coordinator Assoc. Prof. Dr. Efe Can Gürcan’s questions.**

***What has been the global economic impact of US financial dominance?***

**Prof. Dr. Radhika Desai:** At the Bretton Woods conference in 1944 on how the post-war world would be governed, the US blocked Keynes’s proposals for a new international monetary system. They were to replace the disorder that followed the breakdown of the sterling system and the vain attempts by the US to enthrone the dollar after the First World War. Since then, the US has subjected the world to its unstable, unviable dollar system.

This is not widely understood because there is an entire cottage industry of academics, based overwhelmingly in the United States, who have been working in overdrive for decades trying to naturalize the idea that the currency of the world’s most powerful country is naturally the currency of the world. Nothing could be further from the truth. The theory of US hegemony, which claims that the US dollar is only the successor to the pound sterling, is based on the wishful thinking that US elites have been indulging in for more than a century. The theory of US hegemony is nothing more then some ill-fitting theoretical garb that these academics have thrown onto this wishful thinking.

The pound sterling was not a national but an imperial currency. Even then it served neither the UK nor the world well. It was founded on the exploitation of the UK's non-settler colonies, chiefly British India, the largest of them the so-called 'Jewel in the Crown', encompassing present day India, Pakistan and Bangladesh, so that the UK could provide liquidity to the world in the form of the capital exports. These capital exports financed the industrialization of Europe, the US and Britain's other white settler colonies during the late 19th and early 20th centuries. In other words, the sterling system was founded on racist imperialism.

**In the first version of the dollar system, US promised to back the dollar with gold in order to sweeten the bitter pill.**

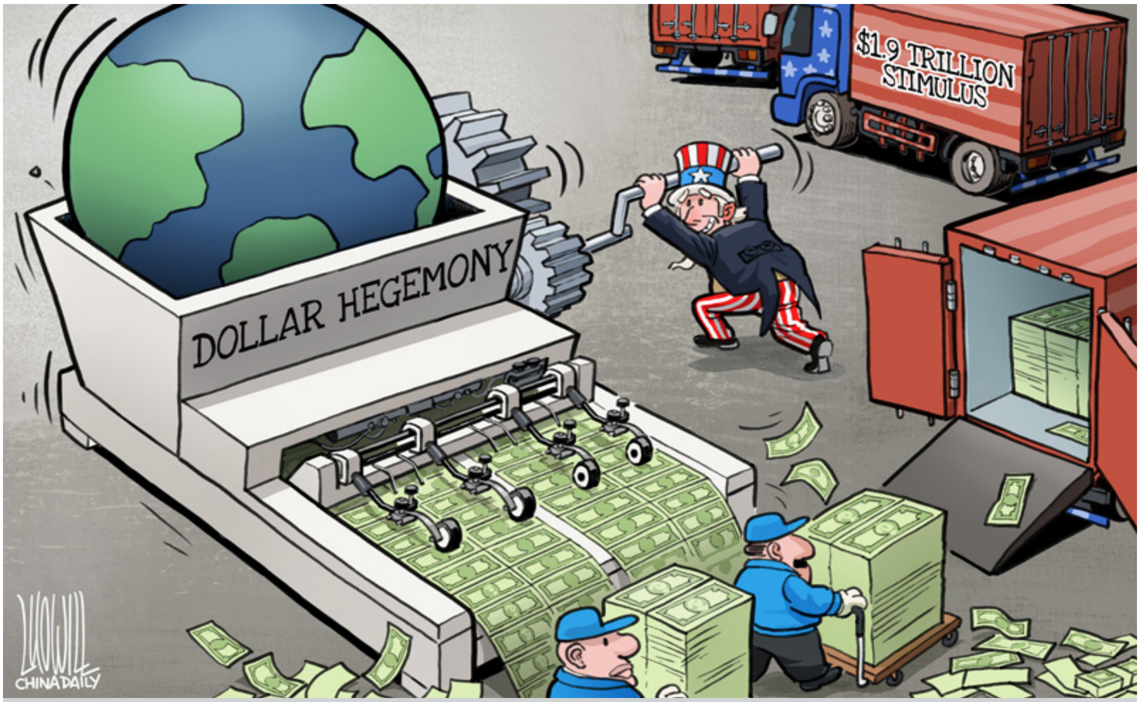
After the Second World War, without such colonies the US could only provide the world with liquidity by running deficits, paying for the excess it spent in the world over what it earned by handing out dollars which were essentially IOUs. This method of providing liquidity that was subject to the famous Triffin Dilemma: the greater the deficits the lower the value of the dollar.

