THE GLOBAL ECONOMIC INTEGRATION HAS NO PROSPECTS WITHOUT GLOBAL CURRENCY

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Abstract

After getting out of the recession as it is, into which the developed countries have fallen, the continuation of the processes of global economic integration becomes a priority task of the contemporary international economic relations. For its accomplishment, there has to be stopped the sharpening of global imbalances, it has to be ceased the taking of protectionist measures in relation to the competing economies, to be eliminated the danger of carrying out competing devaluations of national currencies in order to be avoided the danger of any consequent currency and trade wars.

The continuation of the processes of global integration is in the interest of every national economy. Not only the large and small economies, but also the developed and less developed countries achieve benefits out of that. Everyone has an interest to sell more dearly, and to purchase more cheaply, not only at the domestic, but at the foreign markets as well, using at the same time the effect of the volume of production achieved through the functioning of external markets, including also the positive competing pressure for reconstruction of the national economies, and for their rational incorporation in the international division of labour. At the same time, it has to be calculated also on certain adverse influences upon the national economies, and they should not be a reason for taking measures which disrupt the process of global integration.

The realization of potential benefits depends directly upon the reformation of the permanent international economic order. Its persistence in this form does not create a margin for improving the global integration processes. On the contrary, it generates disintegration processes and sharpening of the relations between the national economies. Such consequences can be overcome by creating a global currency, instead by the functioning of several national currencies as world money. For the realization of the rational international division of labour, it is necessary the return of fixed, but flexible exchange rates within the inter-currency relations in the world. The fluctuating rates are good only if they are relatively stable, and not when they fluctuate at high rates.

Key words: global integration, global currency, rational international division of labour, global imbalance, protectionist measures, competing devaluations

Introduction

Within the frequent opposing views on the effects of the processes of global economic integration, there is high agreement on the need for their further free processing. Despite the problems manifested in the period of forced globalization (after the disintegration of the state –

planned systems of the economy), which have ended in a financial and economic crisis being the biggest one after World War II, it is almost nowhere to be brought into question the need for globalization. However, more and more notable are the suggestions and requirements for change of the circumstances into which it takes place. Therefore, it is not the point if the globalization is necessary, but the question is what globalization the modern world needs.

The former processes of global economic integration showed several weaknesses, which are related casually and consecutively. It is most serious the rush into global financial and economic crisis. One of the other weaknesses bearing a great specific burden is the increase in inequality in the individual national economies and between them. That contributes to dissatisfaction with the distribution of benefits of the opportunity for free movement of the goods and services, of capital and labour power out of the borders of the national economies. Within the framework of the former conditions for globalization, there have been generated internal imbalances in the developed economies, which have also generated global imbalances manifested in the occurrence of countries having permanent deficits and countries with permanent surpluses of the current accounts of their balance of payments. That led to straining of the relations between deficient countries such as the USA, and the surplus China in relation to the reasons for such a situation. There have also emerged warnings of dangers of waging currency wars by issuing competing devaluations. It has become more frequent the use of protective measures towards separate parts of the national economies. Fortunately, that was not exaggerated, but we have already been witnesses to the taking of protectionist measures, as opposed to the need for further liberalization of the courses of production factors.

The main reason for the weaknesses lies in the inconsistent international monetary system (IMS), which enthroned itself after the collapse of the Bretton Woods system in 1971, when the USA abolished the convertibility of the dollar into gold and moved on to a system of floating exchange rate of the dollar. Thus IMS has formally transformed itself from a system of gold currency standard into a dollar standard system, as a result of what there has been opened an opportunity for the national currency of one country to play a key role in the international payments. The practice, other national or regional currencies (yen, euro) to start occurring in such a role, does not change the essence of the transformation into which the role of the global currency is being undertaken by separate national currencies. That role is being reflected upon the functioning of the national economies whose currencies have an international function also upon the development of the international economic relations, particularly upon the processes of global integration. They get a contradictory function. On the one hand, they have to take into account the internal stability of the country, expressed through the stability of the prices and the currency rate, and on the other hand, to take care not to endanger the international liquidity. Given the fact that the care for the international liquidity can be performed only by an increase in the deficit of the current account, the national economies, whose currencies perform an international function regardless of the perquisites rising out of it (an interest-free credit from abroad), are also exposed to an instability as a result of the international considerations. If they care for the international liquidity conscientiously, they expose themselves to an increase in inflation and deficits, and if they cannot afford themselves such a development, then they are bringing to question the international liquidity.

