

WORLD CURRENCY – DOLLAR AND EURO

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For today world politicians and economists have recognized two basic world currencies in a modern financial market . There are euro and American dollar.

Dollar takes important place in economic, because it has been the first international currency. The United States dollar is the official currency of the United States. It is also widely used as a reserve currency outside of the United States. Dollar is controlled by the Federal Reserve Banking System. The euro is the currency of twelve of twenty-five nations that form European Union (and 4 outside it) which form the Economic and Monetary Union. It is result of the most significant monetary reform. The euro is administrated by the European system of Central Bank.

The first world currency system was generated in XIX century after an industrial revolution on the basic of a gold standard. Legally it has been issued by interstate agreement at the Parisian conference in 1867. This agreement recognised gold as the unique form of world money. Since 1837 this system has included dollar which received gold content. Currencies converted in gold freely. Gold was used as the conventional world money. By degrees gold standard has become obsolete, because it did not correspond to scales of the increased economic relations and conditions of market economy. The First World War was marked by crisis of a world currency system. Gold standard stoped to function as monetary and currency systems.

The second world currency system has been legally issued by the interstate agreement. This agreement was based on gold and mottoes - foreign currencies. Conversion of currencies into gold began to be carried out not only directly (the USA, France, Great Britain), but also indirectly, through foreign exchanges. National credit money began to be used as the international pay-reserve means. However during the intermilitary period the reserve currency status has not been officially fixed to one currency. Pound sterling and US dollar challenged lead positions in this sphere. Great depression has sharply depreciated dollar, its gold content has decreased more than on 40 %.

Since 1941 Anglo-American experts denying idea of returning to a gold standard, aspired to develop principles of new world currency system, which can ensure economic growth and limit negative social and economic consequences of economic crises. The gold exchange standard based on gold and two reserve currencies - US dollar and in much smaller volume pound sterling . Gold continued to be used as the international payment and reserve means.

Leaning against increased currency-economic potential and gold reserves, the USA have equated dollar to gold. Dollar got status of the main reserve currency.

The breakdown of the Bretton Woods system in 1971, the abandonment of the gold standard and a period of relatively high inflation and slower economic growth during the 70s and 80s did not undermine the dollar's pre – eminence and the US entered the new millennium in a position of apparently unprecedented strength. However the start of the new millennium also was signified the birth of a currency that could possibly challenge the global supremacy of the US dollar.

A bit later European Union countries have made decision to create a regional European currency system. Preparation for its creation has begun even during crisis of Bretton Woods currency system. At first of January was made uniform European currency.

To advance euro's role in a world currency system, it is necessary to lean against the processes occurring in sphere of monetary circulation under the influence of objective economic laws not only in national scales, but also in economic.

Euro introduction became significant event in the international currency system.

The breakdown of the Bretton Woods has not hardly changed the status of the basic international currency - US dollar. Both to, and after system crisis, the dollar remained dominating world currency. Euro introduction has considerably changed a configuration of world system and became the important event in development of a world currency system since the US dollar has replaced English pound sterling as dominating world currency.

The important feature of a new world currency system is that for the first time there was a regional international currency for till now the world currency system was characterised by interaction of national currencies, with prevalence of one of them over others.

The trust to the international currency is its key characteristic. The trust to currency depends on following major factors:

- The size of area of the circulation;
- Stability of currency policy;
- Absence of the control, i.e. free convertibility;
- Power of the state;
- Security of currency.

The size of area of the circulation is advanced by such indicators, as quantity of the population for which the currency is national, and also gross national product volume. From this point of view the prospect is favorable for euro. Since January, 1st 2008 the quantity of the states of EU which have cancelled the national currencies in favour of euro, has increased to 17, the union has replenished with two new member countries: Malta and Cyprus. This second expansion under the account of the zone of euro created in 2002: on January, 1st, 2007 in it Slovenia has been accepted. Except the above-named countries, into euro zone enter: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Great Britain, Sweden, Denmark, Luxembourg. With present entry of two new countries, the quantity of the people living in a zone of euro, has increased to 320 million persons. Joining of Cyprus and Malta will not lead to large economic shifts in eurozone, as the sizes of economy of these countries not so significant in comparison with its such participants, as Germany, France and Italy.

It underlines that fact that euro now is on historical lifting and has high appeal. This tendency has found the expression and that the past 2007 became on world financial markets so-called «year of euro» when he has managed to press seriously US dollar items as the main world reserve currency.

