

## INTRODUCTION

The definition of an exchange rate expressing the relative value of currencies is a search for an anchor point that coincides with the fundamentals. The dominant theories undertake reflection on a steady rate that is most often that of the market.

Different versions of the Purchasing Power Parity (PPP) focus their investigations on a definition of the exchange rate in terms of the purchasing power of the currency giving it stability, far away from the erratic fluctuations. The debate revolves around the relationship price-exchange rate. The direction of causality remains to be defined as the empirical verification of the PPP. The most attractive is the definition of Tsiang (1959), which suggests that the deflection of a floating exchange rate relative to PPP is an indicator of the extent of speculative activity in the foreign exchange market. Dornbusch sometimes puts emphasis on real determinants while sometimes uses financial variables in determining exchange rates. Sachs defines its own way an equilibrium exchange rate but with a discriminatory position against the wage-setting position. To reshape, the balance in the foreign exchange market is closely linked to the equilibrium in the labour market (lower wage rigidity than price). The effectiveness of monetary and fiscal policy under a regime of flexible exchange rate depends on the process of wage determination and the profit share. Krugman, while admitting not knowing the exchange rate for balance, makes propositions to ensure the stability of exchange rates « straitjacketed » by bands of narrow fluctuations. About standards and exchange rates equilibrium exchange, two major schools of thought clash:

1) The first advocating the system of fixed exchange rates supposes implicitly or explicitly assumed state interventions coordinated to ensure permanent exchange rate stability and to avoid erratic fluctuations.

2) The second who called for a system of flexible exchange rates is more confident of the market and its ability to find its equilibrium by its own mechanisms. It is inline with the monetarist and neoclassical theories. Both designs have not withstood the facts. The currency exchange rates cannot remain permanently disconnected from fundamentals and specifically monetary expressions of the main real variables; GDP, wages, profit. Flexible exchange rates have not generated the expected trends to converge towards the equilibrium. In this analysis, it is argued interaction between different markets, each transmitting its tendencies toward equilibrium to another. Per example, the labour market balance is in favour of wage flexibility; it is the same market goods and services that regain its equilibrium path with price flexibility. Proponents of flexible exchange rates are less numerous. The observation is made; the exchange rate system is the source of great instability balance of payments and the international monetary system.

Currency - merchandise or not, it has value. Foley (1982) finds correlations and proportionality between money and time of abstract social labour. Foley starts from the following consideration: the added value throughout the production process or set of processes of production multiplied by the value of the currency is equal to the direct labour expended in the production of goods or all goods. The architecture of a common Maghreb currency begins with a status of money giving it a value to arrive at a determination of the relative value (VRM) currency, which is nothing else than the ratio between the proper values of the two currencies. Therefore the exchange rate is expressed as a function of two variables, the relative value of the currency and  $\epsilon t$  variable that expresses speculative and risky behaviours. In the definition of this common currency it would be zero.  $\epsilon t$  is positive in the case of listed freely convertible currency on the foreign exchange markets. By refusing to consider the exchange rate as a price – as it would ultimately be determined by supply and demand – we are immediately located in another area of analysis that gives money a special status: the merchandise expressing the unity of time working to serve as a general equivalent to the goods. Hence the link between own currencies value VPM and added value. Everything happens as if the domestic currency had on the international currency market with a number of achievements or disabilities that are measured by economic fundamentals, the difference in inflation rates, the differential rate of growth, productivity differential, etc. In this confrontation, the exchange market decides whether it validates or not the fixed parity. Whatever the judgment on the behaviour of traders, the information (news) that appears on their teleprinter has real meaning, except speculation. The economic foundations preside fixing the exchange rate, but the expectations and speculations on the future development of these foundations lead to great variability of exchange rates in the short term (sawtooth curve).

How to pass from a determination of the proper value of the currency VPM to its relative value? Returning to the definition of the value of money in terms of Added Value (AV) and having decomposed it, we can go further in assessing the linkages value of money/profit, value of money/salary, value of money/circulating capital or inputs, value of money/capital, etc.

Thus we can evaluate the impact of fluctuations in the price of intermediate goods on the rate of profit and thereby even the value of the currency. We assume in fact a currency is appreciated, which means its purchasing power increases in proportion to the increase in the rate of profit and efficiency of an economy. So anything that can affect the evolution of the rate of profit has a negative impact on the intrinsic value of the currency. The effects of fluctuations of wages on prices and hence on the intrinsic value of the currency know from our point of view different than that described by the dominant theory journey.

I do not consider wage increases as univocal explanation of price increases. Productivity should be integrated as a factor that might justify wage increases. Money is like a mirror reflecting the social relations of production and patterns of

distribution of wealth. All things being equal, there may be a simultaneous growth of profit and wages. On the contrary, an increase in the monetary expression of salary, plus monetary value and price of constant capital, could be a decrease in the rate of profit, or an increase in the market price of the goods. In the latter case the VPM decreases. Money as a social relation between entrepreneurs (\*) and employees plays a role in regulating the rate of profit in the presence of large fluctuations in wages. In addition to the reciprocal causal relationship between money and the movement of profits, wages, means of production and productivity, currency adds a joint state between money and credit in this joint-contradiction.