Within the period of forced globalization, when in a great number of countries, there was established liberalization not only in the current but also in the capital transactions the international liquidity was not a subject of remarks. This means that the countries, whose currencies perform an international function, led a relaxed monetary and fiscal policy, but accompanied by consequences which have brought to an outbreak of national crises, being manifested soon as a global financial and economic crisis. Who knows for what time, it has been shown that the reliance on economic privileges, does not have a great achievement. Sooner or later, the privileges have to be corrected, be that due to internal or to external considerations or due to both of them simultaneously. The privileged, by all means, want to extend the time during which they are exercising the benefits of the privileged position, but, when, because of that position there are being strained the relations between the world leading economies and are being endangered the processes of global integration, it is high time to establish institutions and rules as a result of which there will be overcome the contradictory decisions and will be opened a way for a further promotion of the necessary and inevitable processes of globalization. In this context, it is essential to approach the establishment of global currency, contrary to the national ones in such a function. Thus, there will be evaded the adverse effects on the national economies and the further generation of new global crises.

Hindrances to further global integration

Among the hindrances standing on the way to further global integration, there are also the difficulties in overcoming the consequences of the crisis and the manner in which the developed countries try to secure the return of the pre-crisis rates of growth, employment and stability. Being preoccupied with the idea of coming down the unemployment rate to a pre-crisis level, the federal reserve of the USA have come to pumping up huge amounts of dollars in order to boost the demand; they have reduced the interest rate to a very low level in order to boost the investment activity, and they have registered high budget deficits and growth of the public debt. However, despite that, the recovery of the economy does not occur at the expected pace and the unemployment rate has not been reduced to 6.5% yet, when there has to be stopped the implementation of a relaxed monetary policy. After a long hesitation in overcoming the debt crisis, the countries of the euro zone have approached slightly different, but with the same arsenal. With some recent delay, in a similar way, it has joined Japan in overcoming the deflationary pressures in the economy. Irrespective of whether the expected effects will be achieved, in the other countries it has been refueled the fear of increase in inflation and the consequences it may cause, especially in the inter-currency relations in the world. The countries in boom have already warned about the danger of waging currency war for achieving a competing advantage at the global market. That, certainly, is not in function of advancing the process of global integration. The successful evasion of this danger up to now, however, does not mean that there are no reactions to the high oscillations of the exchange rates performing an international role. There are no massive corrections, but, there are individual ones. However, it is more often resorted to taking measures for protection of individual products or sectors in the national economies, either by stimulating performance of the foreign markets or by protecting the domestic market from a foreign competition. This has the same meaning as the change of rate, just that the effects do not refer to all subjects, but only to those that the measures are referring to. It is fortunate that these measures are not applied to a larger extent and in many countries, but there are already so many that it is rightly to point to the danger of intensifying the protectionism, as a practice opposite to globalization, but if the protectionist measures are boosted, it can be opened a process of de-globalization.

During the crisis, there were applied different measures, endangering the achieved level of liberalization. To mention only a few used by the countries worldwide:

- import restrictions by increasing the tariffs or reducing the quotes of import and other measures for protection of domestic industries, including even propaganda, for instance, campaigns for purchasing domestic products – Purchase American, Spanish, French, Croatian (there was also purchase Macedonian);

- subsidizing in order to support the domestic industries, particularly the motor industry, with the object of preventing the growth of unemployment, but thus the foreign companies are harmed;

- emergence of financial protectionism by giving priority to the funding of domestic businesses and individuals. Thus there have been brought in difficulties numerous industries and campaigns which during the process of financial globalization have adapted themselves to the situation in which they had an opportunity to receive loans and investment funds from everywhere and at any time. As a result of this, it has been stopped the motor of globalization, particularly by the unexpected withdrawal of funds from the foreign banks; the public assistance is conditioned by not shutting down the domestic factories on the account of specific capacities abroad;

- erecting higher barriers in order to prevent the inflow of workers from other countries (protests about the commitment of foreign staff); when giving somebody the sack, first to be in the line of fire are the foreign workers, and the filling is carried out within the framework of the domestic labour market;

There is no doubt that the most of these measures are of the arsenal of the policy of impoverishing the neighbours. And as Noriko says, it is contagious. "If a country starts to block the import, it is certain that the others would pay in kind. If a country demands the money to be withheld at home, the others would follow it."[1]

