

NEOMERCHANTALISM AND EUROPE: USE OF NATIONAL CURRENCY

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ABSTRACT

This study discusses neomercantalism and limited money supply policy. Neomercantalism is to use national currency in international trade. It is appropriate for neighbour countries. Mercantalism exists in global economy during 15th-17th centuries. It is free trade. In globalism era, monetary policies are added to free trade, and it is called as neomercantalism. It assumes that European countries and Southeast Asian countries may apply principles of neomercantalism theory. Secondly, this study discusses limited money supply. It assumes that national central bank supplies limited region of country with money. If it supplies whole country, it creates inflation in economy. Finally, both policies, neomercantalism and limited money supply, aim to increase total demand in an economy.

Keywords: National Currency, Trade, Neomercantalism, Limited Monetary, Keynes

INTRODUCTION

European economy may apply neomercantalism theory to increase demand. In European market, production PMI data is %46. In USA it is %49, in China it is 51, in Turkey PMI is %49. For example, German PMI is 0.43 in December, 2019. PMI data is very low in Europe, including Germany. President of ECB, Ms.Lagarde, says that internal demand is decreasing in European economy. Both PMI and internal demand need total demand. Therefore, apply of neomercantalism may increase total demand and PMI in European economy. In addition, it is expected in 2020 that, global economy would experience severe recession due to trade wars.

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PMI data shows supply side of business. It is related with production amount and marketing demands. If PMI is low, it means production and demand are low in economic structure. That might be the case for European economy. Because Europe is behind of USA and China in PMI. Neomercantalism aims to increase internal demand by using national currency in trade. In neomercantalism, national economies will use their national currency in international trade. Euro currency would hold its positions as a international currency. However, England's authorities say that Euro does not have economic value for international currency. Therefore, England prefers sterling. In neomercantalism, European countries, 50 states, will use Euro and national currency together in trade within and between.

1. USE OF NATIONAL CURRENCY IN INTERNATIONAL TRADE

Neomercantalism is to use national currency in international trade. It is expected in the era of globalism that it would increase total demand in global economy. Aim of neomercantalism is to heighten total demand in European economy. Keynes applied IS-LM to increase total demand during 1929 crises. European economy may currently apply of neomercantalism theory.

There are 50 states in European markets. Each has own its currency. Those 50 states may use their national currency in international bilateral trade. Euro will hold its positions as a reserve currency. States will use national currency in trade. For example, Greece will use "drahmi" in bilateral trade with Albania, Romania, Bulgaria, Hungary, others. Further, Bulgaria uses Leva for trade. French uses frank for trade with Germany, England, Spain, Switzerland. Spanish use "peso" in bilateral trade with France. It assumes that neomercantalism is more appropriate for trade between neighbour countries.

In the first step of neomercantalism, countries use national currency in international bilateral trade. In the second step, there needs exchange parity. Because national central banks save other currencies in their portfolios. and CBs are need to exchange these currencies over time. For example, French central bank saves peso, mark, Euro, pound, lirt, others. and Spain would have frank and others. French and Spain are to exchange those currencies. Bargaining power would establish parity. Suppose it is 1.2 ; so, French gives 1000 peso to Spain, and Spanish gives 1200 Frank to France.

In the third step, neomercantalism theory is more suitable for neighbour countries. For example, French improves trade potential with neighbour countries by using national currency. French uses frank in bilateral trade with Spain, Italy, Slovenia, Switzerland, England, Portugal, others. and neighbours use their currency in trade with France, viceversa. Neomercantalism theory spreads apply of worldwide, if European markets adopt it. Therefore, global GDP and sales rise in global economy.

Finally, apply of neomercantalism is based on 4 steps:

1. Using national currency in bilateral trade
2. Exchange between national central bank
3. Coordination of European Central Bank (it is center)
4. Neomercantalism is suitable for neighbour countries

2. GURHAN MODEL IN MONETARY

This study secondly discusses gürhan model in monetary. It is based on two factors: limited money supply and economic channels. It is similar to Keynesian approach, because Keynes intervenes economies by IS-LM policy. IS-LM is monetary policy that used in 1930s. Keynes intervenes economy policy by IS-LM model. Gürhanism intervenes economic structure by limited money supply and channel distributions.

Limited money supply is that central bank does not give money to whole country border. Instead, it gives monetary into limited region of the country. For example, in Turkey, national central bank gives money into Hakkari region, 4-5 provinces. If national central bank gives monetary to all provinces, it means inflation. In Europe, ECB may support Greece or Italy in monetary instead of supporting 50 states.

Gürhan model is based on Keynesian model in monetary supply. The difference emerges with that Keynes is based on IS-LM in monetary supply. Gürhan model is based on limited money supply. Aim of both is to increase total demand in economy.

Further, gürhan model is secondly based on using moderators and channels in monetary in order to increase emission level.

