

# Triffin Reloaded: The matrix of contradictions...

## Lecture 3



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MPIfG

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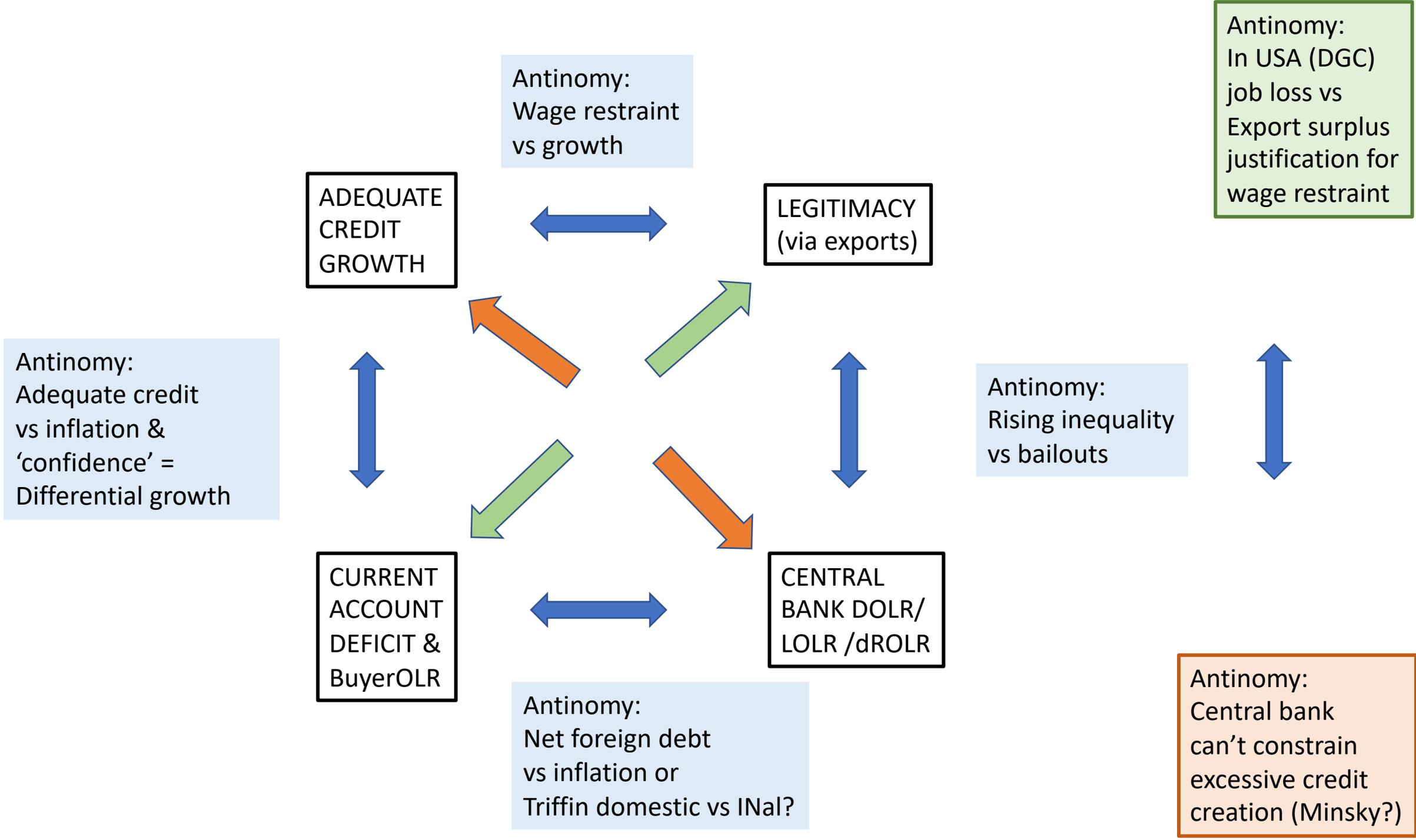
# Today's path

- Reprise
- Contradictions of global quasi-state money
- Various challengers (and why they fail(ed))
- Center responses



# Reprise

- System level approach & deflation
- Empire (power, heterogeneity, hierarchy)
- Chartalism (global quasi-state money)
  
- Mechanisms
  - Late development (system) → dependence on net exports for growth
  - Net exports → \$-denominated asset accumulation & balance sheet positions
  - Current account deficit validates endogenous credit creation & offsets deflation
  - Dilemmas / antinomies → endogenous decay



Antinomy:  
Wage restraint  
vs growth

ADEQUATE  
CREDIT  
GROWTH

LEGITIMACY  
(via exports)

Antinomy:  
In USA (DGC)  
job loss vs  
Export surplus  
justification for  
wage restraint

Antinomy:  
Adequate credit  
vs inflation &  
'confidence' =  
Differential growth

Antinomy:  
Rising inequality  
vs bailouts

CURRENT  
ACCOUNT  
DEFICIT &  
BuyerOLR

CENTRAL  
BANK DOLR/  
LOLR /dROLR

Antinomy:  
Net foreign debt  
vs inflation or  
Triffin domestic vs INal?

Antinomy:  
Central bank  
can't constrain  
excessive credit  
creation (Minsky?)

# Dilemmas (antinomies) around global quasi-state money

1. Adequate credit growth to offset deflation  $\leftrightarrow$  risk of financial crisis
2. Central bank (FED + rest) bailouts  $\leftrightarrow$  domestic legitimacy / social order
3. Current account deficits  $\leftrightarrow$  Central bank (FED) inflation goals
4. Current account deficits  $\leftrightarrow$  Dominance / differential growth
5. Core Current account deficits  $\leftrightarrow$  'Confidence' in Core assets (i.e. debts)
- 6a. Current Account Surplus  $\leftrightarrow$  why do wage restraint? Plus financialization
- 6b. Core current account deficit  $\leftrightarrow$  domestic social order

# 1 + 2 growth vs stability

Credit creation for  
global growth →  
Shadow banks &  
currency mismatch

Legitimacy  
& social base

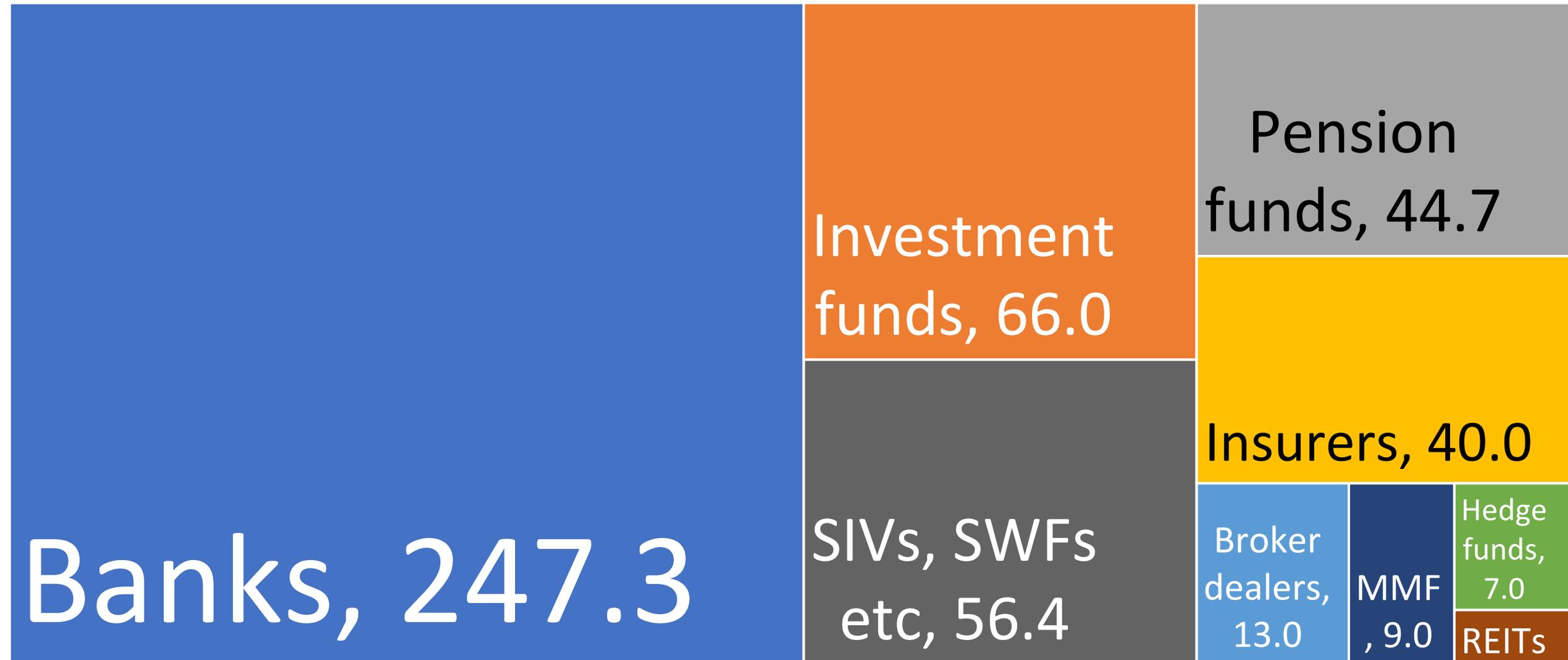
Central bank  
as lender (+)  
of last resort

Growth → output  
legitimacy  
& social base for \$

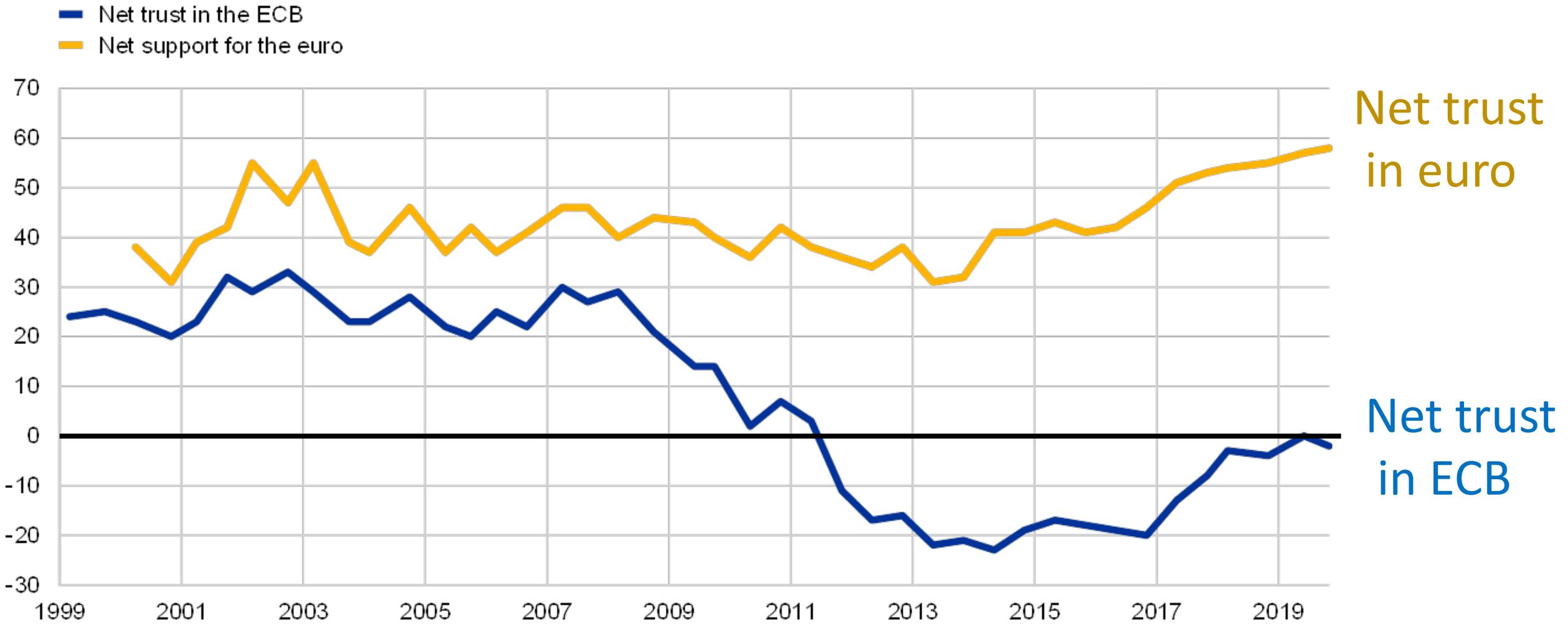
Excess credit creation  
→  
Bailouts & expanding  
CB mission

