The Prospect of an Asian Common Currency

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1. Introduction

After the Asian currency crisis in 1997, the creation of an Asian economic community and the most suitable currency system became controversial issues of the Asian economy. Though political tension has been rising in East Asia recently, these issues remain unavoidable. For Japanese the issues are especially important, because of the defeat of Japan's plan for an Asian Monetary Fund (AMF) in 1997 and the internationalization of the yen in Asia(Kshimoto[1999]).

While Tomohiko Taniguchi, Japanese Deputy Press Secretary/ Deputy Director-General for Press and Relations, Ministry of Foreign Affairs, concluded in his new book that these efforts of Japan had been only a faraway dream of Japanese bureaucrats(Taniguchi[2005]), even now the problem of 'East Asian Community' is recognized as one of the main issues by the Koizumi Cabinet.

Japanese Prime Minister Junichiro Koizumi for the first time referred to the problem in his speech on January 14, 2002, in Singapore. He said 'Our goal should be the creation of a "community that acts together and advances together', and explained the geographic area of this community as follows:.

> Through this cooperation, I expect that the countries of ASEAN, Japan, China, the Republic of Korea, Australia and New Zealand will be core members of such a community.
>
> The community I am proposing should be by no means an exclusive entity. Indeed, practical cooperation in the region would be founded on close partnership with those outside the region. In particular, the role to be played by the United States is indispensable because of its contribution to regional security and the scale of its economic interdependence with the region. Japan will continue to enhance its alliance with the United States. (http://www.mofa.go.jp/mofaj/index.html)

From this statement, we have to take notice of the role of the United States in Prime Minister Koizumi's proposed alliance; namely his idea that the East Asian Community includes Australia, New Zealand and the United States.

Furthermore the problem of an 'East Asian Community' was referred in the General Policy Speech by Prime Minister Koizumi to the 162nd Session of the Diet, on January 21, 2005:."The Government will play an active role in the creation of an East Asian community (EAc), an open community that shares economic prosperity while embracing diversity." (http://www.mofa.go.jp/mofaj/index.html)

From a practical standpoint, however, there is not much possibility of an alliance among East Asian countries themselves. Japan has to give extra consideration to the United States. But China cannot accept such an arrangement. Additionally, generally speaking, Southeast Asian countries have a long experience of administration of ASEAN, but Northeast Asia countries, namely, China, Republic of Korea, and Japan have little experience of such efforts. Therefore we would have to say that the necessary conditions for an 'East Asian community' and a common administered currency of East Asia do not exist.

Yet the issues remain avoidable. Is there a solution, perhaps an unconventional one?

2. Currency Crisis in Asia and Foreign Exchange Rate System

The day July 2, 1997 is the memorial day of the Asian Currency Crisis. Eight years ago, Thailand was compelled to change its foreign exchange system by the stampede of baht selling. Thailand had adopted a US dollar-peg (basket of currencies, mainly US dollar) system till the day, but after this turmoil, Thailand introduced a floating exchange rate system. Immediately, the Thai Baht devaluated sharply and the economic panic of Thailand spread rapidly throughout a majority of East Asian countries(Aramaki[1999], Kokuso[2000]),.

The devaluations of Asian currencies in comparison with the end of June 97, were as follows: Thai baht 56%, Indonesian rupiah 85%, Malaysian ringgit 46%, Philippines peso 41%, and South Korean won 55%.

Before the crisis the economic conditions of Thailand, South Korea, and Indonesia were very stable and generally sound. In 1996, the GDP growth rates of these three countries were as follows: South Korea 7.1%, Indonesia 7.8%, and Thai 5.5%. Government budget balances of these three countries were healthy. And the inflation rates were also in good condition for developing countries, with South Korea at 5.0%, Indonesia at 7.9%, and Thailand at 5.9%.

On the other hand, the ratios of current account balances to GDP were Thailand －7.9％, Indonesia－3.4％, and South Korea－4.7％ in the red. The main reason is their export growth, namely Thailand from 26% in 1995 to －0.8％ in 1996, Indonesia from 13,3% to 9.7% and South Korea also from 30.3% to 3.7%.

The main cause of the weakening of export growth for these countries was in the international foreign currency system itself. Namely the yen-dollar rate had a serious effect on their export growth. As is commonly known, after the Plaza Accord, appreciation of the yen continued. By May 1, 1995, the rate of 1 US dollar= 79.75 Yen was recorded. From 1985 (Plaza accord) to 1995, the value of the yen to the dollar increased four-fold. This period corresponded to the period of growing exports from the main South East Asian countries.

