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GLOBALISATION PROCESS AND PROBLEMS OF COMMON WORLD CURRENCY

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Abstract

Globalisation, as a unification process of politics, economy and culture on the planet, involves the alignment of several national monetary systems. The term «world money», put forward by British economist James Steuart, was accepted by late mercantilists as part of economic theory. At that time the world money was interpreted as physical commodity gold. This understanding remained unchanged until the final quarter of the 20th century. Only after gold backing was disrupted for dollars in the 70s of the 20th century, gold ceased to fulfill this function. Consequently, there were considerable changes in the world of monetary circulation. However, the essence of those changes has become a debatable topic for theorists. In particular, it is still not clear what the substance of money is nowadays. Is it feasible for a dollar without gold backing to continue functioning as world money? Will its place, as a leader of currency circulation, soon be refilled? In 2008, the emergence of so-called cryptocurrencies, in general, quickly rising in popularity bitcoin, has further clouded the issue. The world financial crisis of 2008-2009 demonstrated that this topic not only is relevant as part of theoretical debate, but represents a problem, requiring a viable practical solution. This article argues that the world now witnesses the arrival of a new form of value - «world money», called upon to become a universal equivalent of currency circulation. Another point is that the dollar is hardly the winner, it is just a temporary leader of the current monetary race.

Keywords: Globalisation, monetary circulation, world money, currency.

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1. Introduction

Research of any forms of currency circulation can only be carried out within three existing paradigms of the money origin: rational, evolutionary and state. All of them define the nature of money in a different way. From the rational point of view, money as a social institute was created for more efficient exchange. It is possible to state that it represents another concept of social contract. Or, as the same idea was expressed by Nobel Prize winner in economics Samuelson (1995): “Money is an artificial social convention” (p. 112).

In terms of evolutionary theory, money emerges as a result of natural historic processes in the development of barter exchange. This viewpoint, formulated by classical political economists, still dominates the academic world. Finally, the state theory claims that the status of money can be assigned to various auxilliary exchange tools exclusively by the state. According to the author of this theory, - German economist Knapp (1913):

> *Money is always related with a certain state, and if there are states which make agreements with neighbouring countries with the aim to make the existing kinds of money common, then these states are no longer independent; in this case, as a result of the signed contracts, bigger entities are formed which ought to be treated as a whole.* (p. 221)

Each of those theories reflects the nature of money circulation in its own way. And, though proponents of different paradigms are inclined to highlight their distinction rather than similarity, it is still possible to notice that, for instance, the evolutionary theory, as it develops, rationalises exchange relation even without conscious participation of parties. Also, the state itself has acquired the monopoly on money printing as part of its developmental process. At least, the history of money circulation in Europe, China or Russia shows that initially states-people as well as feudal lords had this right. Moreover, banknotes, historically, were printed by both state banks and private ones.

Nevertheless, most of contemporary financial processes, such as the emergence of cryptocurrency, are treated differently by various theories of money. Within the state theory, for example, it is obvious that even the most popular among cryptocurrencies - bitcoin - is merely seen as quasi-money. Yet the proponents of the rational theory believe that: “Now the bitcoin can be considered as full-bodied money, though in a very narrow segment”. And this contradicts the following: “The evolutionary theory of money, when it concerns the idea that any object has to obtain the market value before becoming money, has ceased to be consistent with facts” (Vlasov, 2012, p. 18).

2. Problem Statement

Unsurprisingly, such different theories of money produce very different interpretations when it comes to the problem of the dollar, functioning as world currency. The advocates of the state theory claim that even without its gold support the dollar retains its legitimacy, being the authorized representative of the American nation. The rational point of view also accepts the established practice of the «dollar Gulf Stream», bordering the continents of the Earth. It is regarded as a new type of social institute, legalising the

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economic order where, as noted by the French sociologist Todd (2004), "...the economic role of the United States - is not to produce goods, as other countries, but make currency" (p. 104). But even though this order has emerged as part of evolution, it still contradicts the fundamental premise of the evolutionary theory of money that the counter-flows - of goods and money - ought to be equivalent. Naturally, it is hardly surprising that some country can give more money than goods to other countries. It only means that it has excess money at this moment. However, if, as is the case with America, it occurs all the time while money seems to be unending, then the evolutionary theory treats that as unnatural.

