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Crisis and Competing Currencies

Always when there is a downturn in the economy a tirade of criticism is directed against the model of market economy and competition. And yet it is the other way around: all financial crises are the result of lack of competition. A crisis is when monopolies and all other sorts of market impediments have reached a critical point causing the economy to burst. It is precisely lack of free competition that destroys a market economy and not the other way around.

And the present world financial turmoil is no exception. We are just experiencing the climax and bust of two monopolies: one old one, the dollar hegemony, and a younger one, the euro monopoly, the result of the megalomaniac monopolization of the European currencies under the euro (a part of the quest to make Europe great again).

In short in any given situation governments and investors that want to secure their funds have only two options, the dollar or the euro, because these are the only ones with a global reach. A currency together with interest rates are supposed to act like the blood pressure and heartbeat of the economy, they should serve to adjust the economy to cope with more fundamental problems. In an ideal competitive world the piecemeal changes between competitive currencies restore the health of any given economy and keep a balance at a global scale. No devaluations, no rescue-packages would be needed, competition between currencies would do the job everyday without anybody having to lift a finger. Our problem is that there is no competition when the global choice is limited to the dollar and the euro. No automatic adjustment takes place for no matter how bad the things get in the States or Europe these are the only two options. Although this situation has seemed very beneficial first for the USA and later for the EU on the expense of the rest of the world, it has now come back to haunt the Americans themselves, while the Europeans should be quick to fasten their seat belts for a rough land. Thanks to the dollar monopoly the USA kept consuming and booming on the expense of the rest of the world, its economy looking outwardly shiny and glamorous, while its structures were rotting from the inside finally to spectacularly collapse before our eyes triggering a global crisis at once.

The Euro: from bad to worse

When the euro was introduced in 2002 it did little to resolve the problem of the dollar monopoly, rather it made things worse. For earlier while there still were competing currencies the investors had a choice between competing currencies continuously tending towards an automatic balance in the European economies. All countries had to worry about being competitive in relation to each other, and when they were not, the currencies reacted, forcing to adjust. For most time the adjustments were barely perceptible, and more seldom things got out of hand to a bigger debacle. This when the governments most stubbornly conducting disastrous policies were forced to a devaluation or punished with a crisis. But these adjustments in the local currencies kept the European economies relatively healthy on a whole. But today there is no choice, no piecemeal adjustments, only a euro monopoly with imperial dimensions: If you don't like the American currency you buy the European, and when the one goes up the other goes down, and vice versa. When the euro did not feel right you bought dollars. And when the US went sour everybody switched from their dollars back to euros. The euro gained, and the Europeans cheered as if they'd won in a major sports event. But beyond the political success things did not go so well. The euro rate and the interests had become attributes delivered as if by a central planning organization similarly to the Soviet Gosplan, the problem getting worse by the fact that all the world wanted to take part of the presumed success pushing the euro to unprecedented heights. Now Europe's problem is that they need to devalue that stuff. But as things stand today to devalue the euro you'd need to push up the dollar, which option is really not on the table. The euro and the dollar are hostages to their own monopoly strength, with the rest of the world victims when they are to blow up each other. What we are now experiencing are the devastating consequences of the collapse of these twin towers of the world economy.

Considering that the monopolization of Europe under the euro is really at the root of the problem, it is therefore pathetic that the French president Sarkozy, is now calling to punish "those responsible for the crisis," for the eurobureaucrats, the founding uncles and aunts of the euro are first in line to be sent to the guillotine. Same goes for Merkel and her ministers calling for more regulation. One would have expected that at least these guys would have read their Hayek, and understand that what is needed is more competition rather than less.

As long as more currencies will not emerge to take the role of world reserve currencies, the problems will mount. It is not excluded that by a lot of push and shove this crisis can receive a cosmetic treatment allowing the politicians (and market fortune-tellers, financial analysts as they are also called) to declare the crisis over (with a lot of mutual back-clapping and congratulations). But that would only amount to a face-lift of an aging actor, soon enough the wrinkles would crack loose and new pressures start building up. For a permanent solution we need at least 3 more – preferably 10 - first rank reserve currencies, the Russian ruble, the Chinese yuan, Japanese yen, maybe Brazilian real, Indian rupee, British pound or some other ones. And better yet, a burial of the euro with a return to the independent currencies of Europe. In today's world this would actually meet Friedrich Hayek's ideas of competing currencies.

How the dollar monopoly came about

Where did the dollar monopoly come from? First it is necessary to deal with the confusion between *market economy* and the monopolistic non-competitive sort of economy termed *Capitalism*. Capitalism is the stage of an economy where competition has been if not completely rooted out then at least seriously hampered resulting in monopolies and all sorts of market imperfections. In this sense capitalism and communism are close relatives, communism being the most advanced stage of capitalism, one void of all competition and ownership concentrated in one singular monopoly. - This monopolistic capitalism is what is behind this present day financial crisis that is bringing down the Western financial system and the economies at broad. Were we to have a competitive system, we would call it market economy.