The year 1995 was the turning point for depreciation of the yen;, that is, the yen/ dollar rate became 127 in May 1,1997, and 148 by August 11, 1998. The turn from the sharp appreciation of the y en before 1995 to the sharp depreciation of it negatively impacted the export conditions of countries such as Thailand, Indonesia, and South Korea..

This situation resulted from neither the floating rate system between Japan and the United States nor the de facto the fixed rate system of East Asian currencies to the US dollar. It was due to the co existence of the floating system and fixed system(Okuyama, Ito and Minowa[2005]).

3. Rethinking of Nixon Shock, 1971

For Japan as well as for Marxian economists the most shocking event in the evolution of the international currency system was the Nixon Shock on August 15, 1971,. (Ironically the day August 15th is the Memorial Day for Japan, namely, anniversary of the defeat of the World War Ⅱ.) Japan could not cope with the unexpected situation. While the foreign exchange markets of major industrialized countries were closed, the Tokyo exchange market remained open and the Japanese government continued to buy a massive amount of US dollars to maintain the 1 US dollar = 360 yen rate.

On August 27th, Japan introduced the floating exchange rate system;, by this time, the amount of US dollars purchased by Japan increased to 4 billion US dollars.

The Smithsonian Agreement in December, 1971, revived the fixed exchange rate system but with 1 US dollar = 308 yen. However, in 1973 the fixed rate exchange system collapsed, and major industrialized countries shifted to the floating exchange rate system. Because of the devaluation of US dollar, a large amount of wealth was lost from Japan,

The Bretton Woods system had been functioning after the end of the World War Ⅱ , and the features of this system were the fixed exchange rate system and the convertibility of dollar to gold. The background of this system was the whelming gold hoarding of the United States. The United States owned two- thirds of the gold in the world.

Under the Bretton Woods system, currencies of all countries were connected with gold through the US dollar. And the United States offered conversion at the rate of 1 oz gold = 35 US dollars, whenever authorities of foreign countries requested conversion of US dollars into gold. It is not the gold coin standard system but rather the gold exchange standard system.

On the causes of Nixon Shock, it has been pointed out that the economic power of US had been declining in1960's, because of the rapid economic recovery of Europe and Japan after World War Ⅱ, Vietnam War, and so on. Thus, the inconvertibility between dollar and gold was not caused by a depreciation of gold, but an appreciation of it. During the Cold War, US could not allow the excessive outflow of gold (Okuyama and Takahashi[2002]).

After the Nixon Shock, the gold standard system has been suspended for over 30 years. The gold standard system has become a old story today, and the fixed exchange rate system as well. But currency crises have occurred frequently since the abandonment of the Bretton Woods system;, for example in the 1990's, Europe 1992-3, Mexico 1994, Russia 1998, Brazil 1998-9, etc. The floating exchange rate system and the pure fiat money system have never succeeded in creating a stable international currency.

4. Methodology of the Theory of Commodity

My academic background is based on the studies of the works of Marx and the Japanese Marxian economist Kozo Uno. Both Marx's '*Capital*' and Uno's '*Principles of Political Economy*' (hereinafter referred to as *Principles*) are based on the premise that money is gold. Both of them adopt the labour theory of value, generally speaking for Marxian economists gold has own value on the base of embodied labour in their theory.

But, their methodology of Commodity-theory is not same. The main difference is in the relationship between commodity and commodity-owner. Marx points out the discrimination of method of commodity-theory and exchange-theory, from '*A Contribution to the Critique of Political Economy*' (hereinafter referred to as *Contribution*),1859 to '*Capital*', first edition,1867. Marx explains this problem as below in '*Contribution*'.

> So far two aspects of the commodity – use-value and exchange-value – have been examined, but each one separately. The commodity, however, is the direct *unity* of use-value and exchange-value, and at the same time it is a commodity only in

relation to other commodities.(Marx[1987], p.282-283).

A similar explanation is referred in the first edition of *Capital* 1867.

The important point is that Marx does not take account of the commodity-owner in his analysis of commodity. The social character of commodity determines the behaviour of commodity-owner, namely commodity owner is a personification of commodity for Marx. So, at first commodity is analysed and then exchange process by commodity-owner is considered. That is the Marx's method of commodity-theory. And his value-form theory is included his commodity theory, so the commodity-owner has no role in his value-form theory.

