DOLLARISATION, CURRENCY UNION & THE ANZAC DOLLAR: EMBEDDED NEOLIBERALISM AND THE RISKS OF IMPLOSION*

This is to my mind the greatest virtue of dollarisation: to a large extent it denationalises the currency, and protects the right of people to preserve their wealth from inflation and devaluation. In a dollarised system the currency is private property rather than the property of the national government. (Schuler, 1998)

The idea that New Zealand should abandon its national currency in favour of the US or Australian dollar, or create a new shared currency with Australia, has gained momentum in recent years. Denationalisation of the currency would crown almost two decades of radical neo-liberal restructuring by placing many of those achievements beyond the reach of future governments. Despite this, there is considerable reticence from the economic and political architects of the 'New Zealand Experiment' (Kelsey, 1997) who believe that other monetary regimes are inferior to their own. Paradoxically, there has been more support from the political leadership of the current Third Way government, led by the New Zealand Labour Party, which is attracted by the prospect of deeper integration into the global economy through monetary union with Australia. While the Prime Minister talks in terms of monetary union, almost all commentators concede that the effect for a small, open economy like New Zealand's would be no different from the more coercive option of dollarisation.

Dollarisation, monetary union and independent national monetary regimes are often analysed in isolation from each other, as if the presence of coercion or consensus and the location at the national or supranational levels make a substantive difference. The nascent policy debate in New Zealand demands a more integrated analysis. This paper concludes that all three forms of the 'new monetary orthodoxy' are complementary elements of the neo-liberal-cum-globalisation project. Their common objective is the fundamental realignment of the burdens and benefits of capitalism, and their common ideology promotes the primacy of capital in a world where nation states (other than the US) no longer have economic authority and labour is subordinated to that imperative.

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The first section of the paper traces the emergence of all three strategies over the past two decades. During the initial phase, monetary policy was refocused exclusively on price stability and national monetary authorities were insulated from government control. The second phase, which has gained momentum in the 1990s aims to remove monetary authority beyond the political reach of the nation state, permanently.

Two main techniques have emerged. Dollarisation, where the government of a country adopts the currency and monetary policy of another, is promoted (or more often imposed by the IMF and similar agencies) as a remedy for hyper-inflation and allegedly ill-disciplined governments and/or incompetent monetary authorities. Monetary union presents by contrast as a benign and consensual strategy to integrate the economies of two or more countries and thereby enhance their wealth-creating capacities in a globalising economy. Monetary authority is pooled and transferred to an extraterritorial agency that is insulated from political influence and competing economic, social or cultural objectives.

Some technocrats and monetary economists are wary of this second phase. Those who have established a ‘high quality’ national regime are often reluctant to transfer their authority to an external agency that may prove less effective in maintaining price stability or resisting moves by governments to reassert monetary sovereignty. So long as money remains subject to some form of governance, they intend to keep control, ceding it only when the market-driven process of economic integration renders the national currency redundant. The ultimate objective is the same; but their pathway is different.

All three variations are underpinned by the ideological conviction, examined through the writings of Kurt Schuler, F.A. Hayek, and Robert Mundell, that money should ultimately be liberated from all forms of institutionalised governance and left to operate through international private markets. In a world that is conceived in terms of economic spaces, rather than nation states, monetary sovereignty is considered neither desirable nor relevant. The social categories of workers, communities, tribes, local businesses and
citizens are reduced to disembodied objects that are required constantly to adjust in the quest for allocative efficiency. The primacy of capital is normalised and removed beyond the political reach of national governments.

The paper argues that these theories perpetuate the grand delusion of neo-liberalism - that global capitalism can thrive in a social, cultural and political void and permanently quarantine itself from the contradictions it creates. Money is not simply a commodity. Nor are national currencies merely the symbols of a (presumed) national identity. In an economic system of commodity capitalism, money is the medium for exercising power. It serves as the means of payment, store of value and unit of account, and as a commodity in its own right. Monetary policy is the vehicle through which national governments control the creation of money and influence its value so as to distribute resources between competing interests, whether capital and labour, diverse regions or different countries.

These decisions frame the spectrum of economic and social policy choices that are available to governments. Their ability to adjust the value and price of money in response to internal and external economic shocks impacts on the affordability of goods and services, the viability and profitability of businesses, the level of wages and unemployment, the sustainability of regions and pressures to migrate. These, in turn, affect the cohesion and stability of the society and citizens’ confidence in, and belief in the legitimacy of, their government. Those who lack economic power or value social equity, integration and cohesion will demand the kind of policy trade-offs that typified the post-war era of 'embedded liberalism' (Ruggie, 1998), if not more. Those with large assets, whether citizens or foreign investors, will seek to defend their interests by insulating them from the influence of national politics.

This makes currencies, exchange rate mechanisms and monetary policies intrinsically political. Their forms have been highly contested throughout the twentieth century and renegotiated in response to periodic economic, social and political crises. Dollarisation and monetary union aim to bring this history to an end and permanently privilege the owners of capital. The attempt to remove the power of government over economic policy
heightens the risks of social disintegration and political implosion in an often highly fractured society. As the theory is increasingly transformed into practice, these tensions are emerging more clearly. The final section of the paper draws on Argentina's experience under a currency board and European Monetary Union to assess the implications for New Zealand.

**Phase One: Price Stability through Monetary Independence**

The Post War compromise combined an international monetary regime that was designed to secure currency stability and stave off balance of payments crises with the flexibility to pursue domestic priorities through Keynesian economic policies. Monetary policy was deeply integrated within the demand-driven economic strategies that governments used to mitigate the social and political impacts of market forces. They expanded money supply during economic downturns to spur the domestic economy. And they adjusted the exchange rate to smooth the impact of economic shocks, such as a fall in prices for commodity exports, on business profitability, employment, inflation, household incomes and the overall level of economic activity.

The collapse of the Bretton Woods regime, accompanied by the ascent of neo-liberal ideology and policies in the 1970s, heralded a preoccupation among monetary economists with price stability and reducing the influence of governments. The immediate catalysts were the economic crises created by oil shocks, Vietnam war-induced inflationary and mounting Third world debt, alongside new challenges generated by the internationalisation of finance capital. The longer-term objective was to restore the primacy of capital in economic and political decisions that Keynesian social democracy had eroded.

Price stability held the key. High, and especially hyper, inflation had damaged the incomes and purchasing power of both the rich and poor and created serious economic, social and political instability. But the goal was not simply to moderate inflation within a mixed economic policy framework. It was to install a permanent deflationary policy that
gave absolute primacy to eliminating inflation, knowing this would force the cost of adjustment onto sectors that would otherwise have been cushioned and from whom fiscal supports would also be removed. The primary beneficiaries would be the international investors and domestic élites who could be assured that inflation would not erode the value of their money. Lifting of capital controls in deregulated financial markets would allow them to move that money at will to seek the most profitable returns. In this environment both flexible and fixed exchange rates would provide a fertile market for speculation through an expanding menu of financial products.