That leads to the question which of the existing theories describes with more precision the current state of affairs with the common world money, and whether the «dollar Gulf Stream» will be able to warm the planet in the 21st century.

3. Research Questions

It follows from all the above said that the topic of this article is just one side of globalisation, - the process of establishing the common world money.

4. Purpose of the Study

This work is aimed at the theoretical analysis of causes and conditions for the emergence of common world money as well as the expert assessment of whether or not it is feasible for the American dollar to remain this world money.

5. Research Methods

In order to achieve the above stated goals this article applies the logical and comparative-historical methods.

6. Findings

Every year the world economy becomes more and more global. "Since 1986 over 350 new trade agreements have been made, registered by WTO..." (Baier, Yotov, & Zylkin, 2019, p. 182). And behind every interstate agreement there are national currencies, involved in the world circulation. Right now "Everyday circulation of currencies exceeds 5 trillion dollars, and this amount is rapidly growing" (Ivanenko, 2015, p. 43).

Nevertheless, it would be a mistake to narrow down to quantity indicators when characterising the global processes, running in the economy and, in particular, in monetary circulation. Which is precisely the case with mathematical models that are, as a rule, applied in economic theory. These models produce decent forecasts of extrapolated changes. Yet they are not able to describe the quality of anticipated results in the future. That is the reason for skepticism of Alexandrova and Northcott (2013), who say "economic models can satisfy our feelings, but cannot provide explanations" (p. 65). At least at the moment, there are no mathematical models that could define the future world currency.

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That is why, when trying to predict the potential development of currency circulation, we ought to account for not just the fact that money is the most easily modified element of economic systems. But, also, the fact that these changes can bring quality transformations. To say the least, all the past history of money and financial institutes confirms that. For instance, at first, banks used to serve as mere strong boxes for keeping money safe. According to Simonde de Sismondi (1937),

> *Amsterdam bank, founded in 1609, continued at least until 1672 to adhere to its obligations and kept intact in its chests enormous deposits that were entrusted to it. When facing the rapid advance of Louis XIV, all the depositors demanded simultaneously to withdraw their money, the bank could easily fulfil that.* (p. 150)

Certainly, no bank nowadays can repeat this operation.

The question is why it is so. The answer is that banks added to the original function of «safe storage» the function of money-lenders (the question why they did not lend money before, and to what extent the church prevented the emergence of this service until the advent of commercial capitalism represents another topic which digresses from the current issue). Since the cases like the above mentioned mass withdrawal occurred rarely, banks started taking risks and provide loans to customers which exceeded not only the deposits of the clients , but their own equity funds. As a result of that, a nobleman, leaving in a bank "a bag with a hundred florins" "... still owned his hundred florins; the bank had a hundred florins in its books. A merchant, borrowing florins, became richer, and the man with a bill also had a hundred florins. Although there were only one hundred florins involved, the magic of bank deposits and loans transformed it into several hundreds florins..." (Weatherford, 2001, p. 98).

This is how the phenomenon emerged which later was called by K. Marx «fictitious capital». According to Marx (1962), it was not real, but illusory production of money as, in terms of his theory, the value could only be added in the sphere of production. At the same time, Marx (1962) admitted that despite the «fictitious» nature of this money "...banks and credit become /.../ the most powerful tool, enabling the capitalist production to exceed its own limits..." (p. 469). It is with the help of this «fictitious» money that the real growth of industry became practically possible in the world.

What is more, a bigger amount of «the most fictitious» money emerged in the economy as a result of eliminating the gold backing of the dollar. After the collapse of Bretton Woods System the economy received the immense flows of capital that beat all expectations. Nowadays "...the turnover of monetary exchanges exceeds 1100 trillion dollars, the market of financial derivatives – 860 trillion dollars while the amount of aggregate global GDP is only 65 trillion dollars" (Luttseva, 2010, p. 16).

Consequently, money has surprised the world again. It is after the dollar ceased to be backed by gold that all the currencies, with no exception, have become a mere commodity, affected by supply and demand. Which, in its turn, has led to the situation when states themselves have turned into banks, selling their debts that often exceed the size of their own equity funds. And thus, we can see that the current national debt of the USA has climbed above the astronomical sum of 22 trillion dollars.