The awareness that the ideology of impoverishing the neighbours surely leads to self-destruction, obviosly, considering the comportment up to now, does not prevent the wealthiest from encroaching upon some of the mentioned measures. This is explained away by the urgency of the situation, with the purpose of preventing the situations of individual countries from worsening. It is forgotten, however, that the economic nationalism, in principle, cannot justify itself even by the urgency, particularly not at the achieved level of globalization. An assumption for its successful accomplishment is the permanent reduction of the economic nationalism, and not its return. A complex drafted project of globalization would not permit this. The abandoned Bretton Woods system had a consequent regulation, but it did not create conditions for the less developed economies to qualify themselves for establishing convertibility of the national currencies, as a result of which there would be created conditions for multilateralism of payments, as a basis for the free functioning of the processes of global integration.

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[1]Hama Noriko: Reversing the Slide into Protectionism, Japan Echo, August 2009, page 30.

It is well known from theory, and the practice clearly showed that the floating currency rates with large oscillations are unfavourable for continuing the processes of global integration, particularly in conditions when the gold currency standard has been abandoned and it has been changed into a dollar standard.

The currency tensions between the USA and China, before the crisis and after it, have shown clearly that the floating rates are not an alternative for the fixed ones in the promotion of the international collaboration, but they are an expression of the need of the country whose currency performs an international function. However, out of the reasons for the crisis and the difficulties to be overcome, it follows that there are being exhausted the possibilities for using the floating rates in the inter-currency relations in the world, in the further promotion of the process of globalization. Except with force, they cannot be applied anymore in a direction for the others to adapt themselves with the appreciation of the value of their own currencies. It is a fact that in conditions of floating rates, the national economies are quite relaxed in the conduct of economic policy, particularly in the developed countries whose currencies have an international role. The international economic relations and the level of economic globalization are already at such a degree that they inevitably look for an international monetary system with world currency, in which the national currencies will determine their parities, and their maintenance or non-maintenance will depend only on the successfulness or failure of the macroeconomic policy of the countries.

The adaptability of the needs of the leading currency is not only unjustifiable, but it is also objectively impossible to be realized if it comes to crossing of the interests and a third currency. That has happened during the crisis of the euro, which due to the internal problems in the euro zone, has depreciated to such an extent (from 1.50 to 1.22 dollars for euro for several months), which has brought to meaninglessness the intention of the USA to force appreciation of the Chinese yuan in relation to the dollar, given the fact that with such a development of the events, it is considerably reduced the attraction of the Chinese export at the markets of the euro zone and it is delayed its economic growth.

The importance of the global currency for promotion of the rational international labour division

It has showed up till now, but it will come to the fore in future even more that the national currencies performing the function of world money are the key hindrance to the intensification of the processes of integration in the global economy, and the creation of the global currency is the essential prerequisite for overcoming the danger of further strengthening of the forces of de-globalization. It is more and more evident that the process of globalization cannot proceed successfully without creating a market - consequential international monetary system i.e. a system with a global currency. The system of national currencies in the function of world money has exhausted not only the potentials for generating a global growth (although with asymmetrical effects), but it has also demonstrated counter-productive effects, even for the country which implements certain privileges of the international role of its own currency.[2]

There should not be ignored the facts accoring to which the monetary systems based on debts are internally instable and generate external imbalances and protectionism, and not multilateralism and global integration.

It becomes increasingly obvious that the problems of the global economy can be solved only if there is an efficient international monetary cooperation, but in order to be efficient, it has to be based on a global currency. That is an essential assumption for re-establishing the objective economic criteria upon which it will be made a rational international division of labour on a world scale and it will continue the integration of national economies into the global, world economy. It is clear that the world, in spite of the increased integration, is still far from a global economy that would function with a single world currency. However, it is more and more apparent that even the further global integration is impossible without a global currency of the type of commodity money in which the national currencies would determine their value and would maintain the stability of the parity.

Although it is difficult to talk about "if wishes were horses, beggars would ride", there is no doubt that the functioning of the global currency of the type of Keynes's bancor:

- would rid the world of the monetary crises in which several national currencies are taking part,

- the inflation would be, above all, a national problem, and the national problems would not be treated as world ones more than their specific seriousness in the world,

- there would not be so large disagreements about the development in order to agree on the balance between individual countries, with requests and changes of their national strategies of development,

- there would be no fear what one country can do with its own currency because the consequences resulting out of the attitude of the establishment towards it would be borne by the subjects of the country, and they would punish them if they lead inefficient and irresponsible economic policy,

- it would be forced greater effectiveness out of the export-oriented businesses and there would be encouraged the foreign direct investments upon the market criteria, by using some of the production factors (particularly the labour power) under more favourable conditions than in their countries in order to achieve their profitable goals.