Three main theoretical influences shaped this development. Monetarists, led by Milton Friedman, argued that inflation distorted the price signals that would otherwise guide capital and labour to their most efficient use, thereby lowering growth and raising unemployment in the long run. It also eroded property rights in money. Arguing that inflation occurred because people constantly adjusted their expectations to past experience, they insisted that monetary policy should be designed solely to achieve medium-term price stability. Friedmanite monetarism was superseded in the later 1970s by the ‘rational expectations’ hypothesis, which focused on future expectations rather than past experience. Achieving and maintaining the credibility of price stability became the primary objective of monetary policy, backed by incentives on the government and the central bank to avoid policy reversal. This was complemented by the supply-side theories promoted by economists such as Robert Mundell, which insisted that monetary discipline should be combined with fiscal policies of tax cuts and deregulation to stimulate the market economy, rather than building budget surpluses. This integrated monetary policy more deeply into the emerging neo-liberal agenda.

By the mid-1980s this paradigm had been embraced by both practitioners and theorists. Implementing the new regime required a highly visible reordering of legal authority. Core economic tools were removed from the hands of elected governments and vested in autonomous central banks. Policy norms were rewritten explicitly to favour the interests of capital. This new monetary orthodoxy formed an integral part of what was later termed the Washington Consensus of structural adjustment policies, promoted through the IMF.
and World Bank. Complementary policies saw the lifting of capital controls and financial
deregulation to enhance the efficiency of the financial sector and the ability to conduct
monetary policy through open markets. Deregulation of industry and agriculture, and
labour market flexibility, would allow more rapid structural adjustment. Trade
liberalisation, including in financial and related services, sought to open new markets and
transmit price signals more directly to producers. Price stability also required fiscal
discipline to restrain governments from expanding money supply, raising debt or
increasing taxes – all of which would impact directly or indirectly on interest rates and
investor confidence.

This was not just a rescue formula for debt-ridden countries. Parallel policies were
adopted voluntarily by the governments of many non-debtor and OECD countries, most
of which were facing historically high levels of inflation. The Bundesbank, which had
pursued an exclusive price stability goal with statutory independence since the Second
World War, was cited as proof that this could deliver low inflation, stable employment
and strong economic growth. (Ironically, the US Federal Reserve retained the formal
statutory mandate to pursue both price stability and full employment.)

The policy transition relied on the normalisation of the 'new monetary orthodoxy' among
the policy, political and economic elites. That hegemony was achieved in a very short
time. Monetary economics became reified as objective science and its practitioners as
selfless experts. The discourse of ‘rational expectations’, ‘sound monetary policy’, ‘fiscal
discipline’ and ‘economic fundamentals’ was imbued with neutrality and virtue.
Achieving and maintaining them was intrinsically in the common good and collective
public interest. Their proponents were disinterested authorities concerned to protect the
long-term economic wellbeing of the people and the country. Their practitioners were
technocrats with the high level expertise to conduct such complex and technical tasks.
Accountability could be secured, without impugning their independence, through
incentives specified in performance-based employment contracts and defined by
quantitative targets. The credibility of price stability came to rest on the edicts of the
central bank governor, backed by the cult of personality. Limiting the risk of interference
and pressure from special interests meant minimising both exposure and disclosure, thereby deepening the mystique. Even the investors whose confidence was the object of the policy were portrayed as neutral consumers of money whose interests and rights required protection. Other interests were special pleaders whose demands would endanger the source of collective wellbeing. The goal was to secure the confidence of investors; the impact on the popular legitimacy of government was irrelevant.

The hegemony which this new orthodoxy enjoyed amongst the policy elite left no space for, or validity in, questions of policy balance or legitimate trade-offs, let alone who benefits and who pays the price. By transferring public authority to the guardians of the common good, governments were protected against the temptation of asking such questions. Evaluations of the government’s policy performance by the international agencies that helped construct the new orthodoxy, such as the IMF and OECD, either reinforced the need for them to adopt such policies or the virtue of having done so. Convergence around that agenda confirmed its normative status as international best practice and laid the foundations for removing monetary authority beyond the realm of national governments.

**Phase Two: Denationalisation of Currencies**

By the 1990s it was clear that these changes were not secure. Inflation came under control in most countries. But economic growth was far from stellar. A new threat had emerged as highly deregulated global financial markets, new technologies, massive investment funds and creative financial products all fuelled the international mobility of capital and a pre-occupation with short-term speculative investment. The results were volatile exchange and interest rates, financial and economic instability and currency crises. It made little difference whether countries had floating or fixed exchange rates (or even a currency board, in the case of Hong Kong) or whether their economies and banking systems were considered strong, like the UK, or weak as with Indonesia. Any country seemed vulnerable.
The economic ramifications were serious enough. But the social fallout also placed demands on governments to broaden their economic strategies. This had flow-on effects for political stability. Neo-liberal restructuring had elevated the interests of international investors and domestic elites beyond those of ordinary citizens. But in electoral democracies, governments were still elected by those citizens. There was no guarantee that they would continue to acquiesce in a policy regime that shaped their lives, but over which the government had minimal control. Even dictatorships faced destabilisation and overthrow when the mass of people rebelled.

The neo-liberal regime was designed to withstand such pressures. Legislative, institutional and normative barriers were backed by threats of investor flight and ensuing economic and financial crisis. But repoliticisation of monetary policy was still possible, so long as the denomination of the currency, monetary policy and monetary authority remained under the jurisdiction of the nation state. As governments came under pressure to reassert their monetary sovereignty, denationalisation offered an attractive counter-strategy. But it also had risks. Those who perceived themselves as guardians of their national regime were not convinced that an external regime would be superior in the long term. Safeguarding the ideological purity of their domestic regime was preferable. Once the nationally defined economy was more fully integrated into the global market, monetary authority could be surrendered to market forces rather than an external agency that remained at risk of political capture.

Advocates of denationalisation turned their attention to strategies that could remove the control of money beyond the national frontier - dollarisation and monetary union. Under full dollarisation, the currency of another country is substituted for the national currency in all transactions (except perhaps for small coins). The government abandons the symbolism of a national currency. It also surrenders its monetary authority, including the ability to influence the economy through interest and exchange rates, to the central bank of the country whose currency it has adopted. It must accept the monetary settings determined by that ‘anchor’, even when they are inappropriate for its domestic conditions or positively damaging. There are fiscal consequences too. The government no longer
gains income from seigniorage - the difference between the face value of the money it creates and the actual cost of printing – and from investing that income in interest-earning bonds or building its foreign reserves. Nor can it increase the supply of money to fund new government spending. Because there is no longer a local currency, full dollarisation is very difficult to reverse.

