A collaboration between Arthur Edwards and Christopher Houghton Budd, the Talking Economics Project provides a vehicle for associative economics to contribute to current debates in a way that has both substance and is accessible to the everyday person. Through a combination of publications, workshops and other events, Talking Economics seeks a shift in the language of economics such that the condition of global economy, in which 21st humanity finds itself, can be better understood.

A Pound for the World

Speculation in the financial markets itself is sometimes matched by that of journalists attempting to determine the market’s mood. The dual situation and its future as a key currency is presently exercising the mind of many a columnist.

For example, William Rees-Mogg, a British elder statesman, somewhat dramatically warns that the ‘calamity is coming’ in the title of his piece in The Times, London, Monday November 22nd 2004. Taking as his starting point the cyclic relationship between gold, which is at its highest for 1600 years, and the dollar, which has been ‘at its lowest level in the lifetime of the euro’, he goes on to underline why he thinks we should be worried by this essential weakness of the dollar and expect rapid deflation of cheap dollars. Starting from the Federal Reserve System’s concern, he cites Alan Greenspan’s warning that the US current account deficit is unsustainable.

Azatole Kalekoby, by contrast, also writing in The Times (Tuesday November 30th) is altogether more sanguine. teasingly, he opens his piece by asking ‘How far will the dollar fall and how much damage will it do to the world economy?’ He admits that ‘nobody who matters in Washington cares about the deficit’ and ‘taxes will probably be cut yet again under the pretext of social security reform’. He then goes on to declare that ‘there is no good economic reason for US policymakers to worry about either budget or trade deficits, as long as there is no sign of the nasty consequences that these supposedly produce, namely high-interest rates and rising inflation’. According to Kalekoby, ‘President Bush is doing the US economy a favour by borrowing as much as he can at 4% from gargantuan foreign investors and then debasing the dollar before he repays these debts’. Kalekoby thinks there is also something in it for the rest of the world who ‘can enjoy the devalued dollar by taking cheap holidays to Disney World’.

Yet while Kalekoby feels that this is simply a situation that needs to be sensibly managed by the European Central Bank because he believes that policy changes in the US and China are ‘out of the question’ – Rees-Mogg thinks that there is an underlying structural question at issue. Focussing on what it means to be a key currency and how it may entail structural weaknesses, he reminds us that the problem is not a new one: in 1920s Britain the pound sterling was the key currency and ‘London was still the centre of the world exchange system’. One might indeed add that much of today’s debate is reminiscent of the time when British drawing powers were full of nothing other than talk of the gold standard and how to manage the currency situation.

Rees Mogg identifies the ability of the government of a key currency to borrow without limit and apparently without penalty as one major issue: because unlike governments of other currencies, it is not subject to ‘the discipline of the market’. Lack of self-discipline causes a currency to weaken and become in Rees Mogg’s terms ‘cumulatively less competitive’. Added to this is the fact that since 1971, the dollar has been irreversibly fixed - it is not backed by anything tangible – a situation which he says makes the dollar’s ‘unusual and vulnerable’. It is an interesting paradox, one might think of a key currency as the leading actor who is simultaneously holding up the stage while other actors confronts such a responsibility because the make the strong man vulnerable.

From an associative point of view, one cannot realistically understand the global currency situation without being able to take a perspective on the 20th century as a whole, without having an image of where we are and where we are coming from and where we intend to go. Economists cannot afford to be historical, still now in the 21st century one must be able to appreciate the role of sterling in the last, because of its role in the way the world’s economy has unfolded. Similarly, it is of concern if the currency debate is conducted in terms of a heavyweight boxing match in which the dollar has a showdown with the euro, in order to decide who will face the yuan. The role of sterling should be understood not in a political or a geo-political sense but in a purely economic one. Clearly, sterling does not now exert a force of the kind that the US has exerted through the dollar. Therein lies a lesson – sterling could not maintain its role as key currency, partly for the reasons that Rees Mogg outlined, but primarily because to play such a role in a global economy is no longer a realistic economic thing to do. The age of the key
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