The first version of the dollar system, where the US promised to back the dollar with gold in order to sweeten the bitter pill it was asking the world to swallow when it rejected Keynes's proposals and left the world with no alternative to the dollar, came to a bad end. The rest of the world, chiefly Europe which was then the part of the world which was forced to hold their export surpluses in devalued dollars, preferred gold. Their demand for gold drained the vast hoard that had ended up in the US during the wars and, after spending the 1960s trying one expedient after another to keep the dollar's gold backing, the US had to 'close the gold window' and break the dollar's link with gold.

Contrary to what the doyens of so-called Hegemony Stability Theory argue, this did not make the Triffin Dilemma go away, leaving the US free of the obligation to convert dollars into gold with no effect on the dollar system. The Triffin Dilemma continued to operate, sending the dollar to new lows in the 1970s where at one point, the dollar price of gold reached more than $800 per ounce, which would be over $3000 in today's money. Since then, the dollar system has relied on vast expansions of purely financial activity, financial activity that has no relation to and does not support the investment and trade necessary for the world economy, but rather undermines it. This is the most fundamental reason why the economic impact of the dollar system and of U.S. financial dominance has been and will remain negative.

The system, which Michael Hudson and I have called the dollar creditocracy, relies on debt, speculation and imbalances and is volatile and unstable. Let us look at some of the main effects.

Firstly, it has created a vast amount of debt, primarily dollar-denominated debt, which constitutes the foundation upon which the dollar creditocracy operates. The result is over indebted households, businesses, and governments. This debt is far beyond the capacity of these entities to pay and is therefore unsustainable. Worse, not only has it been lent without due assessment of the capacity of the borrower to pay, it has mostly been lent for unproductive purposes, often for speculation. These purposes benefit only the tiny number of already very large financial institutions and the




The existence of this financial system tends to draw money away from productive investment and towards financial investment. Inevitably, it leads do asset bubbles, increases in the prices of assets, whether they are stocks and bonds, real estate, fine wines or pictures (Photo: China Daily, 2021).

equally small number of owners who are high net worth individuals. Of course, most of the debt is also owed to this group.

Secondly the system relies on speculation. The existence of this financial system tends to draw money away from productive investment and towards financial investment. Inevitably, it leads do asset bubbles, increases in the prices of assets, whether they are stocks and bonds, real estate, fine wines or pictures, you name it. These values have nothing to do with the intrinsic worth of these assets and everything to do with the sheer amount of money seeking returns that is sloshing about the system. These asset bubbles – think of the dot-com bubble, the various stock market bubbles the housing and credit bubble in the United States, and the so-called everything bubble today – inevitably burst causing untold economic harm, economic crises, unemployment, hunger, homelessness, poverty.

Thirdly, in order to function, the dollar system relies on imbalances. This is a very important point. The proposals with which Keynes had arrived at Bretton woods, for an mutually agreed and multilaterally managed International Clearing Union which would issue Bancor as the world's currency, were very different. Bancor was not to be a currency that ordinary people would use, say to buy a meal or a t-shirt. It was to be reserved exclusively for central banks to settle their imbalances with one another much as clearing houses do for banks within a country. The people of various countries could continue using their national currencies for most transactions as before.

Keynes's system was also designed to reduce imbalances to a minimum, with incentives and disincentives built into the system to prevent persistent imbalances and to promote balanced trade and investment relations. The dollar system on the other hand, reliant as it is on US current account deficits, has the expansion of imbalances written into the core of the system and, in order to deal with the inevitable downward pressure on the dollar, it then requires the vast expansion of dollar-denominated financial activity to seek to stabilize it.