A ‘currency board’, sometimes referred to as ‘convertibility’ or a ‘hard peg’, offers a more politically saleable version of dollarisation. The national currency continues to circulate alongside the currency to which it is pegged. The central bank promises to exchange the local currency for the anchor at a fixed rate, and holds an amount of the foreign currency equivalent to the national currency in circulation. This prevents the government from creating new money or extending new credit to the government or local banks. As with dollarisation, the central bank has no control over monetary policy, including interest and exchange rates. While it is technically more feasible to exit a currency board because a national form of money still exists, the government will risk a crisis of investor confidence if it seeks to reassert its monetary sovereignty.

In a monetary union, two or more countries agree to share the same currency. All members transfer the right to operate an independent monetary policy to a common authority in which they participate, sometimes weighted in deference to the size of their economies. They may share the income from seigniorage, or each may opt to print their own version with national symbols and keep their own seigniorage. Because their levels of budget deficit and foreign debt will affect the shared currency’s value and aggregate interest rate, members may agree to adopt common fiscal limits. Free movement of capital, goods and (preferably) labour within a deregulated single market are necessary to ensure the efficient reallocation of these resources within the currency area. This is most effective where there is deep economic integration. Deepening integration in turn promotes the harmonisation or integration of share markets, competition authorities, and other regulatory arrangements. While this need not involve a common polity, that may coincide with or evolve from economic and monetary union.
These two techniques appear to be quite distinct, arising in different contexts and serving different objectives. Dollarisation is intended to discipline governments that are profligate or central banks that are incompetent, often as a condition of debt financing. Influential monetary economist Kurt Schuler, who maintains a website on dollarisation hosted by the World Bank, sees dollarisation as the monetary policy component of the new generation of structural adjustment policies known as ‘post-Washington Consensus’. He advocates a ‘completely automatic policy that leaves no room for local management’, at the very least by guaranteeing the convertibility of the local currency at a fixed exchange rate through a currency board, but preferably by full dollarisation. (Schuler, 1998) To prevent the central bank from reverting, the national currency should be eliminated as soon as possible. Inflation, interest and real exchange rates would all be determined by an external monetary authority and market forces, without any domestic monetary management. Because monetary policy could no longer fund fiscal deficits, governments would be forced to undertake fiscal reform. Insolvent banks would not be rescued, but forced to close.

Monetary union presents as a positive and potentially consensual strategy that enhances the growth prospects of each country. A single currency is expected to lower the cost of transactions between members and deepen their economic integration. Unfettered movement of capital and labour across borders allows agglomerations (cities) to reach their optimal scale and scope, thereby maximising productivity, profitability, international competitiveness and employment opportunities. Working from the premise that globalisation has removed the ability of governments to steer their economies, their role is reduced to stabilising the self-steering mechanisms of the international marketplace and enhancing the ‘social capital’ of their citizens to participate in this more dynamic integrated economy. By ceding authority over monetary and fiscal policy governments voluntarily tie their hands and erect long term defences against domestic demands which might undermine these fundamentals. Significantly, this is not the agenda of unreconstructed neo-liberals. These ideas inform the economic programme of social democratic governments that have adopted the rubric of the Third Way – and form the
centrepiece of the post-Washington Consensus of structural adjustment into which Schuler seeks to inject dollarisation.

Dollarisation and monetary union represent the Janus-face of contemporary globalisation – the coerced surrender of control over the economies of vulnerable and indebted countries to the monetary authority of super powers which act as proxies for the interests of international capital; and the voluntary cession of similar control by the governments of relatively more prosperous countries to a supranational authority whose exclusive function is also to promote the expansion and profitability of capital. In both cases power is transferred from a national polity, whose policies are potentially subject to contest from competing domestic interests, to a partisan for international capital.

**Redistributing the Costs and Benefits of Globalisation**

Their redistributive objectives are the same. Economic shocks can have a devastating impact on those businesses, workers and regions that are most directly affected. Traditionally governments have relied on depreciation to help spread that pain. As the country's exports become cheaper in world markets, an increase in demand compensates for a fall in prices and the shock is absorbed. The burden of falling wages and rising unemployment that would otherwise fall on specific sectors is spread across the population, as the rising cost of imports reduces people’s real incomes. The capacity of governments to achieve this has been weakened in the era of floating currencies and deregulated global financial markets because exchange rates are affected as much by speculation on their own commodity value as by international shifts in commodity prices and demand. But central banks still have influence and most economists and governments still view exchange rates as an important policy tool, especially when weighed against the alternatives.

Surrendering control over monetary policy means surrendering the ability to control inflation and use interest rates and money supply in this way. Without a flexible exchange rate or government intervention, a fall in export income means poor returns to
exporters, a slowing in the economy, weaker domestic demand and a rise in unemployment. The only way to lower prices in world markets and increase sales is to cut wages and/or lay off more workers. Economic shocks are often sectoral and impact hardest where those sectors are dominant. Dollarisation can intensify these shocks because the monetary decisions that are appropriate to the anchor country apply automatically. If their economies are asymmetrical, those decisions can be disastrous. Even with a shared monetary authority, the larger economy and its interests are likely to dominate any decisions, with similar consequences.

If depreciation is not available, a government can resort to an active fiscal policy. When an economic shock occurs in one industry or one location, automatic fiscal stabilisers spread its impact across the country - as taxes paid in one area fall, benefit payments to that region increase. But it needs to fund that intervention. Governments have often relied on monetary policy to create the new money to finance such expenditure. Dollarisation and currency boards do not allow that. New revenue must be raised instead from taxation, which is difficult in a time of recession and likely to provoke an outcry from investors and elites, or by borrowing, which is likely to prompt allegations of fiscal laxity from lending institutions, the IMF and credit rating agencies. Both alternatives may be governed by ‘fiscal responsibility’ laws and conditionalities on existing loans.

There are parallel constraints on fiscal autonomy under monetary union. Because public debt levels and fiscal deficits have flow-on effects for aggregated interest rates, the currency union is likely to impose constraints on the discretionary fiscal policy of its members. Even with political union it will be difficult to secure agreement to a comparable level of compensation at the supra-national level through ‘fiscal federalism’ or a common tax system that shares the risk across member countries.

If neither monetary nor fiscal policy is available, adjustment falls back onto specific workers, businesses, and regions affected by the particular shock. Many supporters of dollarisation consider the forced shakeout of inefficient economic activities to be its major benefit. By removing the government’s ability to expand money supply at a time of
economic shock, the country faces sharper declines in total output and employment. In theory, this prompts the reallocation of capital and labour to more efficient and productive uses. That assumes these resources are not already responsive to price signals and require an enforced adjustment through unemployment and bankruptcies. It also assumes there are latent activities that are more efficient, that resources ‘freed up’ will go to the ‘right’ sectors and that this will happen quickly enough to avoid serious social stress.

