

Dear Reader

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Currency Affairs



A cursory glance through the pages of this month's issue would suggest there is much cause for celebration. The recession in the US, for example, is practically ancient history, having ended more than a year ago. The world's financial industry, which was still on its knees little over a year ago, is in fine fettle, and the global economy, for so long seemingly on the brink of a messy meltdown, appears to be recovering its composure. Perhaps those fabled imbalances that imperiled the world's financial markets and economies over the past three years have finally been resolved.

A closer look at some of the issues facing economies large and small reveals that the global financial system is hardly on an even keel. Japan, for example, has found it necessary to intervene to try to suck some of the air out of its high-flying currency (see Newsmakers, page 6). At the same time, there are rumblings that the mighty dollar could be about to become the whipping boy of choice for those who indulge in the carry trade. The tussle over China's currency continues unabated, with policymakers in Beijing seemingly still unwilling to let the yuan rise to a level that its major trading partners—notably the US—deem fair. Meanwhile, at the other end of the economic scale, Costa Rica is watching with alarm as a surge of hot money attracted into the country by its relatively high interest rates drives up the value of its currency (see Newsmakers, page 6.) The central bank admits there is little it can do without running the risk of being branded a currency manipulator. Not so long ago, Switzerland faced a similar problem and adopted the same solution—modest interventions to bring down the country's currency.

Therein lies the problem. Freely floating and tradable currencies are essential to the efficient operation of the global financial system. Countries with genuinely free-floating currencies, though, are almost defenseless against the whims of the markets—or, as seems so often to be the case, the predatory instincts of global investors. As we have seen repeatedly, attacks on a country's currency can prove devastating, but under the current system there is no doubt we will see similar attacks—and the inevitable and avoidable economic pain that results from them—in the future.

The solution is not more regulation or the imposition of localized currency controls. It is a complete overhaul of the global monetary system and—ultimately—the creation of a single global currency. In a globalized world there can be no better tool for enabling trade than a universal unit of exchange.

Until next month.

Dan Keeler

Dan Keeler
dan@gfmag.com

GLOBAL FINANCE

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Editor: Dan Keeler

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