These imbalances and this expansion of financial activity have been extremely harmful for the world. Firstly, they permit the maintenance of a system in which some countries run persistent trade surpluses while other countries run persistent trade deficits and this problem never has to be resolved because the vast expansion of financial activity means that deficit countries can indebt to pay for the deficits. This is true, of course, of the United States. But it also means that developing countries continue to fail at development and remain in positions of running persistent trade deficits which then get them into debt and the whole cycle of debt and economic and financial crisis that inevitably results from the current system. It also gives the International Monetary Fund and the World Bank their chance to impose 'Structural Adjustment' on these countries and its effect has always been to further set back development and subordinate them further to the imperialist countries.

Another problem with the dollar system is of course its current weaponization. When you have the currency of a single country being used as the currency of the world that country can always use the system to inflict punishment on those it considers its enemies. While the recent sequestering of Russian reserves shocked the world, many other countries have previously been the victims of such behaviour, such as Afghanistan Iran and Venezuela. This weaponization has underlined the unsatisfactory nature of the dollar system.

Finally, we can say in conclusion, at the dollar system has subjected the world to slow growth, lack of development and repeated crises.

## The driving force of de-dollarization

***How is the phenomenon of "de-dollarization" currently unfolding? What factors are propelling this ongoing shift, and what is its driving force?***

**Prof. Dr. Radhika Desai:** The most fundamental driving force of de-dollarization is that the world is not, and cannot be, satisfied with the way in which the dollar system serves it. As long as I can remember, complaints about its functioning, whether in the context of the third world debt crisis of the 1980s or the imbalances of the 1990s and 2000s, have regularly appeared in the press and in academic journals. Today, of course, there is much more discussion of this and it suggests that the long-awaited demise of the dollar system is rapidly approaching. It's best to think about the dollarization in terms of two distinct but related processes. The first is the mounting contradictions of the dollar system itself. The second is the increasing availability of alternatives.

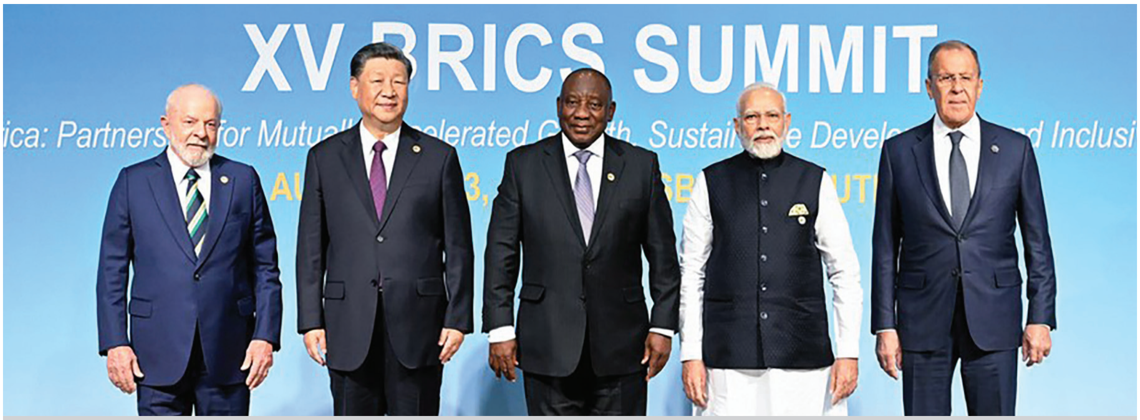
Since the Triffin Dilemma never went away, today sustaining the value of the dollar requires vast expansions of financial activity. Only it can ensure that the resulting increased demand for the dollar for purely financial and speculative reasons can counteract the downward pressure on the dollar that the sorry state of the US economy, it's trade deficit and current account deficit put on the dollar. One might add here that the expansion of financial activity has been intimately tied up with the deindustrialization that the US has suffered over the past many decades.

Over the last two decades this increased financial demand has been created by policies of easy money. The low and zero interest rate policies (LIRP and ZIRP), quantitative easing (QE), forward guidance and what have you. This era of low interest rates originally began in the 2000s in the aftermath of the bursting of the.com bubble when the Federal Reserve under Alan Greenspan, realizing that the housing bubble that had been gestating at the same time as the stock market bubble was the only thing keeping the US economy going and keeping it going required low interest rate policies. This era of low interest rates was interrupted when rate rises became necessary about 2004 in 2005 because the dollar was declining too rapidly. These rate rises eventually burst the housing and credit bubbles in 2008. Thereafter, the Federal Reserve returned to the low and even zero interest rates, Ostensibly in all in order to do stimulate the economy but in reality in order to aid troubled financial institutions. The result was of course the inflation of ever more asset bubbles that have resulted in today's everything bubble.