This highlights the ability to repay a hierarchical endorsed by the banking system (Central Bank =====> second-tier banks) debt. If the credits are not distributed counterparties in the creation of wealth, there is a good chance that some of them will not be repaid. In this case, the currency depreciates, because there is excessive money creation. Once defined the factors influencing the VPM, we will determine the relative value of the currency (VRM). It is influenced by the dynamics of comparison between wages in country A and country B or those of  $W_A/W_B$ . It is the same for the differential profit  $\Pi_A/\Pi_B$ , production  $Q_A/Q_B$ , inputs and means of production  $MP_A/MP_B$ , interest rates  $t_{iA}/t_{iB}$  and the aggregate direct work in both countries  $L_A/L_B$ . VRM is the most objective and realistic measure of the exchange rate if we exclude  $\epsilon t$ , which represents speculative behaviour. It is derived from a dynamic process of international comparisons of data present and future (their anticipation) between two or more countries.

The spotlight will be on the different trends across countries, both structural (organization of work, level of productivity, growth rate, degree of specialization, terms of income distribution) that cyclical (economic, monetary and financial policies). There are structural changes vary according to countries affecting mainly the elements that go into determining the proper value of money i.e. wages, profit, productivity and capital. The conversion of domestic currency into foreign currencies is subject to internal tensions of each national space and distortions that arise from national differences. Rate variability of domestic and foreign profit international economic relations prints a turbulent and unstable character control and commands the incessant movement of capital in search of better physical and financial performance.  
 (\*) In the case of public business, the entrepreneur is the state.

If the relative value of the currency reflects the relationship between the intersect values of the national currencies, it adds a variable measuring  $\epsilon t$  uncertainty, expectations, speculative behavior on the market. In total we have:

$$txc = \epsilon t + VRM$$

along with

txc = exchange rate.

Once the general framework outlined with the definition of the VPM and the VRM, the exchange rate is deduced thereafter. We sought to understand the formation of an exchange rate "cleared" from speculative behavior. The inconvertibility is characterized by an imbalance in the sense that the currencies are not subject to market mechanisms of exchange, except for rare exception. They may not reflect the fundamental balances, as they are set administratively. It is not certain that the rationality of state intervention is greater than the alleged market efficiency. However, the global financial and economic crisis of 2007/2009 teaches us to beware of more "immutable laws of the market" while advocating the mixed public-private policies.

Insofar as the present study addresses the exchange rate policies of two non-convertible currencies, the Moroccan Dirham and the Algerian Dinar, it seems necessary to address the problem of inconvertibility as fixing system of exchange rates outside market mechanisms.

For some (McKinnon, 1988) inconvertibility is a privilege granted to developing countries so they can protect their economies. For others, it is a disability that severely limits trade with their foreign partners. While it is true that we can not build a theory addressing the fastening system of non-convertible currencies, we can nevertheless discuss the consequences and effects.

The focus of this work is to understand how the exchange rate responding only to a decision by the public authorities (not connected with the market and the relative value of the currency resulting from objective economic data) is at the origin of financial imbalances and sustained on the parallel foreign exchange market activity.

The rise of the International Finance reflects the debt crisis and the mismatch between the distributed funds and the wealth created.

This is compounded by unlimited deregulation of financial markets.

We find the same pattern developed at national level on the relationship debt =====> insufficient growth of value added =====> depreciation of the VPM.

Developing countries who borrowed a considerable amount of capital have been unable to pay because their growth was slowed and their economic potential has been unbalanced or even unstructured. Developed countries have not escaped the financial crisis that is crippling their balances. Deficits accumulate and the vicious circle debt =====> Fiscal and monetary restrictions =====> recession =====> Unemployment =====> debt, is self-sustaining.

The weight of debt, external imbalances and weak domestic production to meet the needs of households are behind the development of the parallel currency market. In Algeria, it became so widespread that the rate therein expressed

commanded the official rate. Therefore, the discourse on convertibility seems implausible. This justifies addressing the issue of convertibility in conjunction with black currency markets. The debate is about the relationship between inconvertibility and parallel markets. To better understand the exchange rate policies in Morocco and Algeria, a reference on the theoretical analysis is required. The search for an exchange rate reflecting economic fundamentals of these countries gains ground. The devastation caused by the development of the black market currencies, including Algeria in the 1980s and 1990s, encourages the authorities to seek a default convertibility of the dinar trading that would set the course of the latter as close as possible to an optimum that is yet to be defined. The debate on devaluation testifies the evidence of a sharp research the of value of the Algerian currency. One can question the choice to adopt in the field. Two extremes meet. The first is based on a neo-liberal and monetarist concept that calls for self-regulation by market forces through the development of different flexibilities (prices, wages and exchange rates). The second calls for an administrative fixing of exchange rates.

Theorists form the FMI recommend privatization, divestiture of the state and a shift in the exchange rate. Discussion of SAP (structural adjustment plans) helps to understand the chances of success or failure of such programs and their impact on growth, inflation, exchange rate and employment.