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Crisis, Globalisation, Global Currency

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Abstract

Considering globalisation a societal reforming towards a single governing model as the best one ever experienced by the world, we see that globalisation still has a long way to go, on one hand, for sharing the same values (we are now facing severe setbacks – the Ukrainian crisis) and, on the other hand, for full globalisation, it should rebalance on a strong basis four factors, not three (Franz Fischler), i.e. economy, environment, social responsibilities and *quality of life*. The last factor is related to inequality, which concerns all the people who see the wrong way of globalisation as regards Man and his *fate*. In our essay (*Towards a global currency,* 2012-2014, 3 volumes, Expert Publishing House, Bucharest) the global currency is first considered a major political project for a sound globalisation and, second, as an instrument of new human relationship, dominated by more morality.

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1. Introduction

The euro experience teaches us some lessons: (i) euro was a creation of the human spirit, for a clearly defined purpose, *i.e.* keeping together for the time being only few countries (for historical reasons, to be later globally expanded), and (ii) euro was based on *the essence of a strong political will.* We should note how worth is the human spirit embedded in a currency in order to benefit the worldly life. In other words, euro intended, but failed for worldly reasons, *to substantiate economic performance and equally serve the duality of the human being* – spirit and body. The paper is a synthesis of the essay called *Towards a global currency* (2012-2014) as part of a priority

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Reality provides us with a truth hardly contestable. Globalisation either takes place against a background of deviation from fundamental values or is considered as a remedy to such deviation.

"The happy opportunity" that we live and even be mentally involved in the most profound crisis of the world, conventionally called financial crisis, provided us with support for taking action to produce a global currency. At this point of our paper, we have to make two comments.

The first comment is that – trying to *hide behind* a financial crisis, a phrase which economically expresses the severest danger of the system we live in – the entire mankind saw much more than overnight exhaustion of money resources expressed in many zeros. When we talk about the exhaustion of the mythical value of money, we surely link this to the ridiculous aspect of the human values, along with the removal of many zeros from a figure of significance. Behind the crisis, we also see the ugly face of human behaviours of good or wrong intentions, which caused, on another plane than that of *homo homini lupus est,* that Man "killed" the people's trust.

The second comment is that globalisation is at an initial point, therefore we witness a still changing process, to which we can only attach a purpose inspired by the word "globalisation". In this respect, a purpose we try to meet by globalisation is probably a phenomenon which either *will bring us (again) together around something (so far inconsistent) or we shall never exist.* Evoking this purpose is not our original viewpoint, but we try to place it in our work, *i.e.* global currency, which might be the focus of a wiser mankind; first as a value pillar of a new human relationship and then, maybe, as a real circulating currency.

Talking about currencies and exchange rates, we associate currency to a synthesis of the performance of the issuing economy, the latter being measured by conventional indicators, created by people. These indicators, which we call *fundamental factors* of an exchange rate, are originally the expression of the relationship between physical/financial capital and human capital. But this relationship is determined not only by the economic model, but also by the relation between state and market, *i.e.* between two categories of people, each of them using and understanding distinctly to some extent the freedom inspired by unique values.

The financial crisis significantly reflected this increasingly diverging difference, and experts understood that the way of thinking about the return on capital and the fierce competition, based on this criterion (profit), human behaviour deviated from fundamental values, which caused mistrust. If we try to theoretize mistrust, we may say that it occurs among people sharing different values, and since we have come to this differentiation we have to recognize that, in accordance with the western model, an order of the traditional values changes in front of our eyes, under the influence of something in other order of values not easily accepted. If we recall the documented comments on *the transformation of individual vices into public virtues*, so that we recognize that these new virtues could be the normal way, we also have an answer to *the guilt of the political class,* as a devised direction of the evolution of the society.

On the other hand, we see that globalisation not only revealed this fact, but through contamination channels opened by increasing interdependence between states and individuals, showed that this kind of danger does exist, is understood and must be stopped. Globalisation, as we try to understand it now, was triggered by departure from values, even if it was intended to generalize a model based on western values shared by as many people as possible, beginning with the states and further the formation of individuals. Then the question is whether the model, at some evolution stage, produces a globalisation of inequality and indifference instead of a globalisation of unification, which we hope to achieve.