Bailouts  
→  
↑ Income inequality  
→  
Erosion of social base

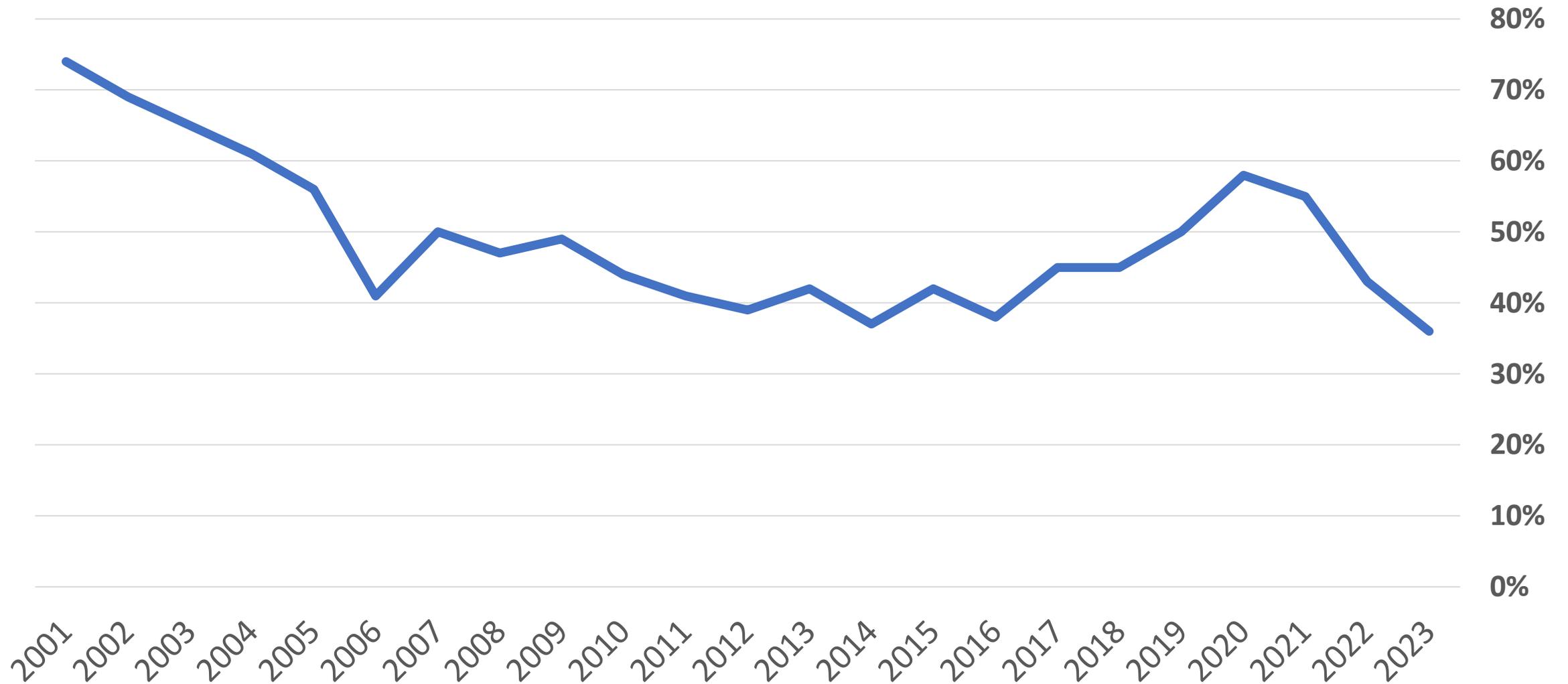
Shadow banking is c. 50% of \$486 tr in global financial assets (global GDP in 2022 = \$102 tr)



# Bailouts worsen legitimacy and income inequality



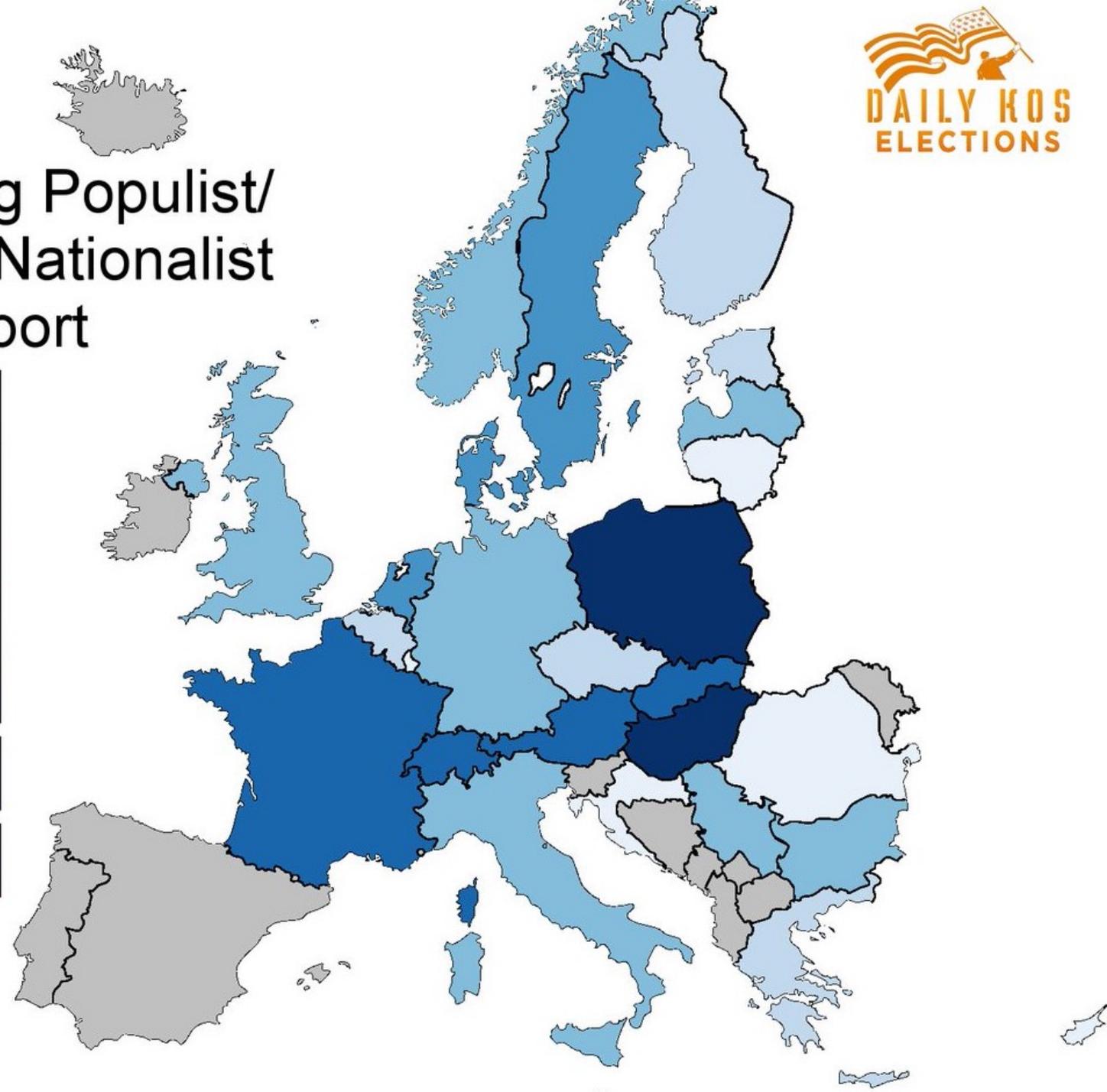
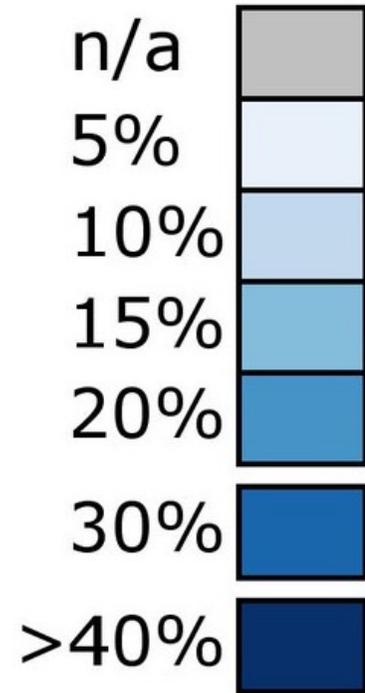
# FED: % saying confidence = great deal or fair



2018...