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[2]The Nobelist Stiglitz is among the few well-known in America for whom the current system is not only bad for the world, but it is also bad for the Americans. In such a context he says: „Like it or not, out of the ashes of this debacle it is possible to rise a new and more stable system of global reserve, and that would be a good thing about the world on the whole, and about the U.S as well. That would lead up to a more stable world financial system and a more powerful global economic growth"[2] (Joseph E. Stiglitz: New World Monetary System Inevitable (www.ajc.com/opinion).

For successful functioning of the international economic order, it is necessary to obey the minimum principle for continuing the processes of globalization – not to take measures for imposing one's own problems on the other countries, because the reverse acting is a characteristic of protectionism. It is paradoxical the fact that the country, which more than a half century bears the label of liberalism, needs such measures as well. That is just a sign that the international monetary system has to change itself fundamentally in such a direction that the benefits of globalization are equally available for all countries, on the basis of the growth of labour productivity. That is the cornerstone of the subsequent globalization.

The struggle for increasing the productivity is inherent in the market business conditions both in the limits of the national economies and in the relations between them. At the same time, a key assumption, apart from liberalization, is also the maintenance of the determined currency parities, as a criterion for achieving a more effective international division of labour. In this context, the floating rates with large oscillations only deform the scale of prices. This is so if it is made in order to be brought into accord with the currency standard, with the dollar, the euro, yen…, especially in a direction of appreciating a specific national currency. There can be even understood the reasons for depreciating the national currency if the country cannot economically deal with the internal instability. However, it is quite unacceptable to force appreciation of the value in order to adjust the needs of other countries (only because they are economically more powerful), because it violates the price relations in the country, particularly the calculations of the export-oriented subjects and it influences them depressingly. There is no doubt that the globalization cannot continue to generate benefits if the economic subjects in the countries or the national economies in the world economy are under the influence of frequent changes of the exchange rate of national currency, be that of internal or external influences.

It has been shown that the one-time mechanism does not lead permanently to promotion of the processes of globalization. Its achievement is limited, even when its functioning is supported by the international financial institutions. It is a fact that only the country whose currency has an international role, using the privileged position, can lead a monetary and fiscal policy of expansion and thus mitigate the internal inconsistencies. However, that comportment sharpens the relations with the other countries, particularly with those that lead an internal stabilizing policy, and they have fixed the parity of their own currency in dollars (well, the dollar is a standard, isn't it?). While the other countries were appreciating their own currencies in relation to the dollar, freely or not, the system was functioning. However, a problem came out when China objected to it quite properly, taking care of its own interests.

Only those who do not want do not see that the destiny of the ongoing processes of economic globalization depends on the creation of not national global currency. Therefore, it is pointed out with reason that if the globalization continues to be carried out in a way as before, and if we continue not to learn from our mistakes, the globalization will not only succeed in supporting the development, but it will also continue to cause poverty and instability. Without any reforms, the sharp regress that has already begun will increase, and the dissatisfaction with globalization will raise itself. [3]

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[3] Peter Isard: Globalization and the International Financial System, What's Wrong and What Can Be Done, Cambridge, 2004, page 184.

Conclusion

The prospects of the processes of global economic integration are in direct dependence upon the reformation of the permanent international monetary system in which the paper national currencies of the developed economies perform a function of world money. The reasons for the crisis breakout and the difficulties in overcoming its consequences refer to this as well. Its persistence in this form does not create a space for promotion of the global integration processes. On the contrary, it generates disintegration processes and sharpens the relations between the national economies.

There are enough beliefs that the processes of global economic integration can be continued by the one-time practice. That is true, both for the national and world economy, but with much smaller efficiency and more uncertain integration benefits. By the continuation of the one-time practice, there will be continued the tendencies of the income inequality in some individual national economies and between them too, and that is a basis for strengthening the state intervention within the national economies, including protectionist measures in the relations between them as well. Their growth endangers fundamentally the process of economic globalization. That's why the further global integration is impossible without a global currency of the type of commodity money in which the national currencies would determine their value and would maintain the stability of the parity. With such a solution, it will be evaded the national economic problems to be treated as world ones, and each economy would depend on the improvement of the qualitative factors of business and on its rational inclusion in the international division of labour.

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