A globalisation of inequality and indifference makes people depart from values, either by will (it is allowed by freedom), or by failure (in poverty they can't maintain their spirit). What those who make abusive use of freedoms produce has as an effect what those who were forbidden the space of freedoms naturally (not to say insidiously) cannot do.

This thesis can be supported by two judgements converging to the idea of the philosopher Omraam Mikhaël Ad'vanhov: "Rather than consulting books, the pendulum, the coffee, the crystal ball, etc. most people should open their eyes to the visible world, which shows so many undisputable indications. And when they face difficult problems, they should remember that this Heaven gave them eyes to see, ears to hear, brains to think and come to conclusions … " This is what we idealistically tried to do through this paper on a possible global currency.

Considering the economic arguments, one is provided by Thomas Piketty, an influent French economist, who presents for academic discussion **inequality globalisation,** caused by the very "fundamental law of capitalism". We leave aside any conjecture of ideological compliance and influence of the political space in which Piketty conducted his research and try to present our own interpretation of results. Piketty documents his opinion by an economic survey expanded over a 300 year historical period, including 20 countries. He proves that economic inequality does not diminish equally by economic growth and by increasing use of human capital (what led to the first industrial revolution), a thesis still supported even today. On the contrary, he warns us that economic inequality is a feature unseparable from the essence of capitalism; its effects consist in *breaking social compact*[†] and will continue in the 21st century unless we reject the supermema of development as we understand and support it at present.

By including 21st century data in the analysis, Piketty reveals an undisputable truth: the pace of economic growth and labour productivity was remarkable, producing a significant rise in wage earning and collected wealth, the latter not being any longer an inheritance handed down from one generation to another. But the dispersion of incomes and wealth, even influenced by inflationary erosion, still shows increasing economic inequality with a social impact, because the rate of return was always historically higher that the growth rate of incomes earned by the labour force based on economic growth and labour productivity. This decorrelation is in fact the fundamental law of capitalism, which explains the historical dynamic difference between incomes from capital and incomes from labour. It seems that the financial economy, closer linked to the financial form of the capital, even stimulated that decorrelation, as the returns could not be explained from a purely economic viewpoint.

Another argument is provided by Murray N. Rothbart[‡], a supporter of the Libertarian School and a 20th century continuator of Carl Menger's ideas, defined in the last third of the 19th century. Focusing on the *spontaneous nature of the market processes* – to us it is the spontaneity of the human nature reasoning within interhuman relationships – Rothbart considers that the serious problems of the 20th century economic system are caused by state's intervention; specifically by means of the central banks and their specific instrument – the currency, either dollar, sterling pound or yen.

The fundamental question how to keep within the model – the best performing one as regards the allocation of resources – both values of the worldly life, given us by *the pure spirit* (we are created by God, so we can improve by knowledge), and the value of the most synthetical human relationship – moral and material (economic) –, the currency.

Could we depart from the currency utility beyond what is moral to most of our fellow people or is it moral not to care about this majority? Maybe, many tried and still are trying to link the currency to something stable in value, unfortunately also material (for example, the gold standard).

But it seems that the confidence only in the matter (gold, gold-covered banknote, then fractionary reserves, value multiplier, etc.) to which something ineffable was conferred is no longer enough when the same currency has divergent effects on people's lives, resulting in worsening inequity.

The US statistics containing data from income tax statements over the 2009-2012 period reveal that during the financial crisis peak, the incomes of the 1% top people, *i.e.* the richest Americans, increased by 31.4%, while the incomes earned the other 99% increased by only 0.4%. Therefore, the 1% rich "captured" 95% of the income earnings. These statistics determined the *Occupy Wall Street* Movement, and Piketty says it turns us back in time to the Gilded Age, which – according to *Webster's New World* – it is *the American History of the 1870's, characterized by political corruption, financial speculations and a luxurious life for industrialists and financiers.*

We can easily see the resemblance to our times, even if George Soros, in *The Tragedy of the European Union,* writes that the banking sector is *a parasite* that hinders economic recovery, just as its *inappropriate* relationship with regulators became a hazard to the stability of the global financial system. Soros again says that the European Union faces a long-lasting stagnation, which Japan desperately tries to avoid, the cause being not the deflation of our days, but the *Eurozone design*, having a well-known fatal defect. The ECB, the euro issuing bank, does not have *a common treasury* and, therefore, *the government expenditures are expressed in a currency which no member state can control alone.*

Soros thinks that *the absence of suitable global governance* is another major problem to the world, which moves important items away from a real action agenda regarding the world as a whole (energy, climate changes, human catastrophes, etc.) from any solution and always postponed, while worsening to a limit where control is impossible.