**The most sensible way to tackle inflation, the only way which does not come with economic pain being inflicted on ordinary working people, is to increase investment and resolve the supply issues that lie at the root of inflation.**

Through the 2010s these policies coexisted with low inflation because the US continued to receive cheap imports from abroad through what we may call unequal exchange, and domestically kept wages down. Both these conditions ceased to obtain after the pandemic and inflation now returned with a vengeance.

The return of inflation has put the Federal Reserve in a dilemma. If it tackles inflation in the only way it can, by raising interest rates, it will burst the so-called everything bubble which has inflated the prices of practically every asset in the system, not to mention inflated the wealth of those who invest in these. One should clarify here that while the Federal Reserve can only deal with inflation by raising interest rates, this is not the only way to tackle inflation. The most sensible way to tackle inflation, the only way which does not come with economic pain being inflicted on ordinary working people, is to increase investment and resolve the supply issues that lie at the root of inflation. But this cannot be done by the Federal Reserve. Since the lack of private investment and activity is what lies at the root of the problem, it can only be solved by state intervention on a fairly massive and pervasive scale, by the state stepping in to do what the private sector cannot or will not do, namely invest and produce. Of course, this is loathed by neoliberals and capitalists. If they were to permit it, the public would see clearly that they are quite dispensable. That there is no need to put up with capitalism, and this would open the road to socialism. That is why they keep repeating that 'inflation is always and everywhere a monetary phenomenon.' So the Federal Reserve only permits itself the method of raising interest rates to tackle inflation even though it causes recession and unemployment. Indeed, today it is clear from the discourse emanating from the Federal Reserve that it would like to generate just enough unemployment to kill inflation by killing demand, the demand of the people suffering from unemployment, while not causing a recession. Though it does not say so, of course, the Federal Reserve is also worried that rising interest rates will prick the many asset bubbles that have inflated over the past decade and a half. This would hurt the very people that the Federal Reserve exists to serve. If it raises rates, there will be a big financial crash. If it does not, inflation will persist, and undermine the dollar. Either way the dollar is in trouble.




President of Brazil Luiz Inacio Lula da Silva, President of China Xi Jinping, President of South Africa Cyril Ramaphosa, Prime Minister of India Narendra Modi and Foreign Minister of Russia Sergei Lavrov are at the 15th BRICS Summit (Photo: Xinhua, 2023).

The second reason why de-dollarization is accelerating is because of the increasing availability of alternatives. On the one hand, China is today the most important trading partner for more than 150 countries, and it is also increasingly a source of investment. This can only mean a rising role for the yuan and other currencies in payment systems. On the other hand, witness to the weaponization of the dollar and the SWIFT system of international payments against Russia, the world has increasingly sought alternatives. These alternatives have taken many forms. There are alternative payment systems which various countries whether it is Russia or India or China are increasingly establishing. The availability of digital technology has also made this easier and more and more countries are also talking about creating central bank digital currencies (CBDCs). Secondly, they have taken the form of agreements between countries to settle trade among themselves in one another's currencies. Alternatives have also emerged in the form of new sources of finance particularly coming from China in the form of the Belt and Road Initiative, the Asian Infrastructure Investment Bank and more generally the vast amount of lending Chinese banks are undertaking to finance investment abroad.

The proliferation of these alternatives is not systematic it has a certain ad hoc character and it will retain this character until a sizable number of countries are able to come up with a plan for alternative unified international monetary arrangements. This is necessary because the ad hoc arrangements being made today are not systematic or complete solutions. Take for example the agreement to settle trade between two countries in one another's currency. This can only work if both countries wish to buy roughly equal amounts of goods from one another. However, this is not always the case. For example, in the case of Russia and India settling trade in rupees in rubles. The problem has emerged that while India imports large amounts of Russian oil, which it pays for in rupees, Russia is left holding a vast pile of rupees and very little that it can buy from India. Such imbalances mean that the arrangement is unsustainable and will likely have to end.