The root of today's economic woes is not in market economy, or competition, but in the capitalistic sort of monopoly that the US economy achieved. No extraneous efforts by the US leaders were required to grab this monopoly stranglehold of the world, all they had to do was to maintain a normal market economy while the other countries round the globe were busy in damaging their own economies with all kinds of adventurous social and economical experiments ranging from the stupid to the lunatic. Governments worldwide entered a competition of sorts of who'd device the nuttiest self-damaging economic system. The prize winners in this weird game were of course the communist planned economies of the Soviet Union, China and the likes. Tough competitions was offered by the European social-democratic regulators (if not all social-democratic in name, all so in deed). Other hybrid systems combining the worst elements of the before mentioned sprung up all over the world, like the chaotic countries of Latin America, on-off between military dictatorships, anarchy and corruption. Or India trying to import Swedish nursery home style of social-democracy to their vast country, then only entering the modern age, etc. It was only Japan that stuck out as the odd kid on the block being the only major country apart from the United States to opt for a market economy.

How USA squandered the legacy

In short, all over the world everybody was busy in destroying the domestic economy only to make sure that the United States would receive a monopoly right to market economy. – But have you ever heard that somebody would be greatful for the favors lavished on it? Well, that was not the case with the USA at least. Instead of being content with the opportunity that all other countries had granted to the Americans of being the only ones doing things right, what did these ungrateful guys do but embark on a course of teaching and preaching the merits of market economy to the whole world, and even requiring that all others switch over to that, too. This was of course not what they meant, in all earnest, it just so happened that 'market economy' fitted so neatly in with 'democracy', and 'democracy' was the slogan they used in order to fight the communist systems. So basically what they really wanted to do was to stop the spread of the influence of their geopolitical competitors, the communist countries, first of all Soviet Russia (China they thought, as they do today, would be an easy fix once they would be quit Russia). The exigency to join the market system was basically just an unwarranted side-effect of the overall campaign, a blunder America now pays dearly for.

Bulldozing the free market credo is the blunder that America now deadly regrets. And now is when the pain of the gain is being felt, this is why the dollar has lost half its value, this is why the housing market collapsed, this is why the stock market crashed, this is why banks and insurers are being socialized in the wake of the market collapse. For what really happened is that America lost its uniqueness. America is no longer the one and only market economy, everybody else is as much market economy, and many much more.

Reagan's supposed strategy of challenging the USSR to an arm's race has been credited with eventually bringing down the Soviet empire. If it is so, then call off the party! A Pyrrhic victory, which may prove fatal for America. The Soviet Union fell, end of communist plan economy in Russia, China, and all over the world. The free market ideology had vanquished. And there was only one problem with that: now all the countries in the world believed in the mastery of the market! Now everybody, even old Europe, began to disentangle their messy regulations. And the rest is history. Now there is a market economy all over the world. We may speak of the merits and qualities of each, but the fact is that the USA lost its monopoly on market freedom. All of a sudden, without nobody realizing it, not even the American central planners at the Fed, the USA could not anymore set the rate of its currency and the interest for a quick fix of the real underlying problems of the economy. A few years ago they embarked on the last speculative unannounced devaluation of the dollar to deal with deflationary problems and to fix the trade gap. ("Hey, we do not know what is happening to the dollar. Market forces at play," was the hypocritical line of official Washington as the dollar plummeted in the preordered fashion).
But this time they lost control of the game, because in the rest of the world the markets had become ripe enough to react to these anomalies. The invisible hand of the global markets had blown a stroke on the Fed. Somehow the dollar rate and interest parity didn't seem attractive anymore. For the US central planners, cozy and pampered with their monopoly, the dollar devaluation was meant to be just like any Sunday afternoon at Coney Island, riding the same roller coaster as so many times before. Just this time the breaks had failed. Fittingly we call those amusement rides Russian Mountains. So, consider that what happened is that the USA derailed off the track down the Russian Mountains and bumped into the Chinese Wall. Pretty tough one to penetrate with an old exhausted monopoly.

As long as the rest of the world had been busy on destroying their domestic economies with self-inflicted economic handicap, America by the strength of its monopoly decided everything in global financials. It had the one and only currency, which anybody wanted no matter what. It set the rate of the dollar to other currencies to meet the conjunctures. It set the interest rate to regulate the economy without having to worry what happens to the dollar, the only currency as it was, the foreigners scooped them up anyway. – This is what has changed now. The US is no longer unrestrained to manipulate the rates. The chaos came because the USA is kaput but there are no replacements either. The present financial hurricane may wane, but the global economy will remain unsettled as long as new reserve currencies will not emerge.

As long as the dollar and the euro are free to rampage the world stage like two wounded bulls, we just have to recognize that the global market is not a true free market. And this is the ill that craves for more regulation even back at Wall Street and all sorts of protectionist measures against the American flu. But what we really need is more competition, not less. But that is needed on the more fundamental level of competing currencies.