Even so, there would be a significant loss of jobs. At this stage it becomes clear that the brunt of any adjustment forced by dollarisation and monetary union is intended to fall on workers. For example, monetary economist Hans Grubel, writing for the Canadian neo-liberal think tank the Fraser Institute, argues that preventing mass unemployment requires labour market deregulation, removal of minimum protections and deunionisation of the workforce. Removal of these rigidities will force workers to anticipate economic cycles and prepare for the bad times by restraining their demands during the good. Firms and investors must also be able and willing to move their money to new growth areas and workers to relocate to find jobs. Again, this assumes there are new investment and job opportunities elsewhere. The prospects of mass emigration and depopulation create their own economic, social and political instabilities.

These impacts might be mitigated in a monetary union by some form of social charter or minimum standards across the area. The union might also provide bridging finance to support regional and structural adjustment and reduce the pressure to migrate. But these require a significant funding pool backed by sustained political will and a broader mandate than monetary policy. They would not be available under dollarisation.

This resurrects the question that the ‘new monetary orthodoxy’ seeks to bury: who benefits and who pays? The object of ‘rational expectations’ is to maintain the confidence of investors by securing the value of their money and enhancing their incentives and opportunities for further investment. In a world of capital mobility ‘investors’ translates to international finance capital and transnational enterprise. An integrated market
promotes the consolidation of foreign direct investment through mergers and takeovers and eases the relocation of investment and production to maximise profitability and minimise risk. Small businesses at a competitive disadvantage, whether manufacturers, retailers or services providers, will be crowded out. Small domestic investors will experience downstream effects of the monetary regime from which large, institutional, and foreign investors are largely immune. Countries with a small capital base or high debt become price takers on interest rates and regulatory demands. Highly skilled labour will become concentrated in the metropoles, while low cost production shifts to where labour is plentiful, cheap and unprotected. Migration policies exacerbate the two-tier labour market by targeting quality migrants. Illegal migration fuels xenophobic nationalism.

The Ideological Rationale

The ideological rationale is revealed in the writings of three prominent proponents - Kurt Schuler, F.A. Hayek and Robert Mundell. As of 2001, Schuler was Senior Economist with the Joint Economic Committee of the US Congress and former adviser the governments of Estonia, Lithuania, Bulgaria, and Bosnia when each adopted a currency board during the 1990s. In an article entitled ‘What use is monetary sovereignty?’ Schuler criticises use of the term to justify the state’s control over money without the need to explain its substance or defend its value (Schuler, 2001). He places the burden of proof on those who oppose denationalisation. If monetary sovereignty\(^1\) is generally beneficial, it should yield discernable economic or political benefits. Such research, he claims, is scarce and unsupportive.

Schuler’s own defence of dollarisation both invokes and dismisses the notion of monetary sovereignty. He argues that a government’s acceptance of self-imposed rules is consistent with the exercise of sovereign authority, because the sovereign retains the ultimate right

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\(^1\) Monetary sovereignty refers to a State’s undeniable power, recognized by international law, to regulate its own currency, i.e. the power to issue or designate money with legal tender character, to impose exchange control and exchange restrictions and to select the mechanisms through which the internal and external value of money is determined and maintained. (Martha, 1993, p. 753)
to exit – albeit at a price. Monetary sovereignty can also be exercised in ways that do not depend on controlling the value of the currency. For example, China pegs its currency to the US dollar and exercises monetary sovereignty through restraints on capital movements. In any case, the degree of practical freedom available to governments is already limited by external circumstances, especially the growth of speculative capital flows that are fuelled by technology and access to electronic money. This gives the governments of larger countries more effective sovereignty than smaller ones, creating a ‘home bias’ that remains a powerful obstacle to efficiency.

These are peripheral intellectual skirmishes. The core of Schuler’s argument is that national political sovereignty, which he defines as the right of states to exercise legal authority, can be maintained. But monetary sovereignty, the government’s control over the value of money, should not prevail over consumer sovereignty, the ultimate preference of consumers to determine what is produced. Schuler confidently asserts that the principle of government monopoly is dead or dying, except in the area of money.

    For other goods, most people now implicitly or explicitly agree that consumers’ sovereignty is the appropriate standard both from the standpoint of economic efficiency and the standpoint of justice. . . . Why should monopoly decision making in money be an exception? . . . It is a logical extension of the principle of competition that a government should not have the power to force people to use a particular currency or to restrict their use of other currencies. (Schuler, 2001)

Renouncing monetary sovereignty would diminish the power of government over monetary consumers by eliminating its ability to create inflation. Linking currencies to a strong external currency through official dollarisation, a currency board or monetary union would give people a superior currency and be comparable to allowing them freedom of choice. This effective constitutional declaration of the rights of citizens would forbid certain behaviour by governments. But it would not diminish national political sovereignty because the government would still have the power to enter into relations with the governments of other states.

Even accepting his controversial premises and definitions, Schuler’s logic is fundamentally flawed. Dollarisation does not remove the power of government over the
value of money. It merely transfers that authority from one government to another. The consumer has even less control over monetary decisions than in the national state of which they are citizens (assuming that consumers of the country’s currency are also its citizens). For the citizens of the country which provides the anchor, there can be no ultimate liberation.

This dilemma can only be resolved by completely denationalising currencies and creating a deregulated competitive market in money. F.A. Hayek has been promoting that idea since the 1960s. It is developed most extensively in the third edition of Denationalisation of Money, published by the Institute of Economic Affairs in London in 1990. Hayek attacks the basic assumption that governments must control monetary policy and each country must have its own monetary unit. He insists that money is not a tool of policy, but part of the self steering mechanism which induces individuals to adjust their activities in response to price signals. Monetary policy blurs these signals into aggregate price movements that conceal the need to redirect resources and adjust prices, especially for labour. This distortion stimulates excess investment and subsequent contraction, causing recurrent depressions and unemployment.

Hayek’s solution is to treat money like any other commodity that is best supplied in competition between private issuers. People should be free to choose their medium of exchange and have that governed by private contract law. A number of institutions would issue notes in competition, distinguished by their brand name, with a minimum redemption value set against the aggregate price of a stable basket of commodities. Market forces would discipline the issuers to maintain the value of their brand because they would lose business if they failed to meet that expectation. The issuer’s ‘sheer desire for gain would produce a better money than government has ever produced’. (Hayek, p.51)

This would provide a clearer transmission of price signals. Adjustment would force a cut in the real wages of those whose work had become less valuable and confront trade unions with the unemployment caused by their wage demands. These adjustments would produce continuous internal redistributions of wealth and income in different regions as
some grew relatively richer and others relatively poorer. ‘People who grew richer would have more money and those who grew poorer would have less. That would be all’. (Hayek, p.103) Denationalisation would also dissolve the ‘unholy marriage’ between monetary and fiscal policies. Cutting off governments’ access to the tap would stop the inherent tendency of unlimited government to grow indefinitely, ‘which is becoming as menacing a danger to the future of civilisation as the badness of the money it has supplied’. (Hayek, p.123)