Even though at the beginning of the 20th century, when describing the predator nature of capitalism, Lenin (1969) wrote that "The world is divided into a handful of states-lenders and the vast majority of states-borrowers" (p. 17). Now one can find among the states-borrowers even the most developed countries

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of the world, including not only the USA, but Japan, Germany, Great Britain, France and many others. For less than a century the world of money has virtually spun off its axis. This paradox has been possible due to the fact that nowadays any money obligations and, consequently, debts have become commodities. That means that, contrary to reason, they cannot be regarded as net losses.

The list of examples, illustrating such paradoxical transformation in the theoretical interpretations of money nature, can be endless. However, the above mentioned is sufficient to stop considering the debates over the historical fate of the dollar as world money too trivial and obvious. We can see that the old theories of money, including the evolutionary one, are incapable of giving clear explanations. They fail to take into account, the real or «revolutionary» theory of money; in fact, they never even tried.

The ancient economic patterns predict that the dollar is ought to collapse because the USA overspends their income. But the question is whether the current dollar is backed exclusively by the property of the USA. The answer is a clear no. Whether we like it or not, but a common world currency (whatever national currency fills this position as now the American dollar does) is swapped for all the goods in the world. What is more, this massive trade, surprisingly, involves 22 trillion of the American, or as is sometimes erroneously called «sovereign», debt. The point is that all the countries, participating in dollar circulation, pay off the American obligations. Therefore, when we hear that "The economic house of cards, built from paper dollars, is about to crumble", (Duncan, 2008, p. 76), then we must allow for the fact that now the American dollar, however nonsensical it might sound, is supported even by those astronomical sums, being traded on the market of derivatives.

The market of financial derivatives represents another paradox in the world of money. Marx (1962) believed that the sphere of money circulation cannot add value. Nevertheless, we suggest making this mental experiment. Supposing money is swapped not for goods, but exclusively for other money in various forms such as shares, futures or any other financial tools. The velocity of circulation is accepted as endless. We can see that we no longer need a bag with a hundred florins, just one florin is enough to perform all imaginable payments in the world. It is possible to say that the equation $E=mc^2$ works in the world of money. When the velocity of circulation grows, one florin will increase money supply and will become a virtually unimaginable pile of coins. Thus, contrary to Marx, it is possible to gain a considerably higher added value outside the production sector.

This proves that the economic laws in the sphere of money circulation differ from those in the world of goods. In fact, they are as different as the laws of micro- and macrophysics. These are the worlds of velocities that differ. Piskorskaia and Teterina (2012) claim that at the moment "...the sphere of material production and signs have ceased to correlate. Money has acquired the capacity to reproduce as a result of manipulations with transfers, bank transactions and etc. Therefore, the equation of wealth can be formulated as «D-D'» (from money to a lot of money, bypassing the production stage, as if liberated from it)" (p. 62). However, it is noteworthy that these spheres «have ceased to correlate» only de facto, but not de jure.

That means that in the interest of the society it is recommended to separate these spheres of exchange - money-money and money-commodity. At least, there ought to be an appropriate decreasing coefficient when transferring money from the sphere of money circulation into the commodity-money one. Yet this mechanism does not exist nowadays. In fact, no economist knows what to do with enormous amounts of derivatives, threatening everyone. While they support the dollar, they put the world economy at risk. Now the amount of dollars in the world is hardly comparable with neither monetary reserves of the USA, nor

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reserves of national currencies of the rest of the world. That is to say that neither the USA government, nor the joint efforts of well-developed capitalist countries, not even international monetary and financial institutions have sufficient resources to support the world markets if the balance is disrupted (Demidov, 2013). This threat is so real that "...even the ex-proponents of deregulating markets of capital, such as International Monetary Fund (IMF), have recently started to favour the rational use of capital management" (Boero, Mandalinci, & Taylor, 2019, p. 93).

But, if the dollar as the world money is backed by both the existing economic order and enormous sums of derivatives, does it mean this will continue in the future? The attempt of International Monetary Fund to replace dollars with a purely supranational payment instrument, in the form of so called «special drawing rights» (Special Drawing Rights, SDR), has failed. This has been the «top-down» reform. Unsurprisingly, it has been vigorously opposed by national payment systems.