So a systematic solution is necessary and this will only come into being when a sufficiently large number of countries representing a sufficiently large part of the world economy can mutually agree to create one. And here I would like to make an important caveat. There has been a lot of talk recently about the five Rs.

The BRICS countries all of whose currencies have names beginning with R – real, ruble, rupee, renminbi and rand. The idea is that they will create some sort of international currency for use amongst themselves.

However, it is very important to remember that any international currency that is created should not be a currency that will either displace or be used alongside national currencies by ordinary people going about their daily business to buy say a restaurant meal or a toy. Creating such a currency would be quite harmful to those with weaker economies as the experience of the euro has already shown. That is why it's important to remember Keynes's original proposals at Bretton woods. They did not involve this sort of currency but rather a currency that would be used exclusively among central banks to settle imbalances with one another. All the countries concerned would continue to use their domestic currencies for all domestic transactions. If the world wants to create an International Monetary Order that is conducive to growth and development, it will have to be something like this.

## The first condition for a development-oriented financial system is capital control

***Are there feasible options to counterbalance US financial dominance? What key opportunities and obstacles arise with the emergence of these new alternatives?***

**Prof. Dr. Radhika Desai:** I've already answered this question partly in my answer to the previous question but let me elaborate a little. There are in fact many feasible options to counterbalance U S financial dominance. First of all, every country needs to take greater control over its financial sector, and not give to siren calls emanating chiefly from New York and Washington, to lift capital controls, to permit western financial institutions too operate in their financial sector and to issue government debt in dollars. These measures only turn the financial systems of these countries into props for the unstable and volatile dollar system that we have already described. Not only does it do nothing for the development of the country concerned, it is positively harmful for development. The chief reason for it is that the development of a country needs a financial sector that is regulated in a way that orients it to productive investment. The insertion of a country's financial system into the dollar system, transforming it into a financial system that is oriented instead to speculation and predatory lending.

The first step towards creating a financial system geared to the development of a country is to impose capital controls. The United States, the IMF and more generally the neoliberal establishment have for decades tried to entice countries to lift capital controls on the grounds that doing so will bring much needed productive investment to their country. However, as so many of the East Asian countries discovered in the late 1990s, when they lifted capital controls money did flow in, but it was not money or capital for productive investment. It was rather hot money seeking short term returns by speculating in the land, stocks and other asset markets of the countries concerned. Moreover with open capital accounts, this money was free to stampede in when, without knowing much about the economies of the countries concerned, they became irrationally exuberant about the prospects of short term returns, and it was also free to stampede out when, overnight, based on little but rumor, the very people who had been praising that country's sound fundamentals start talking about its problems. Such outflows of money, entirely unrelated to any real developments in the economy, were responsible for causing the massive East Asian financial crisis which hit some of the most productive and dynamic part of the world economy in 1997 and 1998.

The crisis was, of course, blamed by the neo liberals on the so-called crony capitalism of these countries when in reality the chief culprit was the very dollar denominated financial system to which these countries had opened themselves up by lifting capital controls. It is noteworthy that countries such as Vietnam or India did not experience this financial crisis for the simple reason that they had never lifted capital controls.

Capital controls must ensure that any capital entering the economy enters to make productive investment and demonstrates a degree of commitment to the country's economy by agreeing to forsake the right to repatriate capital or profits except on certain strict conditions.

Another important option to U.S. financial dominance is to create a strong financial sector at home that is not relent on foreign capital. Such a financial sector must be oriented towards productive investment including investment in those sectors which have the greatest possibility for being competitive on export markets. Having some such sectors is very critical to relieving countries of the necessity to borrow in dollars or other hard currencies because that country would be capable of earning through exports what it needs to purchase from abroad, that is, the imports it relies on .

Thirdly, a very very important option that countries must learn to start exercising is not permitting the private sector to borrow money abroad in hard currency, or at least regulating its ability to do so with a view to prioritizing the developmental needs of the country rather than the taste for luxuries off small sections of the Super rich or the desire of domestic capitalists to acquire assets abroad.