The *small expectations* for a positively globalized world, *i.e.* the uniqueness of the belief in moral values guiding everybody's behaviour irrespective of institutional ranking (also a human creation) are seriously affected by our way

[†] "Income inequality will worsen in the 21st century", The Oxford Analytica Daily Brief, 24th February, 2014.
[‡] Murray N. Rothbart (1925-1995), an American heterodox economist.

towords a *secretiveness*, which makes man's action less transparent, by hiding the truth. There are many people saying that the financial crisis was managed behind heavy curtains unpenetrable for the ordinary citizen (while most people suffered). In this respect, there are many comments on the secret correspondence and decisions taken under pressure (*e.g.,* the ECB letter of November 2010 to the Irish Ministry of Finance, not disclosed so far), which had direct impact on the life of many citizens and of their families, without being aware of what could happen to them. This top level behaviour can easily make us think at least of the years before World War II and its consequences for millions of people.

Not only in the political area there is opacity, but also in the Central Banks' policy, by differentiated approaches to monetary policy, even in conditions of prospective guiding. This kind of divergence, as specialists say, is about to affect global stability as long as it is not balanced by suitable economic policies assured by governments. Again we are in a situation when the *sovereign ruler* needs now more money than ever, which is about to distort even the monetary mathematics, supporting the credibility of many currencies, some of them being important as international reserves.

Another worrying aspect is the attack against the independence of the Central Banks. The risk of hindering their independence consists in forcing them to assume more objectives than the instruments they can use; Christoph S. Weber and Benedikt Forsher[§] write that taking on the direct financing of government debts (saving euro), following Mario Draghi's words that we shall do "whatever it takes" or stimulating directly economic growth cannot support the Governments' economic policies. Losing bank independence leads to political voluntarism on behalf of the governments and implicitly causes deviation from values, which is a characteristic of this governance area.

We expected that the meeting of the ministers of finance and the governors of central banks, held in Sidney (February 22-23, 2014) would produce a statement beyond technicism and similar expectations that would never come true. Similarly to what happened in 2008, even now they are unable to solve problems repeatedly included in statements such as "ending too-big-to fail, shadow banking risks" or "making derivatives market safer, etc." Actually, all of them seem to be *incestuous affairs* (Soros) or *corrupt ones* between governments and big stakeholders to carry on exactly what caused the last crisis from a technical and behavioural viewpoint.

Mankind seems to be at the limit of an option, which means assuming a great political project to prevent what Robert D. Kaplan, an American journalist, called "The Coming Anarchy" (*The Atlantic Monthly,* February, 1994). Although at that time Kaplan referred to the scarcity of resources, overpopulation, crimes, tribalism, diseases, etc., he predicted that weak governance *supplied* by underdevelopment of the civil society on a global scale *was about to destroy the social texture of the planet.* We see here – and agree with him – that on a global scale, the civil society (in the best sense of the education for a western model) is either restricted or diverted, which influences the political outcome.

Also, what we see is the lack of leaders and statesmen able to detect in depth *the great transformation*, such as ending imperialism of any kind after the disappearance of dreaded people (dictators), of weak statal entities and institutions unable to follow the western model, but eager to stimulate religious doctrine battles and the worse side of the communication technology. Besides weak decision-makers, all of them could explain the feebleness of the civil society on a global scale and, implicitly, the quality of globalisation as a process at an early stage.

If we consider globalisation as a societal reform for a unique model of government, the best one experienced by mankind, able to serve a large population, then we find out that globalisation still has a long way ahead.