Removing the state’s monopoly would prevent governments from issuing new money to expand their power at the expense of private property: ‘A government ought not, any more than a private person, to be able (at least in peace-time) to take whatever it wants . . . and to be unable to extend its resources beyond what the people have agreed to let it have.’ (Hayek, p.33) Ultimately, the deep integration fostered by the creation of global free markets in currencies would break down the accidental agglomeration of economic regions under single political governments and the perversities of national boundaries and nationalism. Hence, a

fundamental contribution to the protection of individual freedom which the abolition of the government monopoly of issuing money would secure would probably be the intertwining of international affairs, which would make it more and more impossible for government to control international movements, and thus safeguard the ability of dissidents to escape the oppression of a government with which they profoundly disagreed. (Hayek, p.126)

Monetary union shares this conception of a world defined by economic areas, rather than political borders. The core concept of ‘optimum currency areas’ was developed in 1961 by economist Robert Mundell, then a research economist at the IMF and an adviser to Ronald Reagan in the early 1980s. Following the award of the Nobel prize for economics in 1999 Gwynne Dyer, a columnist for the Independent (UK), described Mundell as ‘an extreme free marketeer who believes that governments should almost never intervene in the economic lives of their citizens either to restrain individuals or to help them.’ (reprinted in NZHerald 29 September 2000)
Mundell’s original article took as its starting point the governments' use of flexible exchange rates to depreciate as a substitute for unemployment when their country’s external balance is in deficit and to appreciate in order to contain high inflation. In a currency area which has a single currency (such as the US) the central monetary authority will be under pressure from regions that are in deficit to devalue; those regions that are in surplus will suffer inflation as a result. The monetary authority cannot prevent both unemployment and inflation at the same time. This problem arises, according to Mundell, because national boundaries tend to span declining and rising regions, rather than being drawn around economic regions. If economic regions were reorganised on the basis of their synergies into currency areas and allowed to cut across national boundaries, flexible exchange rates could deliver the goal of stabilisation – provided that people and investment could move freely within those currency areas, but not so freely outside of them. Applied on a global scale, this would mean a world divided into economic regions within which capital and people were mobile, but between which they were not, each region having a separate currency that fluctuated relative to all other currencies.

Mundell acknowledged that this kind of formal reorganisation would mean profound political changes, and only be practical where political organization was in a state of flux. Back in 1961,

it hardly appears within the realm of political feasibility that national currencies would ever be abandoned in favor of any other arrangement. . . [A] region is an economic unit while a currency domain is partly an expression of national sovereignty. Except in areas where national sovereignty is being given up it is not feasible to suggest that currencies should be reorganized; the validity of the argument for flexible exchange rates therefore hinges on the closeness with which nations respond to regions. (Mundell, 1961, pp. 657, 663-4)

Within a decade, the Werner Report had anticipated the collapse of the Bretton Woods system and presented the first plan for European economic and monetary union, drawing heavily on Mundell’s theory. There was a hiatus during the economic turbulence of the 1970s and early 1980s. Momentum was regained when the Single European Act in 1985 reaffirmed the goal of economic and monetary union. The Delors Report in 1989 produced a three stage plan to achieve what the European Commission described as ‘the irreversible nature of the movement towards a Europe without internal frontiers’. (Delors,
In 1993 most members of the European Union (EU) committed themselves in the Maastricht Treaty to begin stage three of European Monetary Union (EMU), including the adoption of a single currency, by 1999. As of 2002 eleven countries of Europe had adopted a single common currency, the Euro.

Mundell was awarded the Nobel prize for economics in 1999 in recognition of his contribution to the EMU. In his acceptance speech he advocated monetary integration on a global scale. The last two decades had taught governments the lesson ‘that inflation, budget deficits, big debts and big government are all detrimental to public well-being and that the cost of correcting them is so high that no democratic government wants to repeat the experience’. Mundell predicted the widespread adoption of the Euro in Central and Eastern Europe, in the former CFA franc zone in West Africa, and along the rim of the Mediterranean. Such expansion, including currencies not belonging to the currency area but pegged to the Euro, would create a transaction area larger than that of the US and provoke countervailing expansion of the dollar into Latin America and other parts of Asia. Other currency areas were likely to form, adapting the European model to local needs. In the long term, a single currency should emerge. Meanwhile, stabilization would best be assured through the Euro, dollar or yen.

All three theorists conceptually reorganise the social and political world to facilitate the concentration and accumulation of capital on a global scale. Their organising principle is the currency, which they reduce to a commodity. In this reconstructed world, disembodied factors of production are expected to adjust quiescently as their fortunes decline. The risk of contest is neutralised by castrating both trade unions and national governments. Political authority that was previously sourced in the relationship between a sovereign authority and a defined citizenry is replaced by the abstraction of the market where there are only economic borders and within which the individualised, atomised, self-interested consumer is sovereign. The state remains as a depoliticised legal formation.
This ideology is transformed into a political project through policies of dollarisation and monetary union. Its advocates assume that the hegemony of monetary orthodoxy among the élite will be sufficient to sustain the new regimes in the long term. But any hegemonic project that is not embraced from below is intrinsically unstable. That risk is heightened when it confronts deep-seated social values and expectations, and constitutive symbols and ideals such as national currencies and national sovereignty. When material realities, such as mass unemployment, regional decay or growing poverty and inequality, weigh in to the equation and national governments have no authority over the levers which might mitigate those impacts, there is potential for a social and political crisis.

This is also counter-productive for capital. Nation states have historically played a pivotal role in stabilising capitalist economies. That depends on a degree of political legitimacy that is secured through the endorsement, or at least the acquiescence, of the citizenry. This rests in turn on ensuring a level of individual and collective wellbeing that fosters a mutual commitment to those economic relations within the boundaries of the national polity. To deliver these aspirations, governments need a reasonable degree of self-determination, including authority over the core economic policies that shape the lives of their political community. That has already been eroded through the combination of neoliberalism and globalisation. Severing the nexus between social, political and economic relations to stabilise the price of money sews the seeds for a much more fundamental form of instability. Their only response is to bolt the door as firmly as possible against any retreat. As the contradictions intensify, so will the potential for implosion.

Dollarisation poses this risk most starkly. Although it is often a condition of debt financing, dollarisation is usually introduced at a time of hyper-inflation and can enjoy widespread initial citizen support. That becomes less sustainable when the government is unable to devalue so as to mitigate the impact of economic shocks, especially on workers, declining regions and the poor, and government spending is constrained. If the anchor’s monetary policy induces a recession, the resulting social distress and political instability can see governments overturned and/or people repressed. Prolonged instability can generate a deep crisis of legitimacy for the state itself. Currency boards vary this political
dynamic, as competing interests press the government either to abandon convertibility or fully dollarise. Even the purportedly benign form of monetary union creates problems of democratic legitimacy when palliatives designed to limit the regional, employment and social impacts of denationalisation fail to shield national governments, or any supranational polity, from pressure to intervene. National governments may have limited incentives to defend any of these regimes; but they face major difficulties in reinstating their national monetary sovereignty.

