The euro in the light of the progression theorem

By Thorsten Polleit

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PROGRESSION THEORM

The progression theorem is “a theory of the destruction or devolution of money by government.”

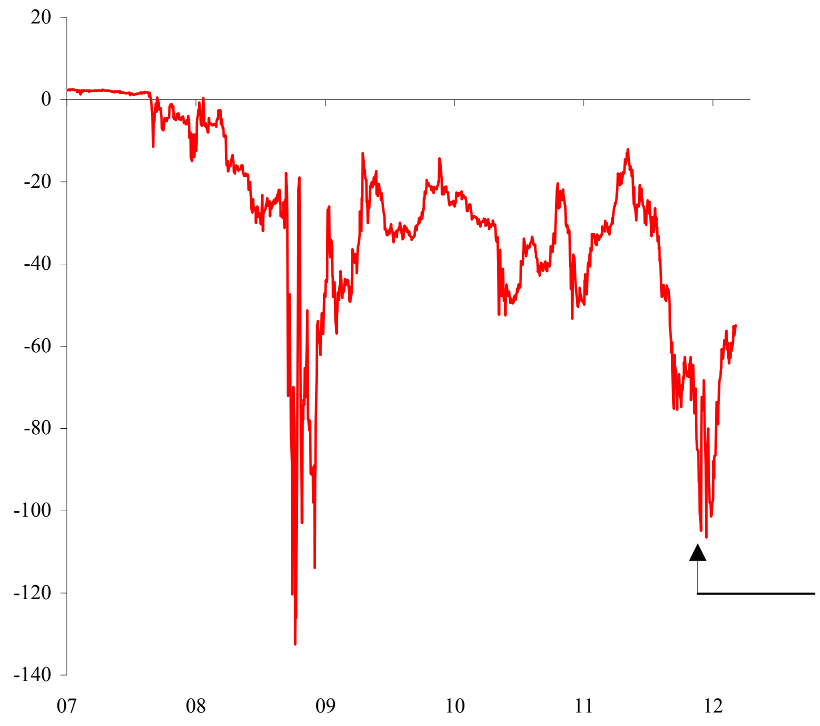
—Hoppe (1999), Murray N. Rothbard: Economics, Science, and Liberty, p. 237.

SUMMARY

The euro is a case in point of what the *progression theorem* holds: states will (1) replace commodity money with fiat money, (2) cooperate for eliminating competition between national fiat currencies, thereby (3) working towards establishing a world fiat currency: a process fuelled by the propagation of *social-democratic socialism*.

CONTENT

EUR Cross Currency Basis Swap Spread (over USD Libor), 1-yr, BP



30 November 2011:
The world‘s leading central banks announce to provide unlimited „liquidity support to the global financial system“.

Source: Bloomberg.

For example, consider the cost of borrowing euros in unsecured markets and converting them to dollars and then comparing that with borrowing dollars directly in the unsecured markets. This cost is defined as:

$$Basis_t^{eur\,\$} \equiv \frac{F_{t,t+s}}{S_t}(1 + r_t^{eurLibor}) - (1 + r_t^{\$\,Libor}),$$

where S_t is the foreign currency spot rate at time t, $F_{t,\,t+s}$ is the foreign currency forward rate contracted at time t for delivery at time $t+s$, and $r_t^{eurLibor}$ ($r_t^{\$\,Libor}$) is the uncollateralized euro (dollar) interest rate from time t to time $t+s$.

Source: Goldberg, L. S., Kennedy, C., Miu, J. (2011).

Ludwig von Mises
1881 – 1973

"It would be a mistake to assume that the modern organization of exchange is bound to continue to exist. It carries within itself the germ of its own destruction; the development of the fiduciary medium must necessarily lead to its breakdown."

—Mises (1981), The Theory of Money and Credit, p. 448.

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