This idea was shaped in '*Capital*' clearly; he divided such different way of considerations into two independent sections, namely 'commodity' and 'exchange' in 'Chapter 1 Commodity and money' in the first edition (1867), and in the second edition, these two sections became two chapters.

Uno's method of commodity theory in his *Principles* is considerably different from Marx's idea. Uno includes the behaviour and the desire of the commodity-owner in his theory of value-form. According to Marx, these factors are included in theory of exchange, not the commodity. And Uno dose not assume the labour theory of value. Needless to say, Marx analysed value-form-theory on the condition on equivalent-labour.

5. Value of Money from the Standpoint of Value-Form Theory

Now what I want to try is to consider the determination of value of money on the base of theory of value-form(Okuyama[1995]). We can see labour, because it is an activity of human beings. The substance of value is abstract human labour, and the value is the materialisation of abstract human labour. So we cannot see the value of commodity. Value of exchange is visible, because it is the exchange ratio of commodities. And the complete form of exchange-value is price, so it is visible, too.

Price is the exchange ratio of commodity to money. For Marx the theory of value-form is the verification of inevitability from his conception of value to price and money. Value is an invisible and social feature of commodity, so it has to appear as price in the commodity world. That is the theoretical character of Marx's value- form theory. In this externalism from value to price, the behaviour and desire of commodity owner need not taken account of.

I think notwithstanding we can reach different conclusion from Marx on the base of Uno's method of theory commodity. And that result will become also different from Uno.

Borrowing from '*Capital*', we use a example of Linen and coat for consideration of value- form theory.

Marx takes value-form as the appearance of value, which is the embodied labour. Uno regards value-form as the form of proposal of exchange by the linen commodity-owner with the expression of the value of his commodity. The proposal of exchange is made by the commodity-owner of linen to commodity-owners of coat. The number of coat-owners is not limited single. We have to suppose plural coat-owners in this theory, and linen owner want not the specific person but just coat. Specification of trading partner is not a problem for linen-owner. Linen owner want to exchange his commodity to anyone who own the coat. This assumption distinguishes value form theory from barter.

20 yards of linen =1 coat, or 20 yards of linen are worth 1 coat.

And the direct exchangeability of equivalent commodity comes from the proposal of exchange of the commodity-owner standing on the relative form of value, in this case, the owner of linen.

Therefore through the expression of value, we recognise the value-form as the subjective unilateral proposal of the bargaining point. Hence the equivalent commodity (coat) is given the direct exchangeability to the commodity (linen) by the owner, who proposes to exchange. That is the reason why the commodity-owner who is required to exchange obtains the right to determine the exchange.

Evaluation of value is done subjectively, and the unilateral proposal of linen owner gives the power of the exchange to the coat owner. In the same way, money acquires purchasing power through the expression of value by all commodity-owners. Commodity-owners legitimise the purchasing power to money. Money owner always can buy commodities whenever he wants, and commodity owners are waiting for the time to sell.

In the case of gold money, the subjective evaluation of value by all commodity-owners, support the value of gold money. And in the case of fiat money, the illusion of commodity-owner in the market supports the value of money.

And for Marx, the value of money is determined by the labour theory of value before the theory of value-form. However the value of money is not the embodied by labour itself, but the purchasing power in general, so as mentioned above, the evaluation of commodity-owner plays an important role in determination of value of money.

6. Measurement of Value

Even in the world of gold money, practically, people expresses the value of his commodity not by gold as material, namely, the weight, for example ounce, gram etc, but by the name of money, such as pound, US dollar, yen etc. But it is important that the names of money linked to the weight of gold in the gold standard system.

The purchasing power of money depends on the value of gold in the gold standard system. The commodity owner subjectively evaluates his commodity by gold. In this case, gold has its own value. The commodity owner subjectively compares the value of his commodity with value of gold, and depending on his subjective comparison between the value of his commodity and gold, he expresses the value of his commodity by gold as material.

Now by what is the value of money guaranteed in our fiat currency ?

Uno says in his '*Principles*' as follows:.

Neither the abolition of the gold standard nor the administration of managed currency, however, can perfectly and irrevocably displace gold which still remain the ultimate measure of commodity values (Uno[1980], p.12).

The first edition of this '*Principles*' is published in 1964, namely before Nixon Shock, and this description is included from then. So the 'ultimate measure' of gold means the convertibility of dollar to gold. After Nixon Shock, according to Uno's thinking, 'ultimate measure' of gold have to be denied.

Central Banks and governments control the fiat currency, but they cannot decide the value of money; they can only force us to accept fiat currency.