Dollarisation: Some lessons from Argentina

The use of hard currency pegs is not new. In the nineteenth and early twentieth centuries many colonies, including Australia and New Zealand, were fully dollarised and remained so until the 1930s. A number of low populated countries, such as Kiribati, Nauru, Channel Islands and Liechtenstein still operate through a foreign currency. Panama has been dollarised since 1904 (and is constantly bailed out by the IMF). Liberia dollarised in 1944, but created its own currency in 1986 alongside the US dollar after the government could not fund the civil war and pay its civil servants. In 1983 Hong Kong committed itself to a hard peg with the US dollar in anticipation of the reunification with China. This came under intense speculative pressure in 1998, but was retained.

Throughout the 1990s the newly independent European states of Estonia, Lithuania and Bulgaria also adopted currency boards. In Bosnia-Herzegovena a hard peg to the German mark was made a condition of the Dayton Peace Accord and an IMF-controlled currency board was embedded in the new constitution. Brazil and Russia adopted a hard peg against the US dollar in 1993 and 1995 respectively; both abandoned them in the face of deep financial crises in early 1999. Ecuador fully dollarised in January 2000 after defaulting on its debt. Since then, two popular uprisings have been fuelled by the ongoing economic and social crisis; one brought down the then government. El Salvador dollarised in January 2001.
This brief survey suggests a serious disparity between the theory of stability and irreversibility and the political conditions that confront dollarised countries. The contemporary crisis in once affluent Argentina provides a current illustration. In 1991 Argentina faced hyper-inflation. The government, led by Finance Minister Domingo Cavallo, adopted a currency board arrangement and guaranteed full convertibility to the US dollar. Inflation quickly fell from 78 percent to 4 percent. Argentina’s economy recovered rapidly, with strong export growth and high levels of foreign direct investment. Even with the Mexican crisis in 1995, real per capita GDP growth averaged 4.3 percent between 1991 and 1998. The budget deficit was eliminated and public debt was repaid, largely through an ill-conceived privatisation programme that focused on short-term returns.

By 1998 South America was confronted by the contagion effects of the 1997 currency crisis, the slowing of the world economy and a strong US dollar. Argentina began a rapid economic decline. Much of the blame is attributed to the inflexibility of the exchange rate and the inappropriateness of US monetary settings that automatically applied to Argentina. In January 1999 neighbouring Brazil responded to a chronic currency crisis by abandoning the hard peg with the US dollar and floating the real. A massive devaluation gave it a competitive advantage over Argentina in international markets and within the free trade area of Mercosur. The combination of Brazil’s exchange rate and lower costs, especially for labour, made it difficult for Argentine exporters and domestic producers to compete in a slowing international economy. Capital mobility enabled investors to relocate to Brazil, compounding the Argentine recession. Unemployment mounted, especially in the regions. The burden fell directly on businesses and workers with flow on effects for families, communities and entire regions. Official unemployment had reached 18 percent by mid-2001. Some workers were re-employed under the table below the minimum wage and without legal entitlements.

As central government revenue fell and public external debt grew, foreign lenders increased the risk premium in their interest rates. The debt burden mushroomed. The currency board prevented the government from funding its fiscal needs by expanding
money supply or devaluing to reduce debt denominated in the domestic currency. Although the central government could not create new money, provincial governments responded to falling revenues by issuing their own local currency in the form of limited term bonds. In Tucuman province, for example, these were known as ‘bonos’. While they had parity with the peso and US dollar, they could only be used within the province. As pesos became scarcer and revenue continued to fall, bonos were supplemented by tickets redeemable in specified stores. By mid-2001 provincial workers such as teachers were being paid in a mixture of bonos, tickets and salary deferred for six months. Buenos Aires province then issued its own version, the Patacom. Privatised electricity and telephone companies announced they would accept Patacoms as part payment. Even McDonalds announced a new meal - the ‘Patacombo’ - which could only be bought with the new currency. The central government attempted to control the rapidly expanding money supply by legalising a national system of regional bonds which could be used to pay taxes and would be deducted from the region’s revenue entitlement from central government.

Cavallo, the architect of convertibility, had been brought back to solve the crisis. In July 2001 the government announced plans to alter the currency peg to a combination of the US dollar and the Euro. Until those currencies reached parity, the government promised to pay a rebate to exporters and imposed a levy on importers of 6 percent – a de facto devaluation. Speculation that the government might default and/or abandon the currency board raised the risk premium again. As government revenue continued to decline, the share dedicated to debt repayments grew.

In August 2001 default was imminent. The IMF made refinancing conditional on a zero-deficit budget that limited government expenditure to actual revenue. As demands for social spending and income support grew, the government cut all central government wages and pensions by 13 percent. This further reduced domestic demand and intensified popular unrest. Militant unemployed, known as picketeres, blockaded the main arterial routes across the country. Pensioners, public servants, unions, left-wing parties and many others staged massive protests in Buenos Aires. Students occupied the universities.
Middle class families with no waged incomes struggled to survive. A growing number of the poor were starving.

The IMF’s concern was to ensure debt repayments continued and its bailouts were conditioned on Argentina retaining the currency board. International investors and local elites warned that abandoning convertibility would increase risk premiums again and make borrowing almost impossible. They urged Cavallo to dollarise completely. Others saw the depth of the crisis as a potential circuit breaker. A group of prominent economists called for an alternative economic strategy rooted in Argentina:

> Historical experience and the modern world are definite: countries which assume the responsibility of driving their own destiny prosper. Only a fundamentalist or inverted vision of globalisation yields before the power of the great transnational and local actors, in policies and negotiations which gather links in the chain of dependence. We believe that the reason why the country is in this struggling situation is the result of a bad articulation of the way of the modern world and we must radically modify our responses to the challenges and opportunities of globalisation. To recognise the restrictions of an autonomous economic policy does not mean giving up a policy with a realistic vision and a sense of national development. (Portnoy, 2001)

In a time of deep crisis, anything becomes possible.

**Currency union: The European Monetary Union**

It is not easy to discover how these tensions have played out in the common currency areas in East-Caribbean and Central Africa, or the West African Monetary Union. The European Monetary Union (EMU) is too young to provide any definitive conclusions. It would also be wrong to generalise from the product of such a unique conjuncture of historical, social, economic and political forces. Nevertheless, the failure of the European Monetary System in the early 1990s illustrates the potential for economic instability and re-nationalisation of currencies. The revamped EMU also contains the classic ingredients for crisis within one or more of its members that could flow through to the European Union itself.