Finally, governments must not borrow money by issuing bonds in any other currency but their own. And they must also look into the possibility that rather than borrowing from financial markets it can raise money through taxation of the better off which also has an equalizing effect on society, or borrowing from its own central bank. This prevents the sort of financial crises that results, almost inevitably, when interest rates rise internationally.

## China's difference and the enormous impact of the BRI

***How does multipolarity influence international financial cooperation? What role does China play in providing alternative solutions in this context?***

**Prof. Dr. Radhika Desai:** Multipolarity can have beneficial effects on development in general and non financial cooperation in particular. As I have analyzed it in my work on geopolitical economy, multipolarity is the result of the working of the dialectic of what Trotsky called uneven and combined development and what we may understand as the dialectic of imperialism and anti imperialism. What is imperialism but the denial of development? And what is anti imperialism but the successful assertion of the right to development, the successful pursuit of development?

Geopolitical economy rests on an accurate understanding of Marx's analysis of capitalism, free of the distortions that have been introduced because of the attempt on the part of so many who called themselves Marxists to try to fit it into the antithetical methodological and theoretical framework of neoclassical economics. When this is done, it becomes clear that for Marx classes as well as nations were both the material products of capitalism and that the era of capitalism is characterised not just by struggles between working and capitalist classes but also between imperialist countries and those resisting imperialism. Once this becomes clear, it is easy to see that the literature on developmental states is naturally allied with Marxism.

Thus geopolitical economy understandings the centrality of developmental states in producing development, and traces the origin of this understanding in Marx. Once this is understood, it becomes clear that multipolarity is the result of the fact that in the dialectic of imperialism and anti imperialism notwithstanding the power of imperialism, the latter tendency, the anti imperialist and developmental tendency, has prevailed. It is this tendency that has spread productive power around the world and made it multipolar.

In this dialectic as I have pointed out dominant states the states of the homelands of capitalism have strived to maintain the unevenness of capitalist development, that is to say their privileged position in the international hierarchy that is the world economy. They have striven to maintain that position as producers of technologically sophisticated high value goods while imposing upon the rest of the world, which they seek to dominate through formal colonialism or informal means, economic forms that compliment their sophisticated industrial economies by producing low technology low value goods with cheap labour. It is only when countries that are able and willing to reject such economic subordination and complementarity by pursuing development through successful developmental states that they are able to establish similarity of productive structures.

**Geopolitical economy understandings the centrality of developmental states in producing development, and traces the origin of this understanding in Marx.**

The story of the world economy has been one of multipolarity because a sufficiently large number of countries has been able to undertake this effort and succeed in it. Along the way, beginning in the early 20th century, the pursuit of this type of combined development has also included The implementation of some of the other version of socialism beginning with the Russian Revolution and continuing today in China.

Every advance in the spread of productive power around the world makes it easier for the next set of countries to pursue development, accelerating the advance of multipolarity. This happens because capitalist countries naturally compete with one another for influence in the rest of the world and in doing so must offer trade investment technological transfer and other relations to the rest of the world on increasingly better terms. It also happens because some countries who have become socialist whether the Soviet Union in the past or China today offer trade investment technology etc on good terms to the rest of the world out of solidarity. Today this process has taken monumental proportions in the form of China's Belt and Road Initiative and more generally China's investments around the world, building infrastructure investing in manufacturing as well as in energy and resources and offering skills and technology. China's presence in the rest of the world has already being experienced as a completely novel form of trade and aid relations vastly more positive then the imperial exploitation to which so much of the third world has been subject until very recently and even today by the imperialist countries of the world.

Not only will expanding productive capacity increase the possibilities of international cooperation among countries that are increasingly dealing with one another on a more and more equal basis because the spread of multipolarity will reduce the power differentials among countries, it will also make all sorts of financial cooperation possible. As I've already emphasized the most important form of financial cooperation can be and must be in the first instance aiding all countries to have financial sectors geared towards production and cooperating with them to create an international monetary system that does not privilege anyone country, that does not generate persistent imbalances, that is not volatile and unstable, but which can leave governments free to run their economies for full employment and development. Such an international monetary system will probably not be exactly what Keynes had proposed more than 75 years ago but it will have to be based on the broad principles that his proposals were founded on.