# Right-Wing Populist/ Far-Right Nationalist Party Support



# Dilemmas (antinomies) around global quasi-state money

1. Adequate credit growth to offset deflation  $\leftrightarrow$  risk of financial crisis
2. Central bank (FED + rest) bailouts  $\leftrightarrow$  domestic legitimacy / social order
3. **Global financial stability  $\leftrightarrow$  Central bank (FED) inflation goals**
4. Current account deficits  $\leftrightarrow$  Dominance / differential growth
5. Core Current account deficits  $\leftrightarrow$  'Confidence' in Core assets (i.e. debts)
- 6a. Current Account Surplus  $\leftrightarrow$  why do wage restraint? Plus financialization
- 6b. Core current account deficit  $\leftrightarrow$  domestic social order

# 2 + 3 resource extraction vs stability

Legitimacy  
& social base

US current  
account  
deficit

Central bank  
inflation goals

High US growth  
→  
inflation

→  
Fed interest  $\Delta \uparrow$

→  
\$ FX  $\Delta \uparrow$

→  
slower peripheral growth  
& debt crises

→  
US current account deficit  $\uparrow$

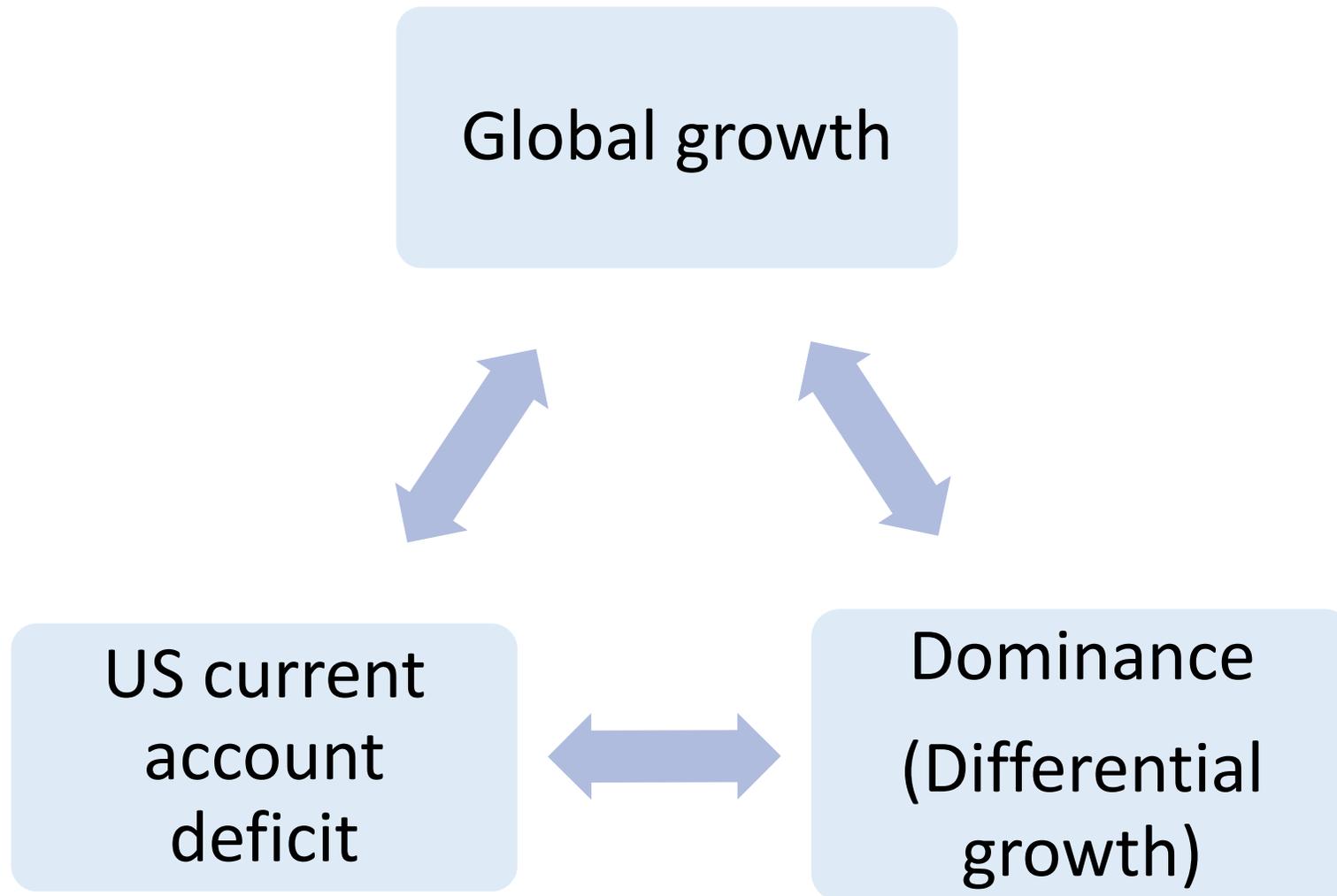
→  
Erosion of social base



# Dilemmas (antinomies) around global quasi-state money

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# 3 + 4 resource extraction vs growth



US social base (partly)  
benefited from  
cheap imports

+

Higher profits for US firms  
& differential growth  
favoring US vs OECD

→

But:

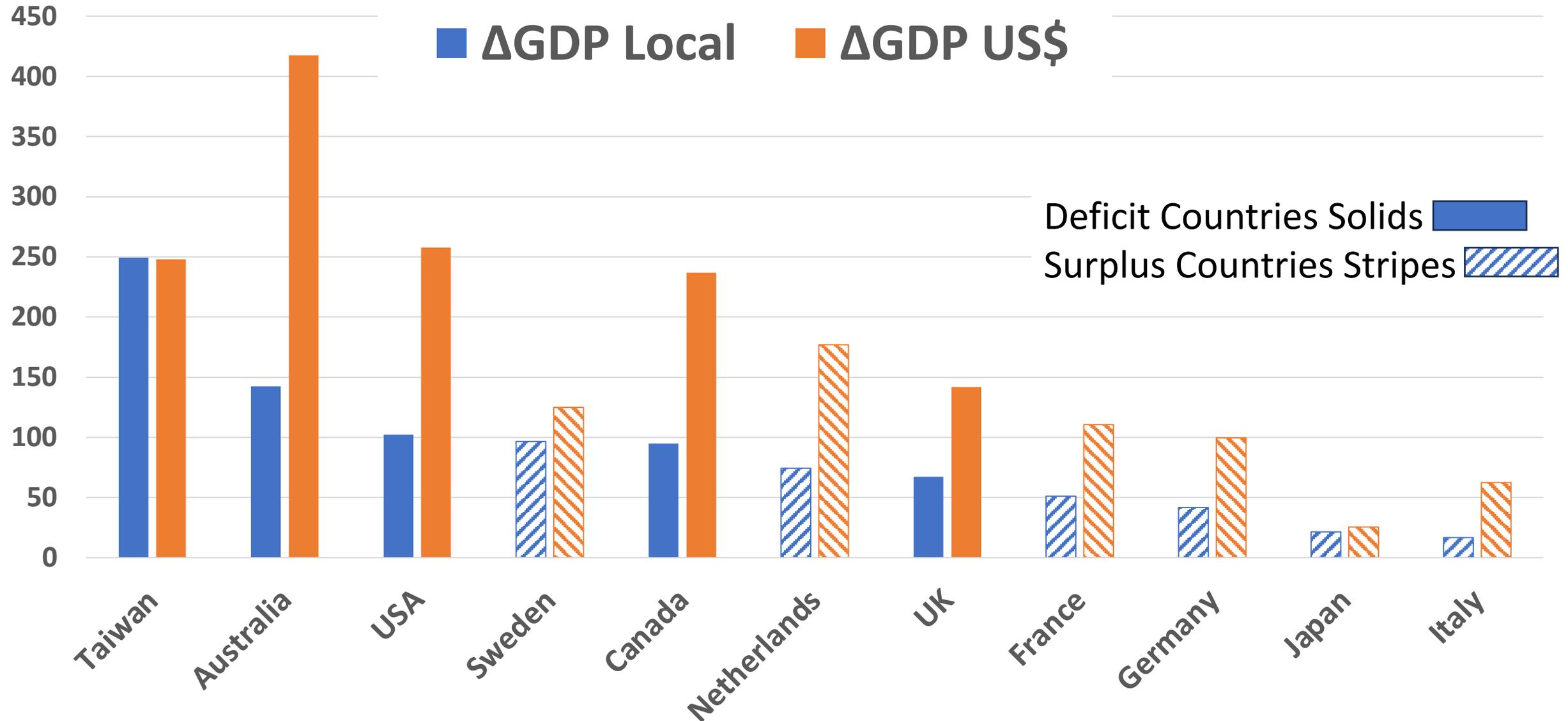
Potential Chinese  
challenge

# 'Liquidity vs confidence' = who gets growth?

“Liquidity” = demand = credit growth

1. Capitalism is inherently deflationary (inner dynamic + late development)
2. Expansive endogenous credit creation for trade and investment finance offset deflation; 'globalization' → more trade finance
3. But increased supply must meet increased demand → core country balance of payments deficit supplies new demand
4. BoP deficit undermines confidence unless core has differential growth