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2 These may prove more relevant reference points in the New Zealand context, and challenge the North/South dichotomy which underpins the current analysis.
Entry to the EMU is voluntary and conditional on each government meeting target levels for inflation and fiscal deficits. Members cease to exercise independent monetary sovereignty and vest this authority in a common European Central Bank (ECB) on which all represented. The Bank is modelled on the Bundesbank. Its limited mandate is to pursue price stability in response to aggregate conditions across the Eurozone. It is accountable to the European Commission of unelected bureaucrats. National parliaments are quarantined from exerting any influence; the European Parliament has an indirect line through appearances of the ECB’s president before the Economic and Monetary Affairs Committee. But it has no real capacity to influence policy and little legitimacy on which it could rely in doing so. The Stability and Growth Pact binds each member to maintain annual budget deficits and total government debt within 3 percent and 60 percent of GDP respectively, with some leeway in exceptional circumstances. After a transition period, the Euro will replace members’ domestic currencies. As with the other EU treaties, there is no provision for a government to withdraw.

In theory, national governments can still pursue their own social policies. Policy choice is already subject to a variety of EU obligations. It is further constrained by the limits set by the Pact on fiscal deficits and public debt, and the competitive taxation pressures created by capital and labour mobility within a single market. Nor can a government monetise its budget deficit, as in the past. Instead governments are expected to show medium term ‘fiscal responsibility’. This means balancing their budget across economic cycles by generating surpluses in good times that can cover deficits that result from internal or external economic shocks – even though the frequency and depth of those shocks may intensify when ECB monetary settings are inappropriate to the economic conditions of the country.

Their citizens’ economic lives will be shaped by redistribution within the Eurozone. It is expected that capital and skilled labour will agglomerate around the already advanced core – the productive heartland, the industrial belt and the centres of financial, services and administration. Regions that are uncompetitive, with inappropriate lifestyles and unskilled labour, will constitute the periphery. Regional and structural funds are designed
to reduce disparities between the core and periphery by smoothing adjustment, thereby
minimising the risks that social and migration impacts will destabilise individual
countries. This assumes that assisted restructuring can substitute for the shock absorber
role of monetary and fiscal policy, and generate genuine economic opportunities. This
has occurred to a considerable degree in Ireland. However, agglomeration around Dublin
poses serious challenges to the rest of the country, prompting appeals to the EU for
structural adjustment support for Ireland's periphery. Other countries and regions could
just as easily become sites for social dumping that are constantly readjusting through
wage restraint, competitive deregulation, low taxation and higher unemployment.

In the process of redistribution, power becomes even more unequal. Small businesses and
farms are absorbed by Eurofirms, which themselves combine within and beyond Europe.
Their dominance over production, distribution, finance and service networks, and the
need to maintain their confidence, invests them with potentially enormous power over
economic policy-making that is untransparent and uncontestable. How this plays out
within the EU remains to be seen, but it is already very apparent in the EC's negotiation
stance within the World Trade Organisation.

Citizens are meant to accommodate to this new environment by lowering their
expectations. But traditional welfare values remain deep-seated in most member
countries. Governments are expected to provide support for the unemployed and
disadvantaged as well as pensions, health care and education at a time when demographic
and technological changes increase their cost. These values are confirmed in the Social
Compact, yet there is no corresponding commitment to compensate at the European level
for the national government’s reduced capacity to deliver. Kenneth Dyson notes there is
no political commitment to fiscal federalism and no common identity or sense of
European civil society that would demand one (Dyson, 2000, pp. 25, 31). If the ability to
meet core expectations requires a breach of the Pact, both the national government and
the European Council will face intense pressure to bend. If countries that have voted to
remain outside the constraints imposed by the EMU, such as Denmark, prosper
economically or by superior standards of living, those demands will intensify.
Governments may claim the fetters imposed by EMU and the Pact tie their hands. But, as with Argentina, this may not defuse the social and political backlash.

Sylvester Eijffinger and Jakob de Haan argue that the motivation for monetary and economic union was to advance the political project of European unification, with only secondary attention to the economic rationale and implications. (Eijffinger and de Haan, 2000, p. 215) Yet the constraints placed on national governments by the Pact may heighten the social and political risk to the European project. As Dyson observes: ‘The attempt to instrumentalize the Euro-Zone solely for the purposes of economic stabilization and efficiency, by in effect erecting them as higher good, risks crisis at the level of mass attitudes from perceptions of damage to social cohesion.’ (Dyson, p.4) This contradiction cannot be resolved simply by improving the formal political legitimacy of the EMU and ECB. Future challenges to the democratic deficit of those public agencies seem destined to reach beyond procedural concerns into the substantive issue - that denationalised monetary and economic policy constraints give primacy to capital over citizens and are unresponsive to the democratic will.

The New Zealand Context

The discussion of currency union in New Zealand has emerged against the backdrop of a radical neo-liberal restructuring that began in 1984. Over the next fifteen years an integrated and ideologically coherent programme of economic and social policies was implemented, consolidated, adjusted and defended. A textbook approach to the new monetary orthodoxy was its centrepiece. Between 1984 and 1986 the New Zealand Labour government removed currency controls and floated the dollar, alongside rapid deregulation of the finance, agriculture and industrial sectors. The Reserve Bank focused on reducing inflation through interest rates using an ‘open jaw’ approach of periodic statements from the Governor to shape inflation expectations. The Bank’s exclusive price stability goal and independence from government were legislated through the Reserve Bank Act 1989. The Minister of Finance was required to specify the inflation policy target, but the Governor had full autonomy over how to pursue it, and his fixed term employment contract was contingent on achieving that goal.
This enjoyed a hegemonic status among the technocrats, élites and politicians of both parties that held office during this period. Its architects consciously set out to insulate that regime and other ‘economic fundamentals’ from government interference through a combination of legislation, institutional reorganisation, international treaties and deep penetration by foreign capital.

By the later 1990s New Zealand’s neo-liberal regime looked unsustainable. A volatile cocktail of dismal economic performance, deepening social inequality and poverty, deteriorating privatised infrastructure and chronic exchange rate instability fuelled a growing realisation that there would be no economic miracle. There was mounting pressure, including from some within business, to revisit the fundamentals - especially monetary policy. The self-appointed guardians of the free market saw it as their mission to get the process back on track and ‘finish the business’.

Dollarisation would appear to offer a ready-made solution. It would remove key policies – price stability, coupled with fiscal austerity and financial deregulation - from the control of future governments. It would force sectors, industries and workers to adjust more rapidly. This would in turn reinvigorate policies of labour market deregulation and the removal of labour protections, and hasten the demise of the unions. Adoption of the Australian currency would deepen New Zealand’s already strong integration into the Australian market, building on the Closer Economic Relations agreement signed in 1983. Increased migration of capital and labour to the agglomerations of Sydney and Melbourne would enhance allocative efficiency and reward entrepreneurial Kiwi citizens. All this would commit the country more irrevocably to globalisation. Dollarisation would also protect the property rights of the élite from rapacious governments and the demands of sectoral interests, whether unions, business or Maori, to share in the benefits of other people’s money.