In the case of fiat money, we have to remember that the most important point of the value of money is that it is decided by the subjective evaluation of value by the commodity owners as well as gold money. But the meaning of 'subjective' in the case of fiat money is far different from gold money. Gold has its own value. But fiat money has not its own value. So the commodity owner expresses his value by the money without its own value. But by the expression of commodity owner fiat money obtains the purchasing power, that is the value of money.

For example, the owner of tee prices tea 100g is 1000 yen. In this case, 1000 yen gets the purchasing power of tea 100g. The pricing of commodity owners transfer the exchangeable power from his commodity to money. This is the same context with the gold coin standard. In the case of fiat currency, it has not its own value, notwithstanding, paper as money obtains the purchasing power.

The value of fiat currency is an illusion or a belief which is made by commodity owners or people in money economy. And the essence of fiat currency is the name of money and number, for example '1000' and 'yen' Name and number has the purchasing power in today's currency system. Fiat currency is supported by people in society, and so far as believed by people, it functions as money actually.

The criteria of value of fiat currency itself often changes. The price level of Japan has risen three times from 1970 to today. It is plausible that the reason is rather the devaluation of value of money than the increase of demands for commodities.

The value of fiat currency collapses in the war, or the political or economic crisis like 1923-24 Germany, 1998 Russia, and so on. Fiat currency infinitively returns to paper itself. In the case of gold money, if money returns to gold, gold has its own value as commodity and it must be kept as the wealth of human nature. But in the case of fiat currency, paper, it becomes worthless, and not wealth for us, because the nature of fiat currency is the name and number.

7. Conclusion ---Gold as Money for East Asia

After the Nixon shock, floating system smashed Japan repeatedly and Japan is the victim of floating exchange rate system. Japanese yen appreciated from 250 yen per US dollar in January 1985 to 150 yen in October 1986, and it eventually reached below 80 yen in April 1995. In about 10 years, the value of yen appreciated four times against US dollar. Such a fluctuation of exchange rate cannot be overcome by company efforts. Deindustrialization and recession hit Japan.

As already noted, the floating exchange rate system between the United States and Japan was the main cause of the Asian currency crisis, because fixed exchange rate system of Asian currencies to US dollar was affected by the fluctuation of the exchange rate between US dollar and yen.

One influential stream of Asian currency system is some kind of dollarisation of Asia, for example, the creation of US dollar as anchor currency, or return to before crisis in the form of more sophisticated system. These proposal supported the accomplished fact in Asia, namely Asian currency recover to the connection with US dollar[Mackinnon 2001]. But the most popular idea is , as is commonly known, basket currency system for Asia.

But there are some serious difficulties in this problem. One is the attribution of seigniorage(Arima [1984]). If Asian countries select the dollar as anchor currency, huge seigniorege would attribute to US. The basket currency system has similar problem, the currencies in the basket must get seigniorege in proportion as the weight in the basket, through the weight of external reserve currency of each countries.

The basket currency system is better than anchor currency system as regarding the stability of value. However, currency basket, under the present currency system, also fiat money, and it has not its own value. So, if today's internationalization go with the synchronization of world wide economy, the meaning of basket currency will be lost gradually. For example in the case of simultaneous inflation, deflation, contagious economic panic, it is doubtful that basket currency can function effectively.

And the most important issue of East Asian counties is the political friction between North East Asia. So, its so difficult to create the single currency like euro, and agree on the constitution or weight of basket currency.

However, a common currency in Asia, if possible, is the desirable currency for Asia. A currency which circulates in small area is exposes itself to danger, exchange risk, rapid outflow of capital, attack by hedge fund. So, a currency which circulates in a wide area is more stable.

From this view point, I think gold has to be considered as money(Mundell[1997]). The reason is that Gold is neutral from the political friction and seigniorege. These features are suitable for Today's East Asian situation . Of course there are some defects in gold standard, such as the luck of absolute amount of hoarding, therefore, it often brings climate of deflation, limitation of growth by outflow of gold, and etc. If we can control the gold, however, at least, we can revaluate gold as universal medium of payment and foreign exchange reserve.

We can find the phrase as below in Marx's '*Capital*'.

> When money leaves the sphere of circulation, it strips off the local garbs which it there assume, of a standard of prices, of coin, of token, and a symbol of value, and returns to its original form of bullion.(Marx[1996], p.153)

The universal character of gold made it 'money of the world'. The time has come to reconsiderate on the gold as international money.

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