# Cumulative growth in GDP, **real local currency** or **current USD**, 1992-2021, %. Ranked by local currency



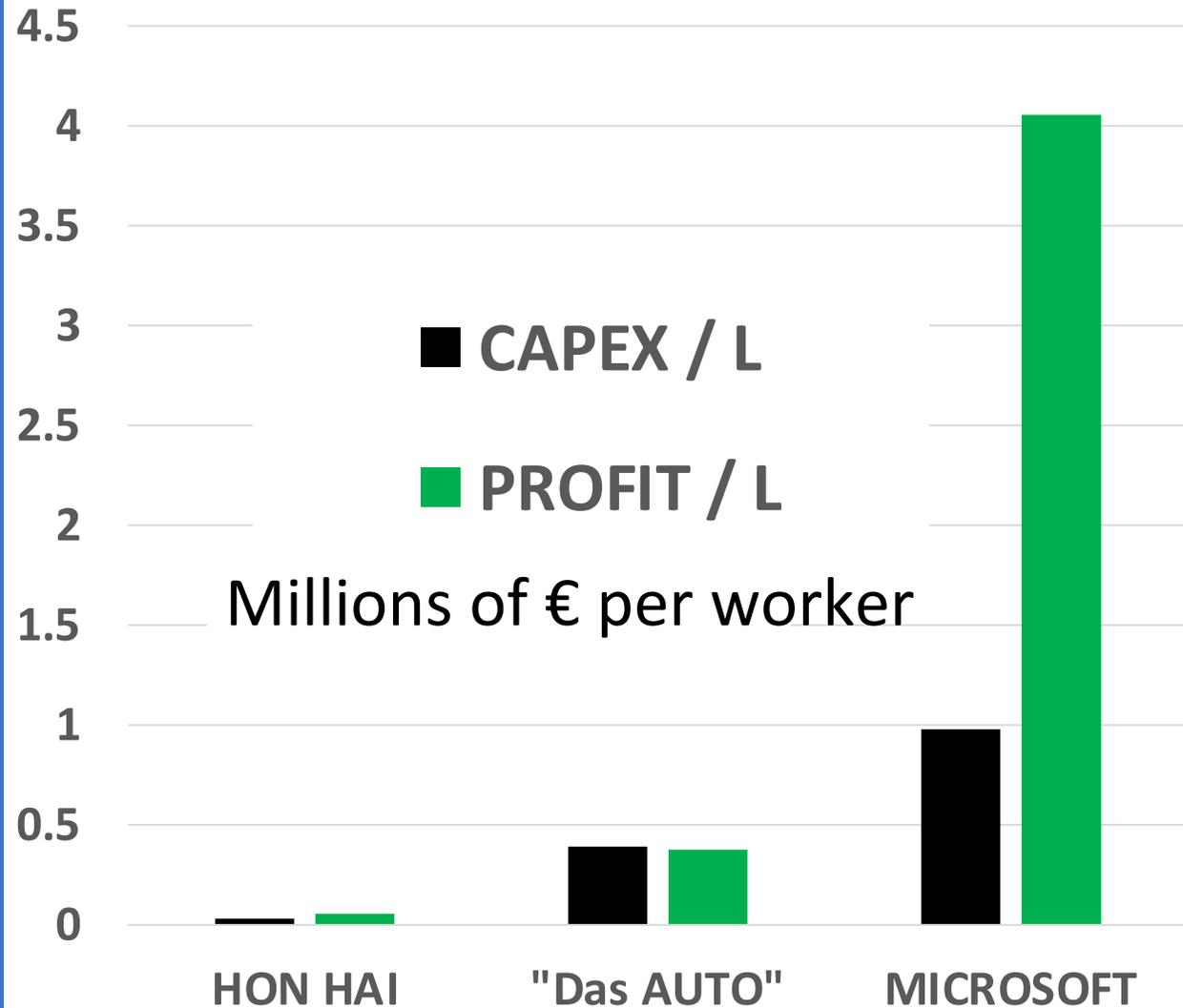
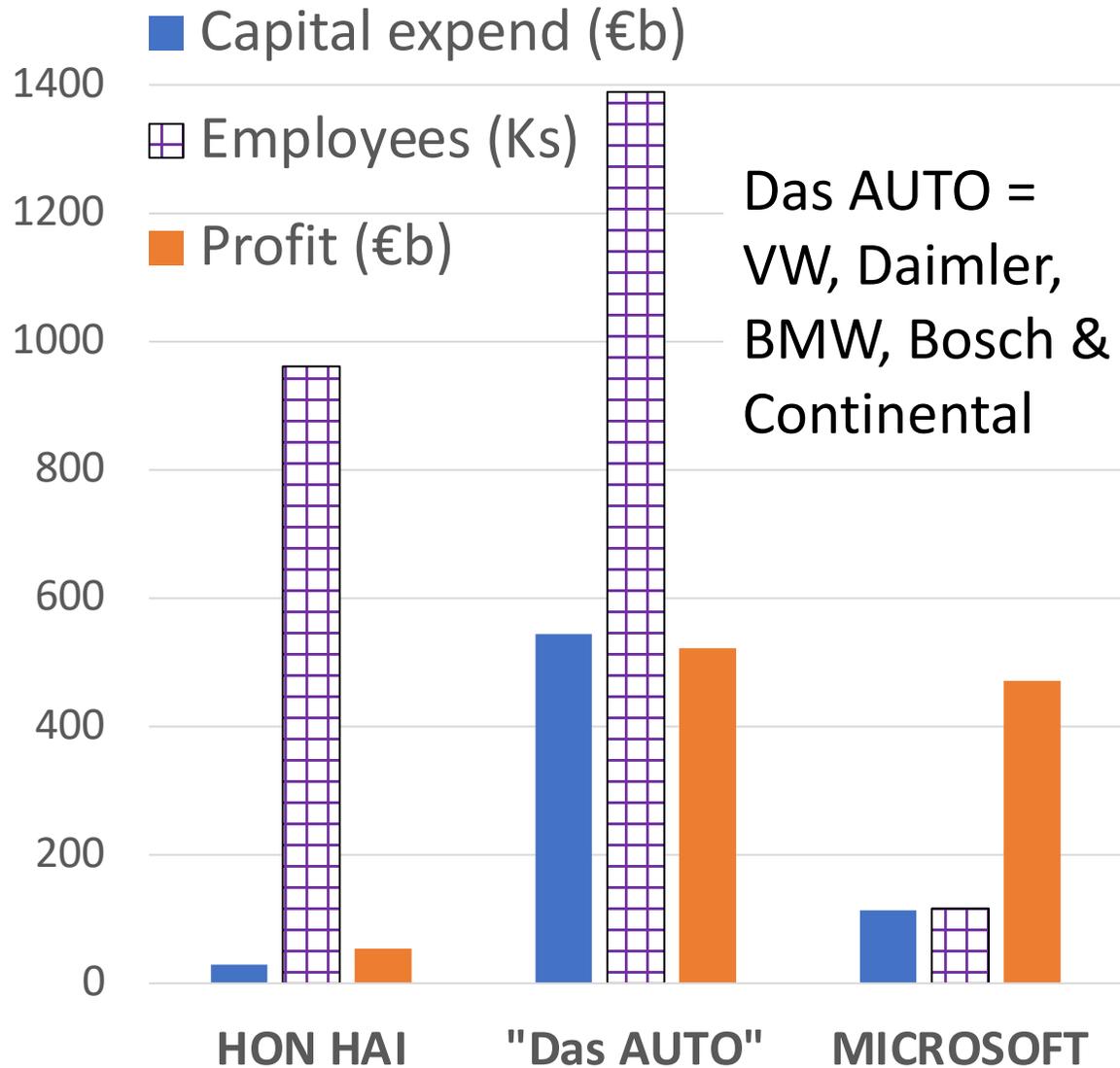
# But: Investors hold assets, not “GDP” ...

- They want appreciation... Real annual average return 1900-2022 on:
  - US equities = 6.4% which means \$1 invested in 1900 → \$2024 in 2022
  - Rest of World = 4.3% which means \$1 invested in 1900 → \$176 in 2022
    - All developed (+USA): 5.1%
    - Europe: 4.1%
    - All emerging market: 3.8%
    - Germany: 3.1%
- What underpins current values is substantially higher profit volumes from politico-legal arrangements at a global level protecting intellectual property rights

# Share of cumulative global profits for 4300 firms in the Forbes Global 2000 from 2005 to 2022 versus country / region share of global GDP, 2017-2021

	<b>1</b>	<b>2</b>	
	Profits % global	GDP as % global	Ratio 1::2
USA	35.1	24.3	1.45
EU	14.9	18.1	0.68
Eurozone	12.7	15.6	0.82
France	3.4	3.1	1.08
Germany	3.3	4.5	0.72
UK	4.7	3.3	1.44
China + HK	14.7	17.2	0.86
Japan	6.7	5.8	1.16
Korea + Taiwan	3.8	2.7	1.40

# Microsoft vs 'Das Auto' vs Hon Hai: CAPEX €bil, profits €bil & average employee headcount, 2004-2021



# Dilemmas (antinomies) around global quasi-state money

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5+6

Legitimacy  
& social base

US current  
account  
deficit

(1) Wage  
restraint  
(2) Job Loss

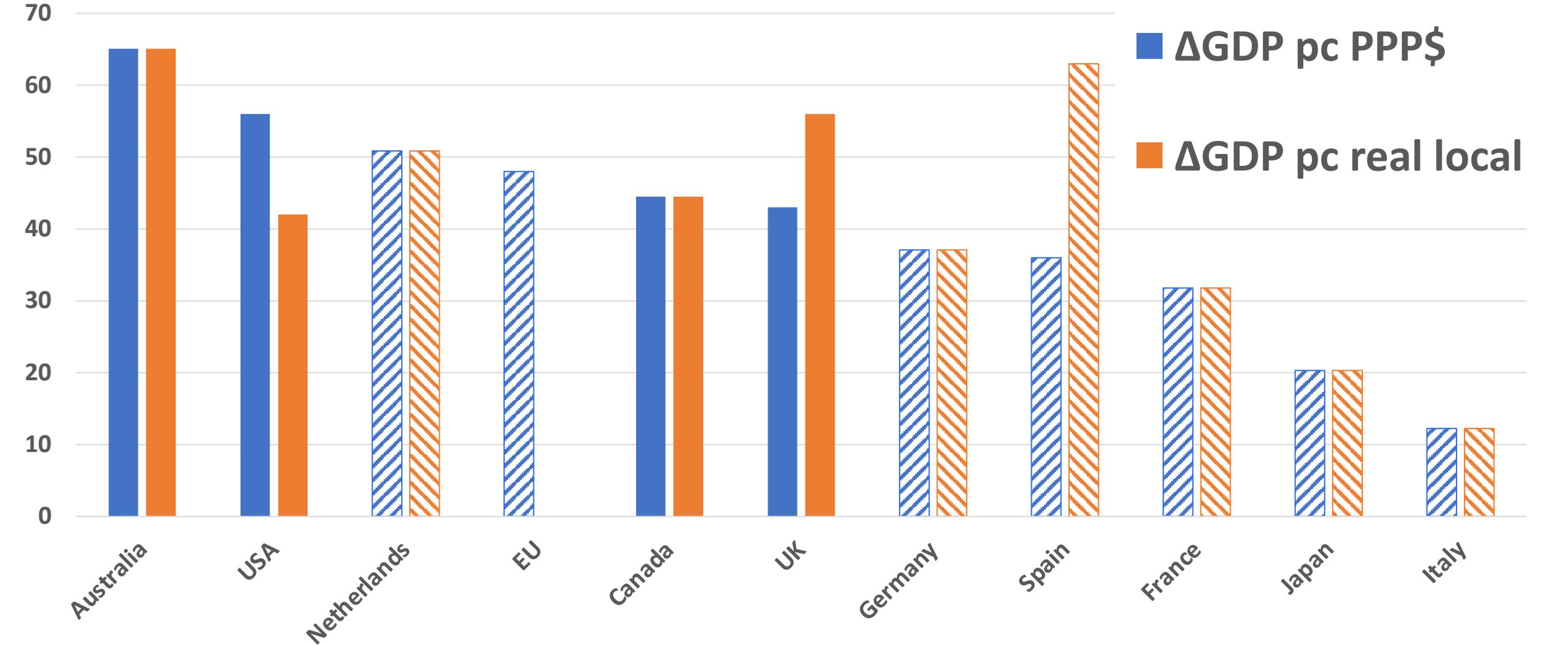
(1) Surplus country wage restraint  
→ higher exports, higher profits  
but not necessarily to higher  
wages or faster domestic growth  
→ legitimacy issues plus rising  
wealth inequality

(2) Core country current  
account deficits →  
hollowing of manufacturing →  
job loss, potentially slower  
income growth & inequality →  
domestic legitimacy issues



# ΔReal per capita GDP 1992-2021 PPP \$ (2017) & real local currency

Deficit Countries Solids   
Surplus Countries Stripes 



# Confidence = differential growth... but for whom?

- US has consistently outgrown potential rivals (except China?) despite current account deficits
- But current account deficits have steadily reduced US tradables sector and increased inequality → populist, anti-trade political movements



**Quinn Slobodian** @zeithistoriker · Mar 19

i think it's fair to call that economic nationalism



**Josh Hawley** ✓ @HawleyMO · Mar 18

To any multinational corporations that come to Congress asking for taxpayer \$\$\$, you better come prepared to explain how you will move supply chains and jobs back to America if you want my vote



Erosion of  
the  
domestic  
social base  
for global  
quasi-state  
money

No integrated international monetary regime is likely to survive unless the domestic economic and social order in each major country is in harmony with the international regime.