Yet the proposition attracted least support from the core economic agencies of the Treasury and Reserve Bank (RBNZ). They believed that dollarisation-cum-monetary
union posed serious risks to their project. The Reserve Bank would lose the control over monetary policy which it is guaranteed under the Reserve Bank Act 1989. Transferring that authority to the central bank of another country or a joint venture dominated by other governments risked weakening the current policy settings and institutional arrangements. If those banks were, or became, more susceptible to political interference, the RBNZ would have no power to object or resist. The economy might also be exposed to inferior or counter-cyclical monetary decisions, producing a higher inflation rate than New Zealand’s more rigorous regime would achieve and damaging the economy. (Brash, 2000) From Treasury’s viewpoint, a shift from monetary to fiscal policy as a shock absorber could also undermine the commitment to medium-term fiscal austerity required by the Fiscal Responsibility Act 1994. (Treasury, 2000) It would also bring an end to tax cuts and might prompt a renewal of government borrowing.

Both agencies remained fiercely committed to phase one of the ‘new monetary orthodoxy’. They were not philosophically opposed to denationalisation, if further economic integration made the local currency redundant or unsustainable - presumably because that would be driven by economic dynamics and imperatives, rather than political decisions and institutions. Dollarisation would then form one element of an integrated process of economic denationalisation, progressing towards the end goal of a deregulated global economy that was governed by market forces.

The ideological voice of transnational enterprise in New Zealand, the Business Roundtable, took a similar approach. Its executive director (a former Treasury official) expressed the fear that dollarisation or monetary union would divert attention from the more important goal of completing the unilateral liberalisation, deregulation and privatisation of the New Zealand economy. (Kerr, 2001). This was at odds with business surveys that reported a majority support for a common currency (it was almost never called dollarisation). These polls were small and methodologically flawed, but they indicated a more pragmatic attitude from a business sector that had been buffeted by extreme fluctuations of the exchange rate and whose confidence in the Reserve Bank was shaky at best. There was strongest support from two particular sectors: the deregulated
financial industry, which was already highly integrated with, and predominantly owned by, Australia’s; and trans-Tasman exporters who were concerned to secure any cost reductions or market access gains, however marginal. Several studies found little evidence to support these expectations. (eg. Grimes & Holmes, 2001) Almost all the economic commentators agreed that any micro-economic gains from monetary union would be speculative and minimal, although there was more dispute about the macro-economic costs.

There was a similar paradox in the political arena. When the proposal surfaced in 1998, neither of the parties that had spearheaded the neo-liberal project showed any enthusiasm. Radical free market policies had become an electoral liability. The conservative National Party, which was then in government, rejected the idea on nationalist and economic grounds, despite strong support from its business constituency. Its replacement, led by the centrist Labour Party, was initially dismissive. But differences emerged. The finance minister said there was no economic justification and it was not on their agenda. The trade minister said the idea should be explored. Prime Minister Helen Clark at first rejected the idea, but then stated in a speech in New York that ‘silly notions of sovereignty’ should not stand in the way of an Anzac currency, because an ‘ever closer relationship with Australia’ is ‘inevitable’ (NZ Herald August 2000). National’s finance spokesperson countered that control over monetary and fiscal policy ‘don’t sound like silly nationalistic issues to me; they sound like important matters for democratic accountability.’ (NZ Herald 28 September 2000) The minority ‘left’ parties remained vehemently opposed, while the extreme neo-liberal party ACT supported full dollarisation with the US.

The Prime Minister’s shift was hard to read. There was no obvious political gain from promoting dollarisation. Media interest had been sporadic and orchestrated by the business community. Populist concerns focused on the loss of symbolism and the prospect of an Australian takeover. Unions, regional governments and social agencies seemed unaware of the broader implications. So were Maori. Any informed debate was likely to rouse the ire of nationalists, whether conservative, Maori or progressive and
provoke resistance from a citizenry that was disillusioned with neo-liberalism on the one hand and championed those policies on the other.

These responses reflected the negativity associated with dollarisation and its overtones of disempowerment, marginalisation and dependency. Clark talked only about monetary union, with its connotations of cooperation, mutual benefit and prosperity. Economic integration and enthusiastic endorsement of globalisation were central features of her government's Third Way vision. It had already extended New Zealand’s binding commitments to the denationalisation of trade, investment and domestic regulation through multilateral, regional and bilateral trade and investment agreements. A currency union was another logical step in this process.

The distinction was a chimera. The Australian government had made it clear that New Zealand was free to adopt the Australian dollar, but Australia had no intention of altering its arrangements or adjusting monetary decisions to accommodate New Zealand’s needs. Because the countries’ economies were asymmetrical, and their cycles were out of sync an estimated 30 percent of the time, Australian monetary policy was likely to create or intensify economic shocks, with recessionary consequences. Even with a monetary union, New Zealand would be swamped in a joint venture authority, as already occurs with Trans-Tasman food standards and labelling under the Australia New Zealand Food Standards Authority.

Australia would have no obligation to provide structural or regional adjustment funds, let alone share responsibility for New Zealand’s fiscal and social needs. Increased migration of capital and skilled workers would mean a declining fiscal base and increased domestic demand from the marginalised citizens who remained in New Zealand. Australia’s move in 2001 to reduce the welfare entitlements of New Zealand’s economic refugees, while welcoming its more educated citizens, would increase that burden.

As New Zealand became even more economically peripheral, social and political unrest would intensify, placing undeliverable demands on an increasingly impotent government.
A global recession or a country specific economic shock could plunge New Zealand into deep depression. Its already chronic balance of payments deficit and massive foreign debt could induce an economic, social and political crisis comparable to Argentina’s and the threat of virtual bankruptcy - or force New Zealand to seek political union with Australia, on Australia’s terms.

**Conclusion**

There are three simple conclusions from this analysis. First, dollarisation and currency union are flip sides of the same coin. Their common objective is to secure the primacy of capital over national governments and those who might contest its power. They share a fundamental antipathy for the right of citizens, especially workers, to shape their own lives by securing constraints on the power of capital through their national polity.

Second, the distinctive forms and contexts of dollarisation, monetary union and monetary independence at the national level reflect the divergent paths through which the neo-liberal-cum-globalisation project is being pursued. Their emergence in the later twentieth century is a reflection of both the vulnerability of that project and the arrogance of those who believe that it can be rendered irreversible.

Third, the denationalisation of money cannot be divorced from its social, cultural and political ramifications. Eliminating the trade-offs that were central to the embedded liberalism of post-war industrial capitalism, and embedding neo-liberalism through the denationalisation of currencies, will only intensify the contradictions between capital accumulation, social stability and political legitimation that have permeated the history of capitalism. The delusion that dollarisation and monetary unions can stop the clock is a recipe for implosion.

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