In limited money supply policy, Central Bank distributes money into limited region of country. Because if CB distributes whole regions in the country, that policy creates inflation. In crises time, for example, in Turkey, Hakkari province demand money from CB. and Turkish Central Bank prints and send money to Hakkari region. That may be called as limited money supply that do not create inflation in macro economy. If CB gives money to whole provinces, that may increase inflation rate. or in Italy, Italian Central Bank send Lire or Euro to southern cities, Bari, that limited money supply does not result in inflation in macro economy. Economies may apply limited money supply policy in crises time, and that policy may increase emission level in economy.

Moreover, European Central Bank (ECB) may supply monetary to East Europe, to Balkan Countries. ECB prints Euro, and it distributes to Balkan Countries. That monetary may increase total demand and emission level in European economy. This is maybe example to limited money supply. Europe is all market structure; however, east Europe is limited region.

Second dimension in Gürhan model is using channels in monetary supply. Because in direct monetary supply, inflation may appear in economy. For instance, in Turkey, Central Bank uses insurance companies as an economic channel to give money into economy. Insurance companies become economic channels. Turkish CB prints and gives money (Lira) to Yapı Kredi Insurance, Ak Sigorta Insurance, Allianz Insurance, others. That insurance companies become channel to distribute this money into economy. Further, in USA, Non Government Organizations (NGOs) may become economic channels. NGOs recruits 80 million employees in USA, and they are audit and regulations organizations in USA economy. Therefore, they may become channel, So, FED prints money (USD), it gives this money to NGOs; and NGOs distribute this money into whole economy without inflation.

In addition, J.M.Keynes also uses channel in monetary. Keynesian model is IS-LM. Keynes uses (I) investments as channel for monetary. Keynesian model supply monetary to markets via public investments (IS) without inflation.

Figures and examples of channel distributions are below:



Figure 1. Channel Model in monetary.

In Turkey, for instance,

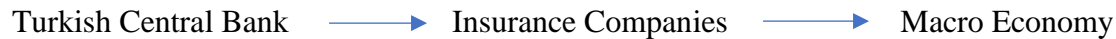


Figure 2. Turkish Type of Channel Monetary.

In Turkey in channel model, CB prints money and gives this money to insurance companies in the country; and those insurance companies distribute this money into economy.

In USA, for instance,



Figure 3. USA type of Channel monetary.

3. NEOMERCHANTALISM, RECESSION AND GLOBAL ECONOMY

Global economy has recession rise in 2020 due to trade wars. It is expected, it would be lasted longtime. It is assumed, apply of neomercantalism, i.e., use of national currency in global trade, decreases rise of recession in global economy, because neomercantalism would have positive impact on global sales. If neomercantalism is applied in European economy, it would spread to all global economy

Global economy had stagflation and inflation during 1970s. President Reagan applied supply side economy to recover from stagflation and inflation. Assumption is that supply side economy increases total production in economy; and it decreases prices level in markets. Prof.Laffer is frontier of supply side economy.

Currently in 2020, global economy and Turkish economy experience higher inflation rates in markets. Economies may apply supply side economy to decrease prices. Global economy is stucked due to trade wars that create stagflation in global economy. Therefore, there are stagflation and inflation in economies in 2020.

Economies may apply neomercantalism to get out stagflation. Because assumption is that, neomercantalism has impact on total sales of firms. Secondly, economies may apply neomercantalism to implement supply side economy. Finally, to get out stagflation and inflation, economies in global may apply neomercantalism and supply side economy.

Neomercantalism is to use national currency in international trade. Aim of neomercantalism is to increase trade level among economies. Due to trade wars global economy faces stagflation; and use of national currency may stop stagflation.

USA Dollar is international currency. Secondly, there are FDI investments in global economy. For example, 3.000 British companies operate in Turkish economy. Many American firms invest in abroad. Thus, dollar and FDIs make neomercantalism apply in global economy. For example, USA will use dollar in trade with Africa and Europe. In neomercantalism, European states will use their national currency in trade among them. That policy may increase trade level inside European economy. In Africa, African countries will use their national currencies in trade between them. Thus, use of national currency would increase trade level inside Africa economy. Due to increased trade inside Europe and Africa markets, trade between USA and Africa; and USA and Europe would be heighthened. So, global economy would get out recession and stagflation.

CONCLUSION

To conclude, global economy apply of supply side economy through neomercantalism to decrease inflation in markets. Many rebelians rebel in Azerbaijan, Lebanon, Chili, others due to higher inflation in economy. In addition, neomercantalism save global economy from stagflation due to increased international trade between USA, Africa, and Europe. Because neomercantalism (use of national currency) may exist in global economy because there are many FDI's in 21st century. Economies already invest in each other; and they may use national currency in trade between them.

Apply of neomercantalism theory and golden standard may increase total demand in global economy, and may stop upcoming global crises.

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