David Calleo and Susan Strange (1984: 99)



# Quasi-state money helps → differential growth... maybe...

Accumulation of USD in foreign banks + central banks →

1. Cheap finance for US economy → faster growth plus...
  2. Recycling of USD via purchases of US assets validates market capitalization of US firms (wealth effects), plus...
  3. Export surplus economies as creditors of US have a stake in continued value of USD
  4. And foreign banks are locked to the Fed through their balance sheets
- US does not face the usual constraints – it can run current account deficits forever(?) Exorbitant privilege vs exorbitant burden is an empirical issue

**Unless current account deficits hollow out export capacity and/or political support; against that, the defense innovation complex → new firms**

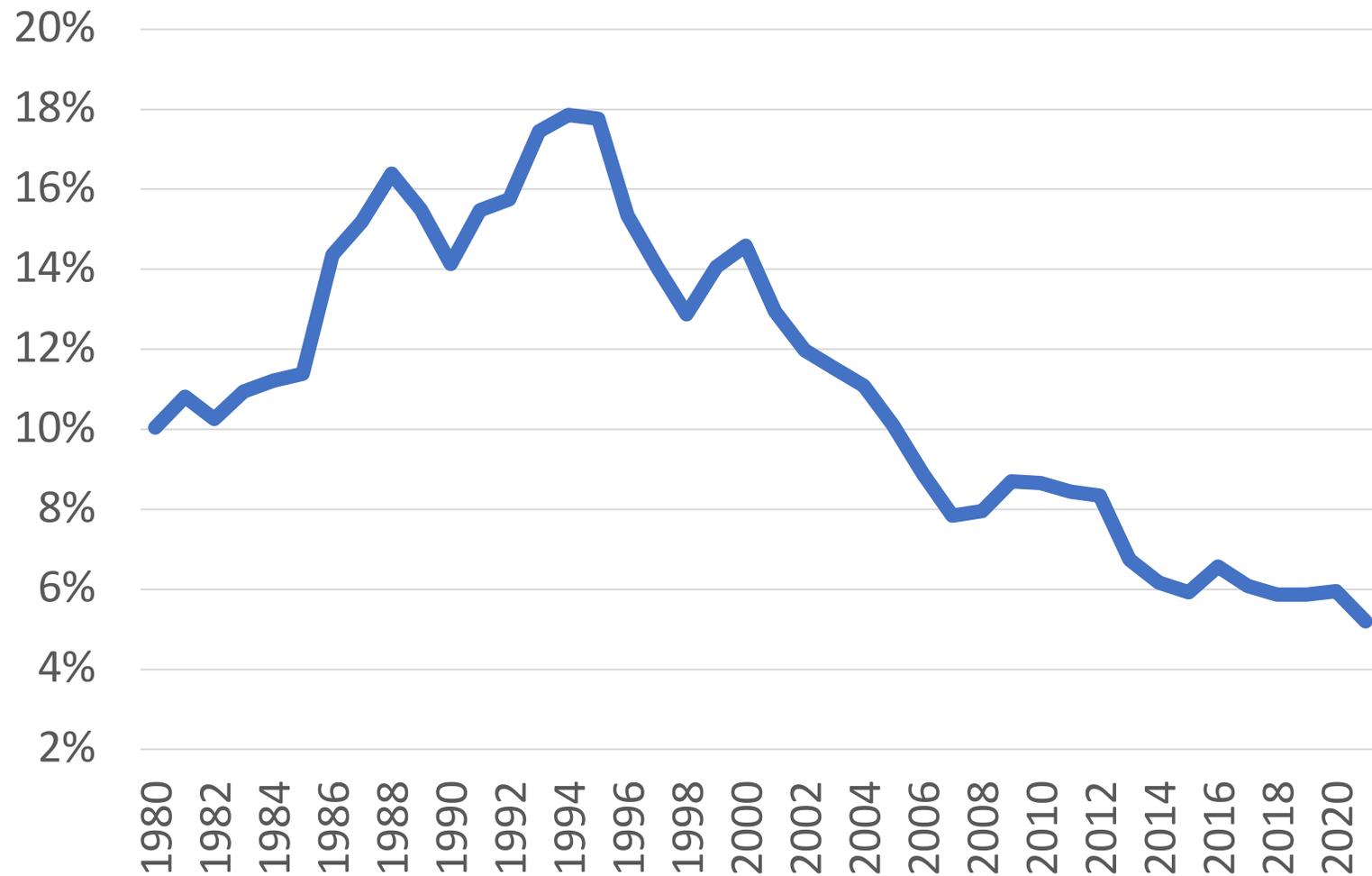
Challengers?



**I COULD HAVE BEEN A CONTENDER**

# Japan?

Japan % world GDP



# The euro?

No European state to back GQSM

No fiscal base for euro

No military base for euro

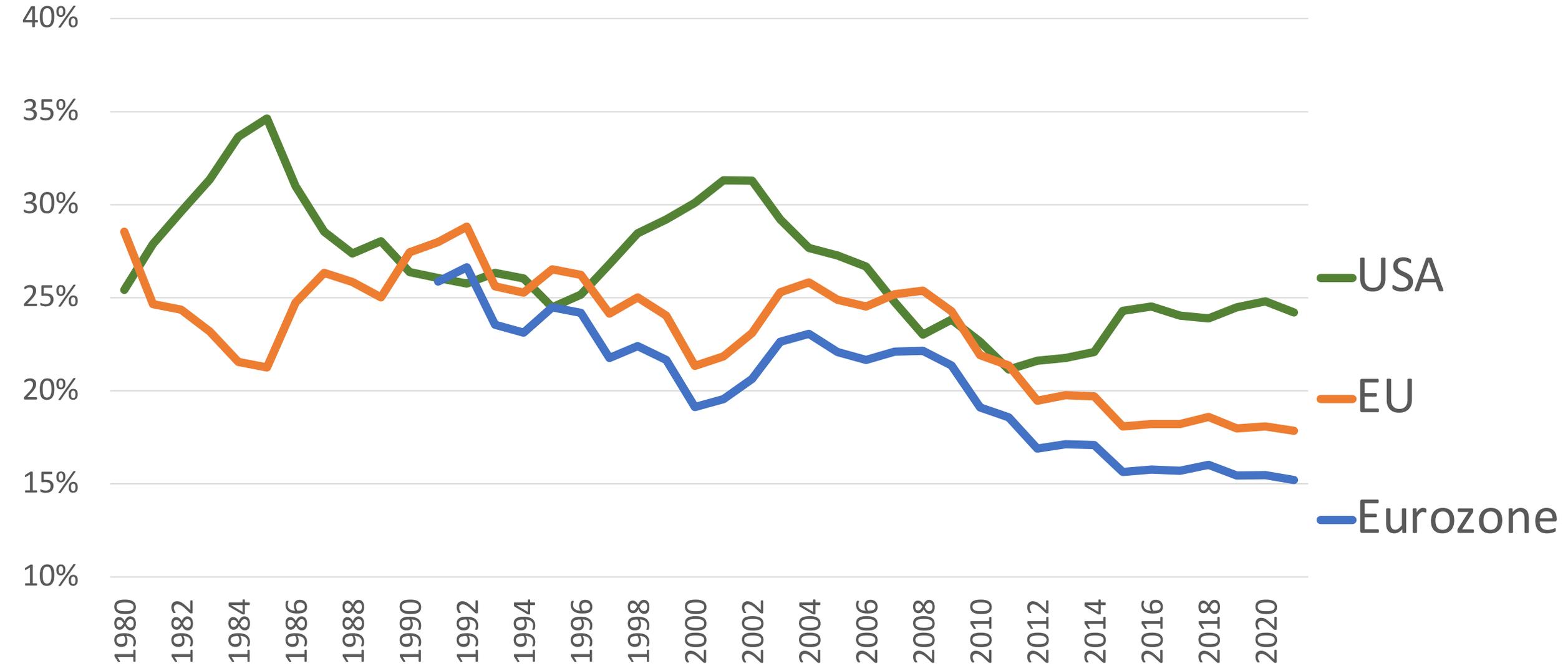
No (plausible) sources for differential growth

No social base (ECB, unemployment)

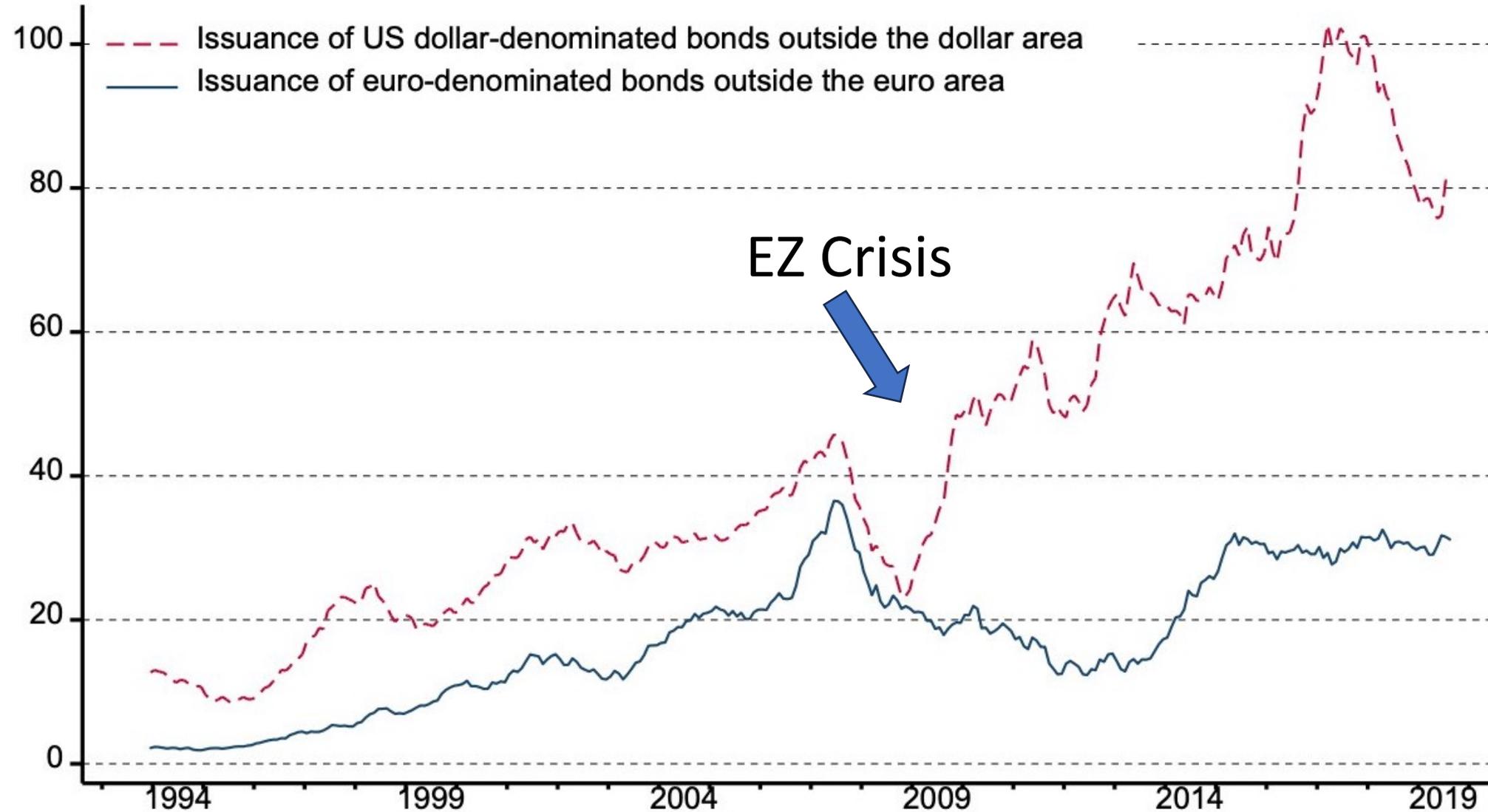
Unclear response to China



# EU & eurozone vs USA % of global GDP



# New international bond issues in US\$ vs € (€bil) (external to EZ and \$ zones)



What about  
the BRICS?