That is why we consider what *we do not know – i.e.* if a global currency actually stabilizes the disorder of this world, which troubles people (the financial crisis being only an episode of that) – and *what we already know* from ancient history (from the establishment of the Bank of England) and the recent history of the currency, that it plays a geopolitical role usually by aggression that it was an instrument of *agreement* through the international order after 1944 (including the monetary system) that currency was always an engine of transitions. We also know that when the global currency follows strictly the directions of the monetary policy to the present (without rejecting the quantitative theory of currency, of dynamic economic equilibrium, of the optimum currency zone or of perfect competition), then the example of the euro cannot be a solution to disorder.

Therefore, the political project of a global currency shall evolve from a mere economic plan to a societal one, comprising all relations and needs of the social component, from economics to political economy and global

[§] Christoph S. Weber and Benedikt Forsher, "Independence at Risk?", *Intereconomics*, no.1, 2014.

diplomacy, turning the currency into an instrument to support and not to impose policies.

One should note that in our paper we focused on a certain area and certain issuers of reserve currency, as the European civilisation model is, in our opinion, followed by a globalisation and continues to inspire people. Moreover, its *fate* (see the effects of the crisis and its continuation in Europe, while other countries have recovered) concerns the people, and the euro crisis causing euro disappearance aroused fear all around the world. In our opinion it was also a crisis of the policy makers, which further caused a crisis of the public policies, and the effect on the real economy was the Eurozone crisis.

The crisis of the policy makers revealed the inability to observe written laws – treaties – and their proper management, the first step being the political will *plasticizing*, resulting in decisions lacking in the vision of the founders of the European Project. Laying the stress on regulation, as a way to prevent risks and vulnerabilities caused some chaos in the European construction, as regulation is a product of mind (already diverted by the revival of economic nationalism and the interest in power) with an emotional and subjective character.

The effects of regulation are the outcome of man's behaviour always questionable as regards adequate implementation, while the paradigm of economic profitability – profit, bankability, etc. – did not change.

What impresses us is that the way regulation evolves causes a rivalry between market and regulator, which is going to destroy a myth or the belief that the market functioning allocates resources efficiently. For example, the Eurozone crisis led to subjective regulations, not uniformly enforced, and – the worst – based on hegemony. We should remember that Angela Merkel said that *the weak should enforce rules on the strong!;* but this may be valid for normal times, if we take into account the failure of the austerity programmes of "hegemonical" inspiration, which turned the weak in the Eurozone into sales markets even better for German goods in the absence of own development resources.

The sense of the regulation (this time not only in the EU) causes even more evil, that of the relativity of some concepts refined for decades such as capital account liberalisation, strict mandate of the Central Banks (FED, ECB, Bank of England), their instruments, their independence (*Abeconomics*), ban on monetary financing of fiscal deficits, etc.; finally all of them cause more lack of confidence between the market actors, and human relationships on a platform represented by market.

Not the least, excessive regulation makes public policies – especially the monetary one following the take-over of part of the government's mandate by the Central Banks – more aggressive, without a precedent of overcoming them.

Central Banks were pushed to stimulate entrepreneurship not by the cost of money (if we talk about effective allocation of resources to the market), but by the liquidity trap. At the highest point of supporting financial stability, the liquidity trap undermines it and a new concept is developed: *macroprudentiality*, a future uncertain co-working ground, by sacrificing other economic principles, between a government of political origin with present vices and the central bank supposed to be politically independent.

A possible global currency cannot follow the euro pattern, as the single currency could not be accomplished even from the monetary mathematics viewpoint and it lacked the fiscal pillar. The future of the euro is linked to *a type of federalisation,* invoked only in hard times, but in which nothing was invested for the consistent education of the citizen in the last decades. The transfer of parts of sovereignty was known only by decision-makers. The European citizens, trapped educationally by the principles of the Westphalia Peace, see only the illegitimacy of the European Commission and, therefore, respond as such, *i.e.* request *more nationalism* from the state governance. The cooperation within the EU is replaced with the new economic nationalism, as it ensures the perpetuation of the power.

We should feel free to support an ideal stemming from belief in the existence of symmetry and a rational historical course. But we are before a *trial* that needs more understanding and a *reality* full of constraining details requiring solutions. Our freedom has become a linkage within a project the future of which depends on what happens now.

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