Now, primarily due to the advent of Internet, the common world currency has started to emerge «bottom-up» or in a natural way. With the help of trading internet sites, such as «eBay» or «Alibaba», online payment systems, like «WebMoney», various kinds of plastic cards as well as the growth of longer tourist and business trips the currency exchange has stopped being an interstate affair and become everyday practice of individuals. In 2015 the proportion of Russian internet-users, making online payments, grew within a year by 13% (from 50% to 63%). Customers, purchasing goods in foreign online shops, reached 31% (in 2014 they were 18%), and the number of those, using the internet for money transfers, rose by 17% (Shulgina, Koliadina, & Bikalova, 2016). Soon it will be possible to do shopping with the help of Internet and postal delivery virtually everywhere in the world.

In the course of those exchange processes the currencies with weaker backing of commodities start to lose this competition, and this is already happening. At their time postindustrial theorists welcomed the transformation of the modern society into the service society. Realising their aspirations, 90% GDP of the USA consists of services (30% of them are financial) (Miasnikova, 2011). That seems to be a good reason for joy. However, it has turned out an illusory hope. In fact, many services, for instance, those provided by hairdressers, can only be consumed close to the place of residence. Consequently, they cannot be regarded within the context of the global division of labour. In terms of world currency, though, only the commodities, ideas and services, which can be sold abroad, can have real value. This very fact can reduce the position of American dollars to a mere regional currency.

Yet what money can replace dollars? Will it be cryptocurrencies with all their anonymous advantages? But states can easily manage that, applying simple administrative control and penalties. Today China, Russia and India have already forbidden bitcoins. In Bangladesh, the punishment for the use of bitcoins is a 12 - year prison term. Besides, nothing can prevent states from issuing their own cryptocurrencies, as the problem of separating two spheres of exchange - money-money and commodity-money has to be resolved early or later. Here it is possible to refer to the USSR which attempted to separate two spheres of money circulation - cash and noncash.

Most researchers accept as the highly likely scenario of further development the following: "....a) status quo for a long time until the leader-currency is established (dollar, euro, yuan); b) bringing back gold; c) turning money into monetary units" (Peftiev & Titova, 2008, p. 44). The majority of economists holds the view that "The only undisputed leader will be gold" (Turk & Rubino, 2006, p. 93). However, analysing the history of the changeable nature of money, it is possible to conclude that this is highly unlikely. Going off the gold standard has provided the world economy with so many opportunities, which are as difficult to abandon as nuclear power, despite all the risks involved. When it comes to adopting certain supranational form of token money, it is only possible if there are sound and good neighbourly relations between states. Nowadays trust is on the decrease between countries.

Therefore, most probably, the world enters the long period of competition between regional currencies which will soon involve the dollar. Between 2001 and 2015 its positions remained virtually unchanged. At the same time other currencies changed dramatically. The euro has emerged, pushing the yen to the third place, and the pound to the fourth position. "...The Chinese yuan forcefully entered the top ten in 2013; the Russian ruble and New Zealand dollar are on the increase" (Ivanenko, 2015, p. 44). Apart from that, in the 21st century America gave up its hope to take on the leadership of a world political alliance which could enforce the rate of dollar. It is hardly possible to rely on the «voluntary acceptance» of the dollar as world money now. There is growing awareness among nations that the more dollars there are in the world, the lower the purchasing power of other currencies becomes. Unsurprisingly, recently such countries as China, Russia and Iran are seen as vigorously opposing the dollar expansion.

7. Conclusion

The continuation of globalisation is hardly feasible without further convergence of various national monetary systems. Yet this process cannot be regarded as step-by-step and smooth evolution. The internationalisation of world currencies will run parallel to the «internetisation» of the world economy with all its ups and downs. With the help of trading internet sites, online payment systems and the like, the global trade will define currencies with bigger support of commodities. Since delivery costs still have their due, and it is hardly possible to make every single commodity on the spot via 3D-printing in the near future, then the competition of currencies will inevitably produce regional leaders. The American dollar, currently functioning as world money, will be among these regional currency leaders, even though it has wasted its handicap, historically acquired in the 70s of the 20th century.

After the dollar takes its position among regional currencies, the process of establishing new world money will restart.

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