How it started...

08 March 2023

REUTERS® World Business Markets Sustainability More My View

7 minute read · March 8, 2023 6:12 AM GMT+1 · Last Updated 2 months ago

# India's oil deals with Russia dent decades-old dollar dominance

By Nidhi Verma and Noah Browning



... how it's  
going

04 May 2023



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Currencies

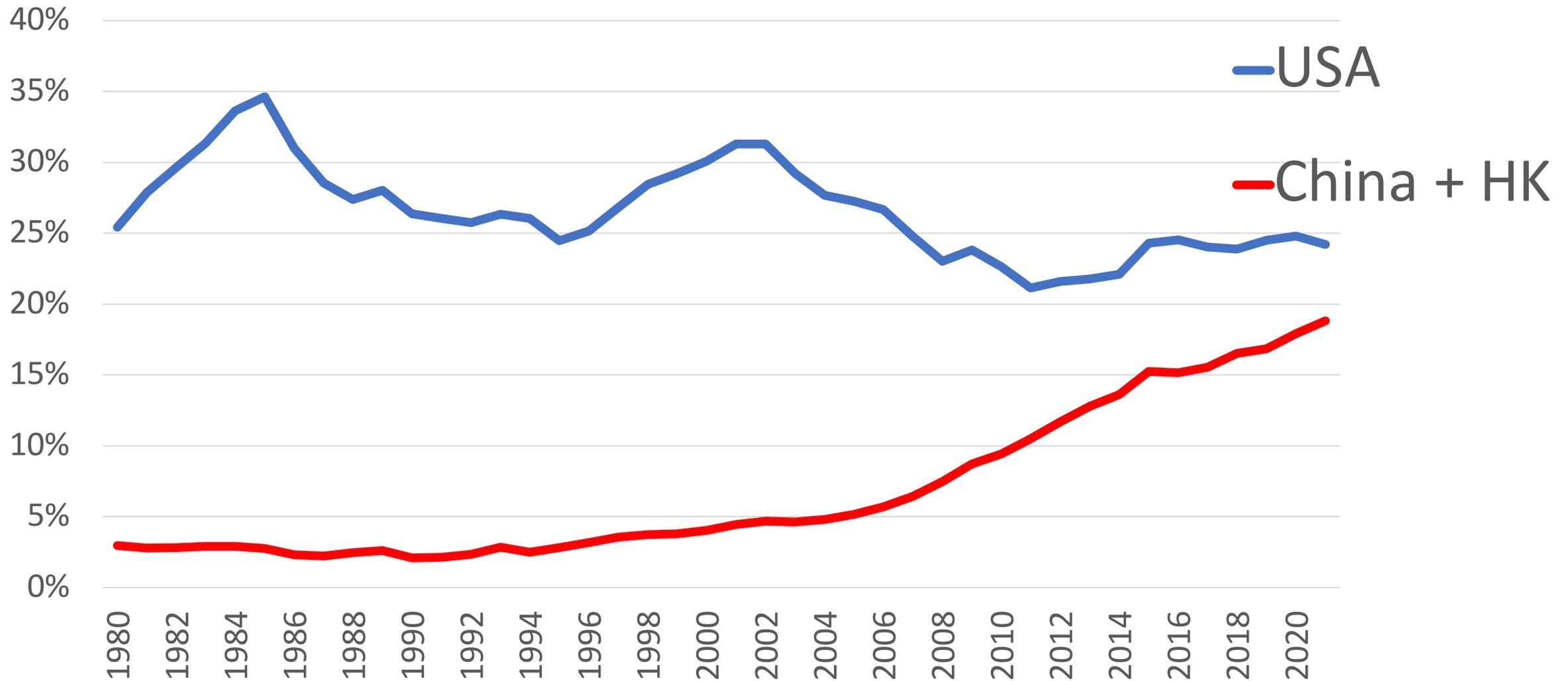
3 minute read · May 4, 2023 9:59 AM GMT+2 · Last Updated 18 hours ago

# Exclusive: India, Russia suspend negotiations to settle trade in rupees

By Aftab Ahmed ▾ and Swati Bhat ▾



# RMB? China (+ Hong Kong) % global GDP



# What about the RMB?

Military power? Regional...