At the same time, the introduction still new members can weaken the international items of euro since can cause strengthenings of a disbalance between economy of various member countries of a zone of euro. It is as of today most probable that after joining of Cyprus and Malta the European central bank will take a long time-out to try to accelerate convergence of economy of member countries of a zone. As a result euro introduction in other EU countries, first of all, in Hungary, Czechia, Poland and republics of Baltic can be postponed for uncertain time.

For comparison: the basic competitors of euro, US dollar and the Japanese yen, have internal national area of the circulation 270 and 125 million persons accordingly.

The following important factor which advances trust to currency so, advances its international character, currency policy is. Predictability and sequence of currency policy influence moods of market participants, ensure trust to the international currency. If the authorities openly declare the purposes and problems, and also the mechanism of their realisation, trust of market participants to currency of this country will be more.

From the point of view of currency policy, prospects of euro are more favorable, than dollar prospects. According to the Maastricht agreements, the authorities of the EU countries openly declare the primary goals of a macroeconomic policy, including the such: inflation of consumer costs of EU Member State should not exceed inflation in three countries with the lowest inflation more than on 1,5 %. Thus, there are all bases to believe that exchange rate policy of the EU countries will be consecutive, predicted, and euro exchange rate - firm. Exchange rate policy of the USA causes much more questions, in connection with the difficulties connected first of all with unreasoned expenses for military operations.

The important factor advancing trust to currency and its international character, the complete free currency convertibility or absence of currency exchange regulation and exchange restrictions is. The availability of exchange restrictions and currency exchange regulation creates anxiety of participants of the international currency relations concerning freedom of a currency exchange in case of such necessity. In spite of the fact that the international currency cannot have convertibility restriction so, the state loses many administrative levers regulation of national currency relations, dollar and euro in this plan model international currencies.

Power of a nation state also promotes trust of participants of the international market relations to national economy, and a state currency system. Historically international currencies always belonged to the strong states in their world supremacy (for example, the English pound sterling was the international currency of XIX century when world supremacy belonged to Great Britain). When the state is on the wane, there can not be a stable hard currency. Potential weakness of euro in comparison with dollar consists that EU unlike the USA is not the uniform state.

One more factor is security of currency. Unlike earlier dominating currencies which were converted in precious metals, modern leading currencies have no gold standard. Security of currency is stability of economic circumstances in the country manufacturing currency, and also liquidity of currency.

In our opinion the economy of the USA starts to endure some crisis, in connection with an unreasoned policy of the last years. Crisis of defaults of payment, huge expenses for doubtful military operations have led to significant loss of liquidity of the assets nominated in dollars. At the same time liquidity of the assets nominated in euro, steadily increases. Now the liquidity effect connected with introduction of euro, is shown in following directions:

- Expansion of liquidity of financial assets;
- Reception of additional reserves from association;
- The privilege of use of euro as the reserve currency;
- Increase of foreign demand for euro and transition from dollar to euro.

Euro introduction grants certain advantages to the European Union in the form of so-called «deficiency without tears». The countries which do not have international currencies, face restrictions of a pas to the balance of payments. The countries with reserve currencies, on the contrary, have "soft" restrictions of a pas to the balance of payments. Currencies of these countries are used as reserves by other countries, in rare instances presented in the country-emitter that is why payments deficits are not for the countries with the reserve currency extremely dangerous phenomenon.

Every year demand for euro will increase, transition from dollar to euro in the increasing quantity of the countries was inevitable for following reasons:

Expansion of a zone of EU, increase in number of the countries which use euro as the national currency;

Increase in quantity of the countries using euro, has led to that it is favourable to trading partners to accumulate this currency for realisation of the external economic relations.

To such images, the world has by degrees come from currency hegemony to biosystems, and accents are more and more displaced towards euro. In the near future, the role and euro and dollar place in a world currency system of the XXI-st century will be advanced by a parity of forces of EU and the USA. Development trends of the European integration play on advantage of euro, but simultaneously the USA aspire to expand integration process for limits of the country and the North America on territory Central and the South America.

Currency biosystems in XXI century world development can not end with creation. It is impossible to exclude the Asian region from consideration. The Japanese gross national product is significant. Besides, rates of economic growth in China testify that in the future this country will play also the important role in economic. Already now gold and exchange currency reserves of China, Hong Kong and Taiwan constitute a round sum. Weakness of the Asian region is its separation, political disagreements of Japan and China are great. All it, however, does not exclude increase in number of dominating currencies.