Closed financial system 🙄

Demographics 🙄

$\Delta$ GDP ↓ unemployment ↑ 🙄

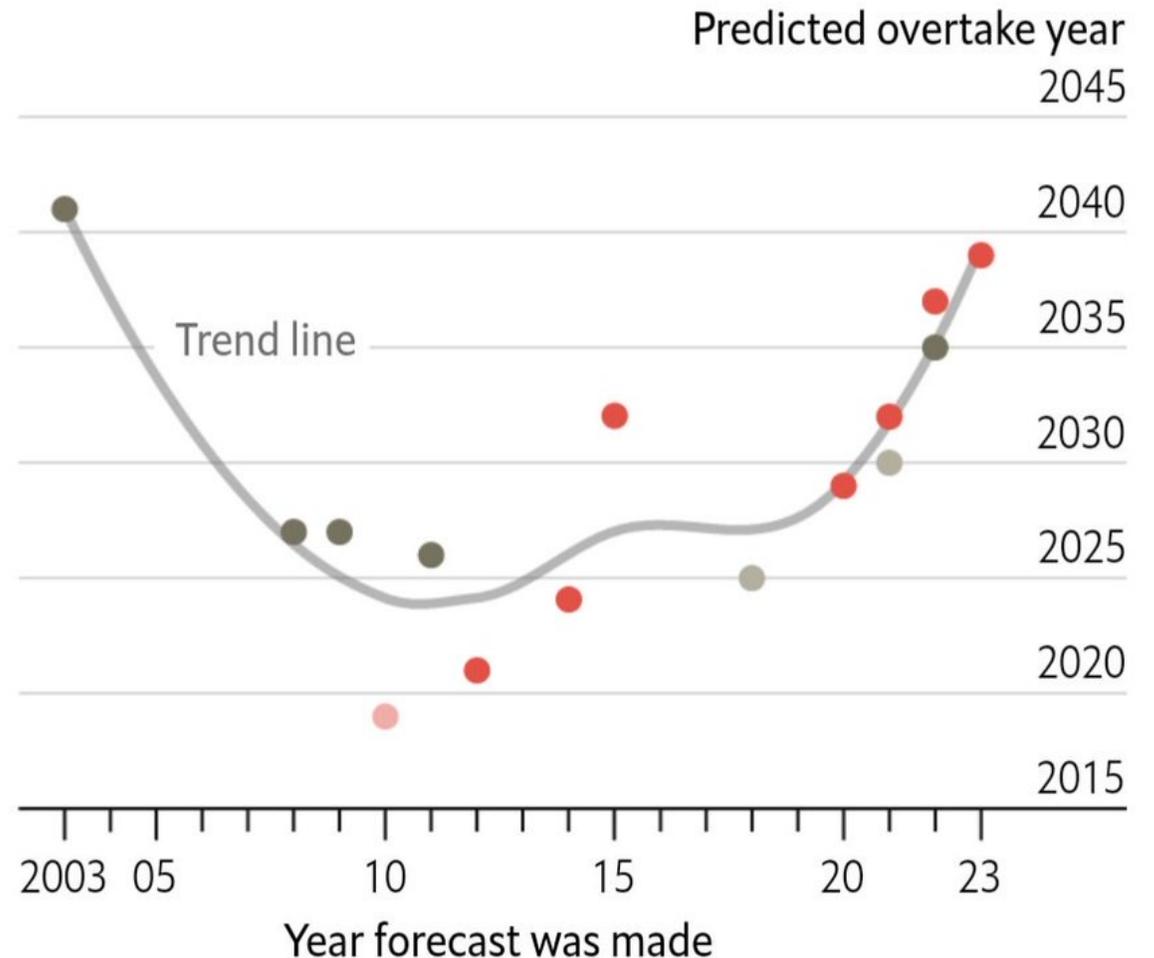
Huge FX reserves 🙄

Low quality windows 🙄

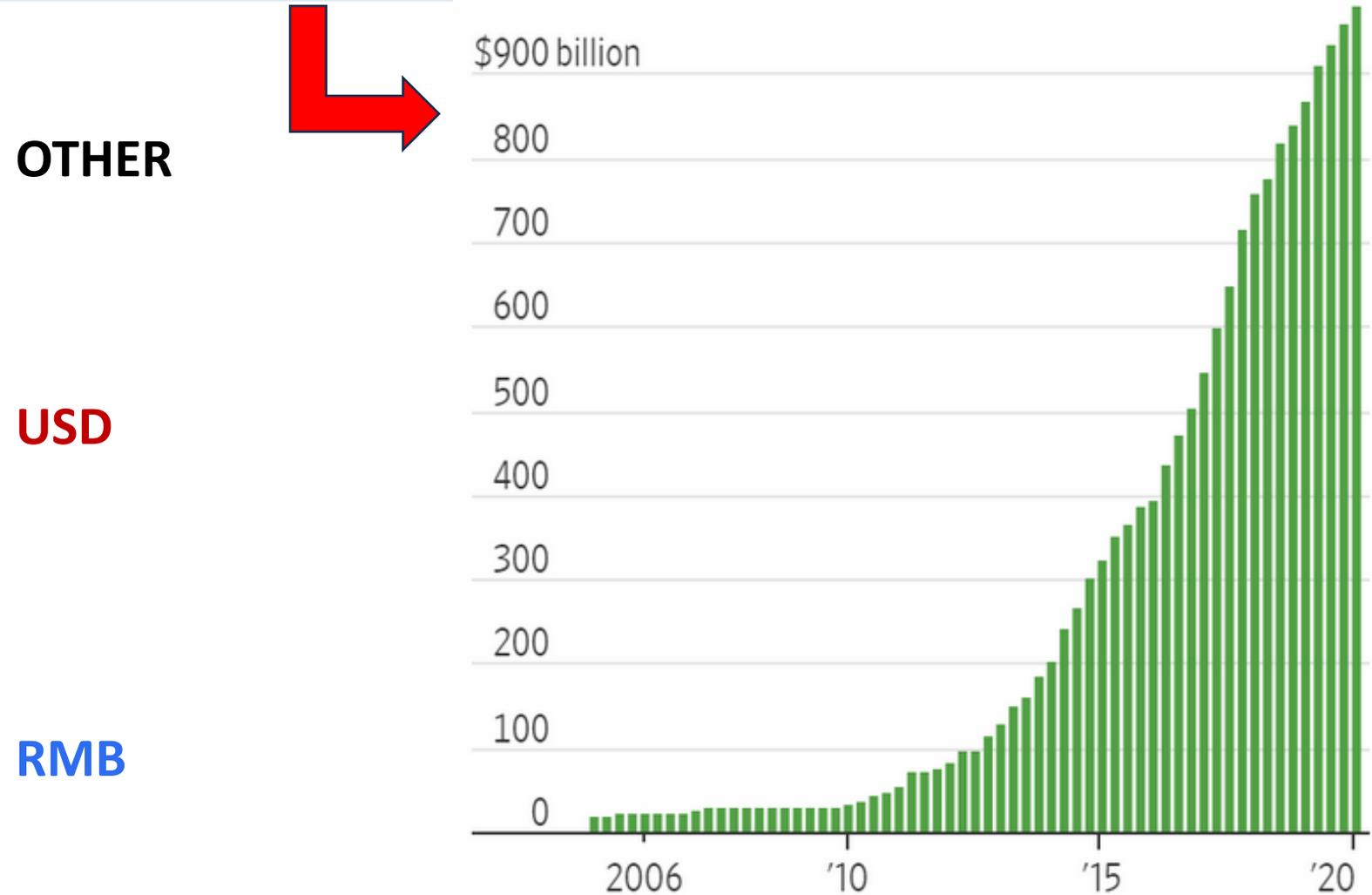
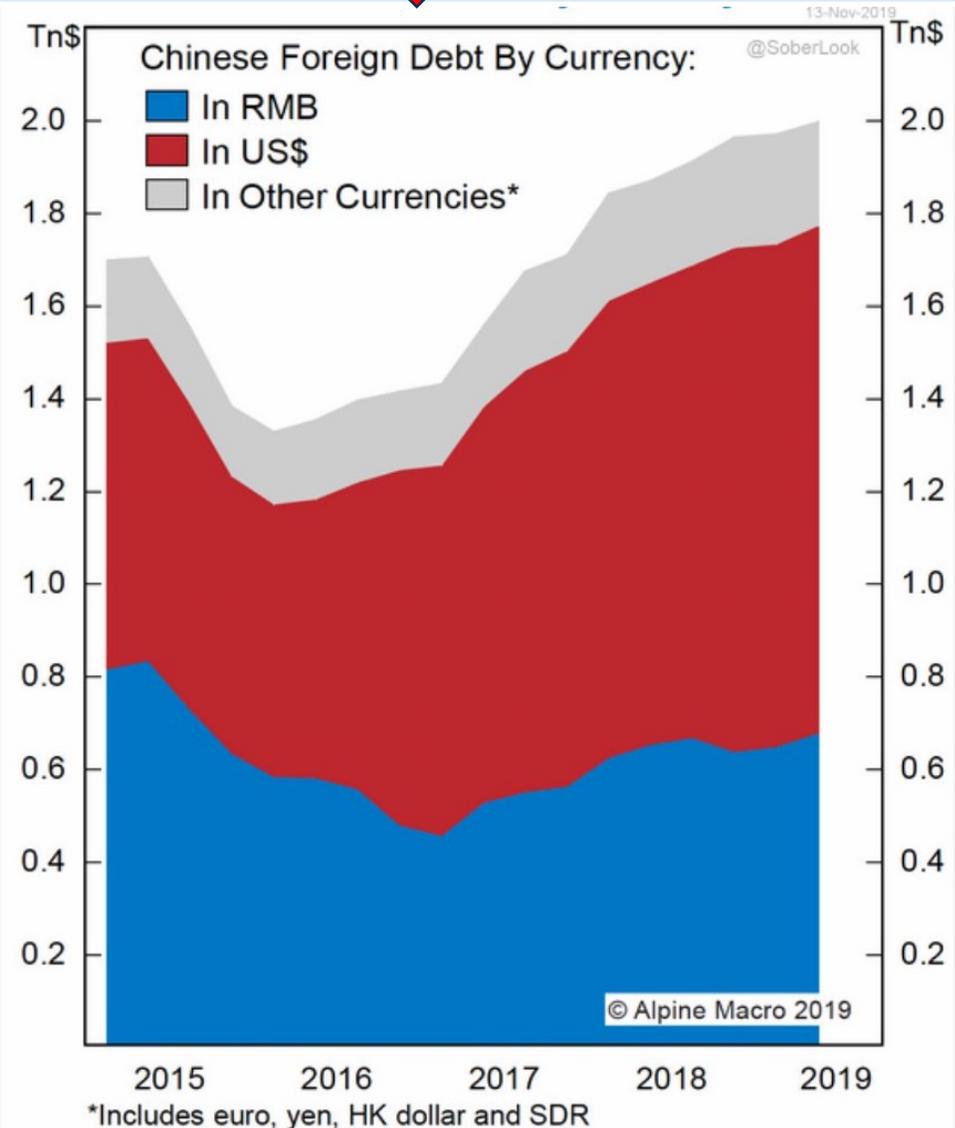
## (Probably) right the first time

Forecasts of year China's GDP will overtake the United States'

Made by: ● Goldman Sachs ● EIU  
● OECD ● *The Economist*



# China: foreign debt by currency and Chinese borrowers' outstanding \$ bonds

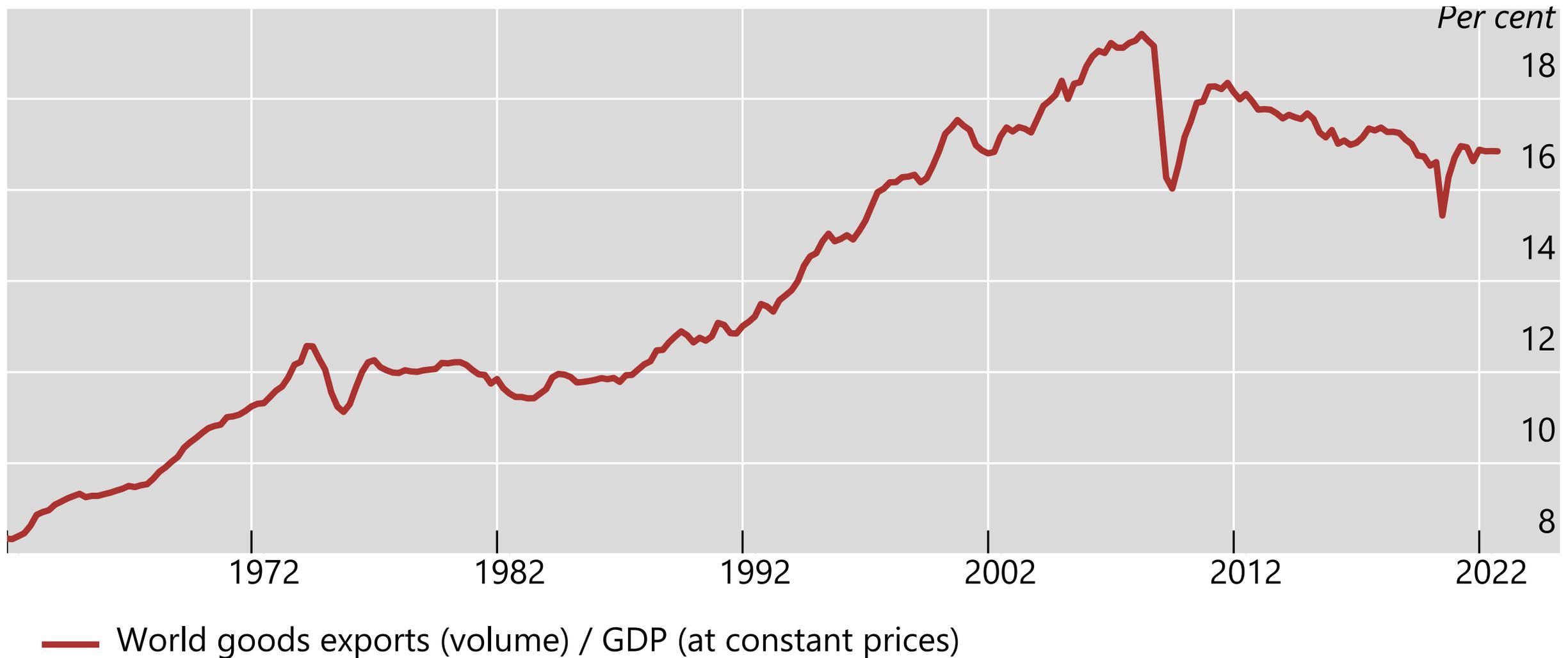


Source: Bank for International Settlements

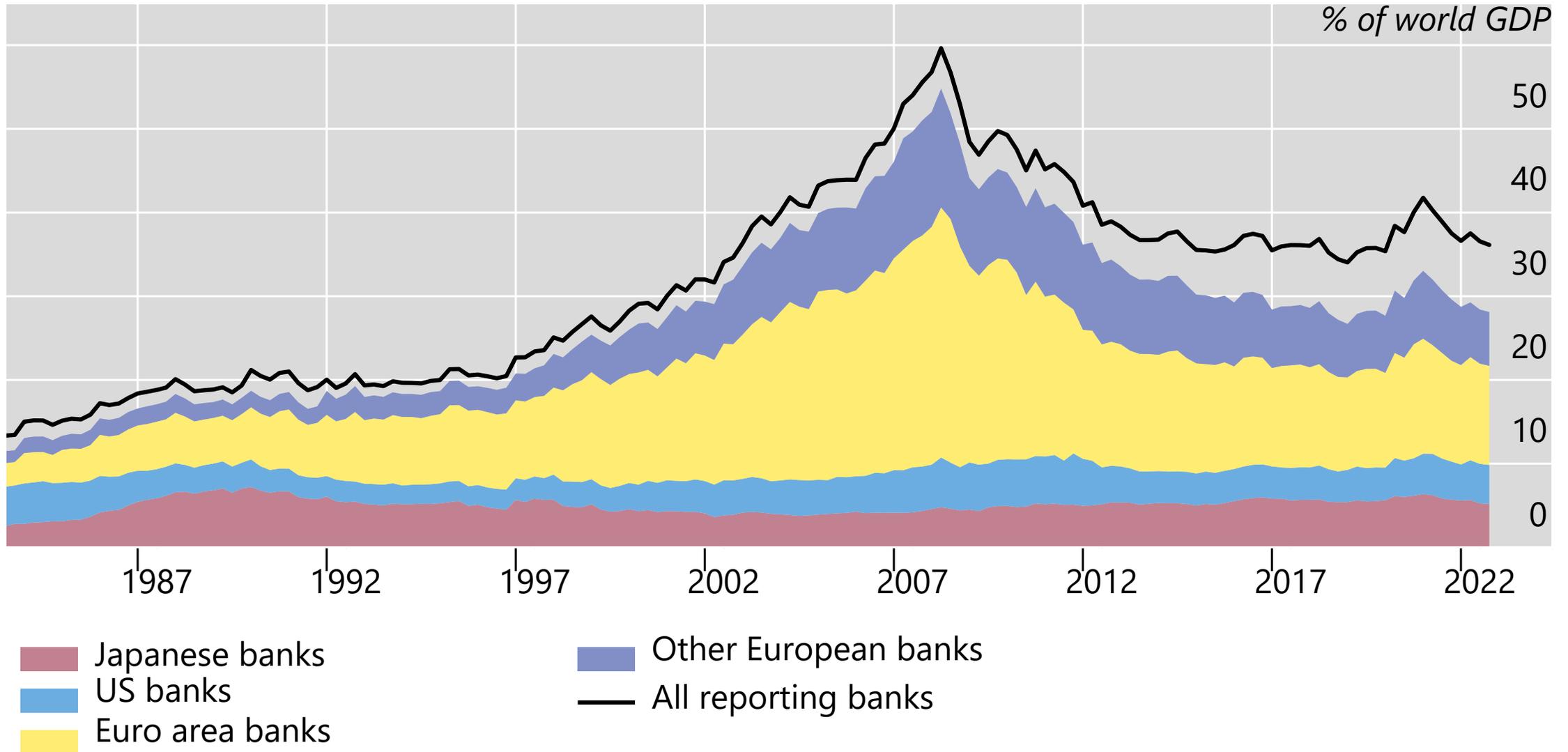
What next, given the current inflection point?



# World goods trade growth stagnates post-2008



# Financial flows also – Bank lending as % World GDP



# Rot, Reboot, or War



# The 1970s-1980s reboot

- “Bretton Woods 1” → floating FX $\Delta$ , no capital controls
- Dumb machines → digitalization (ICT) + biotech 1.0 (industrial policy)
- GATT → Tokyo round → WTO + TRIPs (plus, crush the NIEO)
- ‘Nation-building states’ → Service sector deregulation
- Boots on the ground → offshore capital-intensive backing for ‘native troops’
- Cold War 1.0 → détente; pit China against Russia; arms control
- Oil shock as a geopolitical weapon? (relative gains...)

# The 2020s reboot?

- ICT & Biotech 1.0 → AI; Biotech 2.0; New materials, New energy
- WTO → bilateral treaties, industrial policy
- Energy transformation makes Mideast (somewhat) irrelevant
- Engage China → Pit India (Quad, etc) against China
- ‘Neo-liberal’ domestic policy → more & updated welfare (?)
- De facto regulation of shadow banking
  
- Christine Lagarde (04/2023): “We are witnessing a fragmentation of the global economy into competing blocs...”

# Rot, Reboot, or War: Batteries @ 01/2023

U.S. Battery Supply Chain Investments Since President Biden Took Office



**78** processing and manufacturing facilities  
(\*6 announced but not pictured)  
**\$92** billion total investment... and counting

**Federal Investments**

- Recycling & Upcycling
- Materials Separation & Processing
- Component Manufacturing

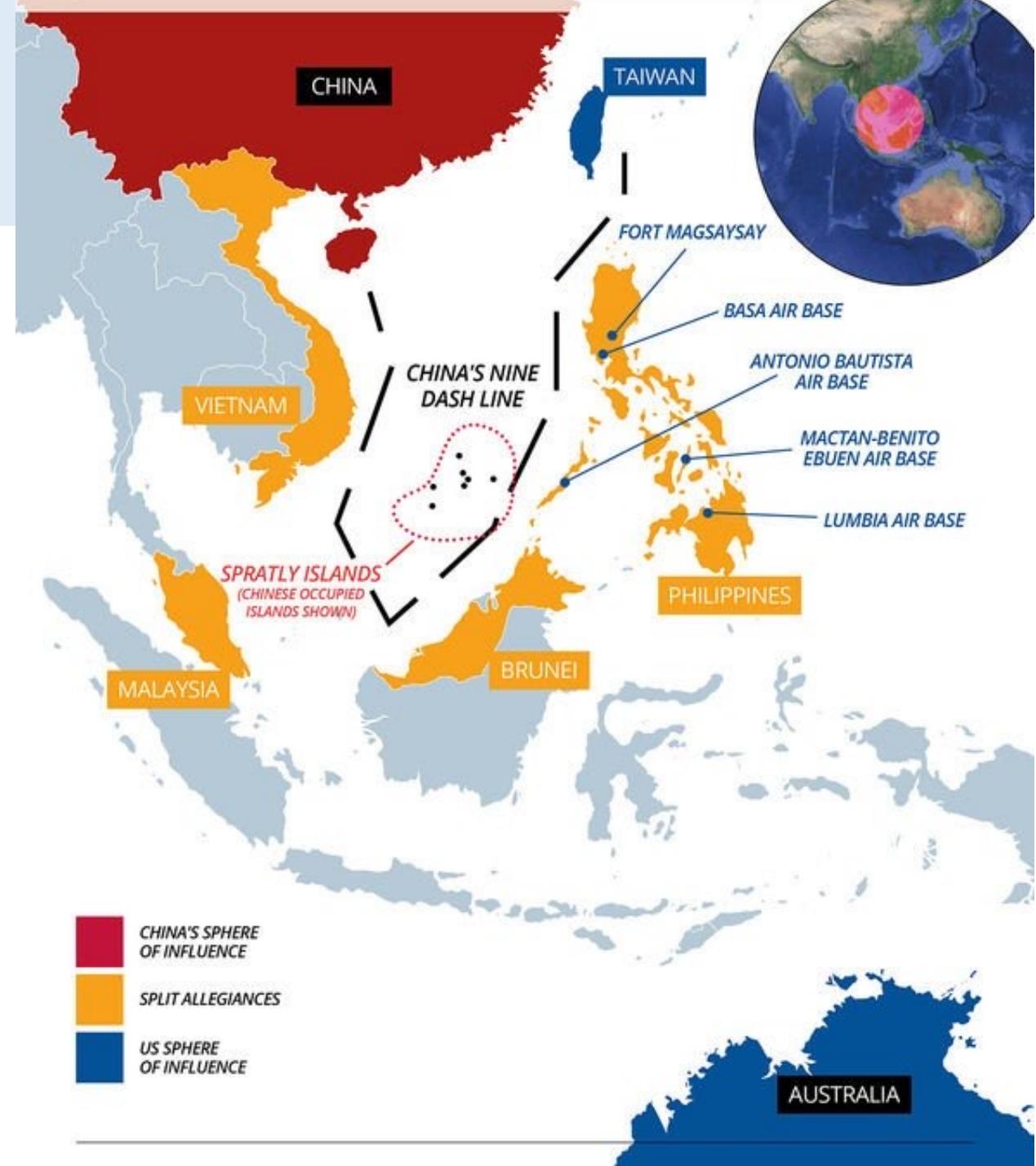
Private Sector Investments

# US construction spending for manufacturing, (constant \$)

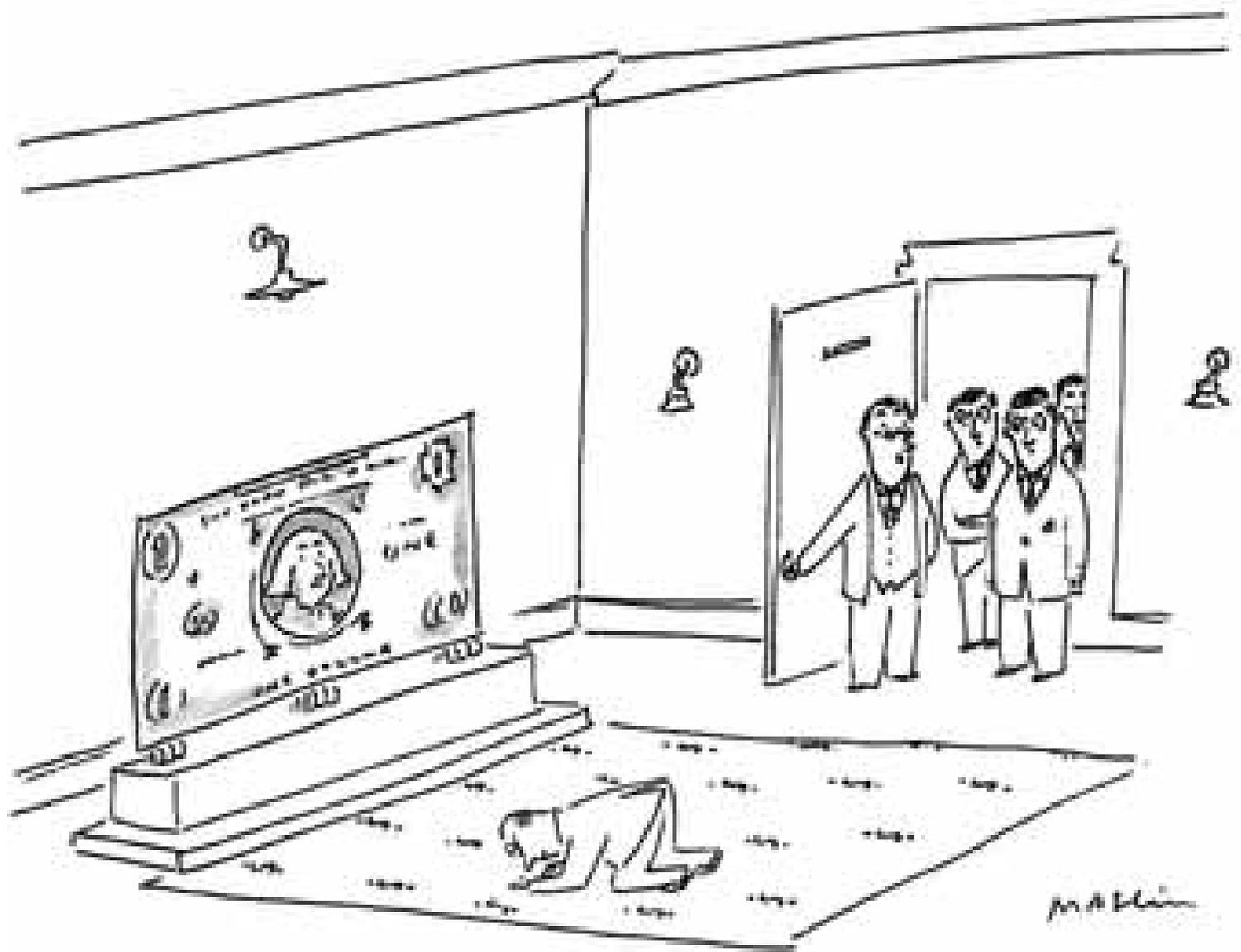
01/2023 = \$120bil ... 06/2023 = \$185bil



# Rot, Reboot, or War



# Questions?



*“We’ve set aside this particular room for those who still worship the almighty dollar.”*