Towards a World Currency

by Garry Jacobs [1]

The international financial instability precipitated by the Sub-prime Mortgage Crisis during the first half of 2008 is symptomatic of more fundamental changes in the global economy that can be permanently and effectively addressed only by the evolution of truly global monetary institutions. Like the proliferation of websites on the Internet, money and global financial assets are multiplying at an unprecedented rate and outstripping the authority and management capabilities of national governments. This article traces historically the origin of recent events in India and global financial markets to evolutionary changes in the world-at-large, examines the inherent instability and high costs of the present system, and shows how they argue strongly for the eventual emergence of a single world currency and world central bank.

For the past five years, the whole world praised India's phenomenal economic achievements and its dazzling future prospects. Annual growth rates of 9 percent, surging corporate profits, burgeoning forex reserves, which have crossed $300 billion, and a stock market that rose more than 500 percent from January 2003 to December 2007. Then suddenly the tone changed and praise gave way to criticism, wild enthusiasm to metered restraint. A recent article in *Business Week* catalogs the Indian economy's new-found ills—reeling inflation, fleeing foreign investment, slower growth and a 50 percent fall in the stock market back to the level it crossed eighteen months earlier.[2] In 2007 foreign investors transferred $19 billion to India. In the first six months of 2008, they withdrew $5.5 billion. During this same period the rupee depreciated 10 percent against the US dollar and 17 percent against the Euro. Suddenly the shine has been taken off India's achievements and the government is being blamed where earlier it knew only praise.

Yet the reasons for this sudden dramatic reversal have very little to do with any action of the Government of India, its business sector or its people. The real source lies elsewhere, outside the country in the international arena where oil prices have tripled in five years and international food grain prices have nearly doubled since 2005. Spurred by the Sub prime Mortgage Crisis in the USA, the world's financial markets have gone into a tailspin. Direct losses by the global banking system due to the Sub prime Crisis are upwards of $500 billion, but the destruction of wealth has been far greater. Bloomberg estimates global stock market losses of $11 trillion during the first half of 2008.[3] The net fall in real estate values in the USA has wiped out another $3.7 trillion of wealth in two years.[4] During the same period, the US dollar has lost 25 percent of its value against

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[2] Kripilani, Manpreet (2008) India's Economy Hits the Wall. *Business Week* [Internet], July 1, Available from: <http://www.businessweek.com/globalbiz/content/jul2008/gb2008071_743900.htm?chan=top+news_top+news+index_news+%2B+analysis> [Accessed 12 July 2008]

[3] Martin, Eric (2008) U.S. Stocks Tumble, Sending S&P 500 to Bear Market; Bank Slide [Internet], *Bloomberg.com*. Available from: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a2VxF1hrlYuY> [Accessed 16 July 2008]

[4] Figure of decline in real estate wealth is based on the US Federal Reserve's estimate of the total value of residential real estate as $20.6 trillion at the end of 2006. Available from: <http://www.stlouisfed.org/news/speeches/2007/10_09_07.html> [Accessed 12 July 2008]. The figure $3.7 trillion was adjusted based on the Standard & Poor Case-Shiller Home Price Composite 20 index for April 2006 to April 2008.

the Euro. Central banks and sovereign wealth funds are reducing their holding of US bonds. Markets are jittery. Some of the world's leading commercial and investment banks, including Citibank, Merrill Lynch, Société Generale, and UBS are cutting their losses and refinancing their balance sheets. Delegates to a recent meeting of the UN Economic and Social Council expressed fears that the present crisis could wipe out a decade of solid growth in developing countries.[5] A recent report of the Bank for International Settlements (BIS) states that the current turmoil in international financial markets is without precedent in the post-war period.[6] The growth rate of world economy, which was 3.8 percent in 2007, is expected to decline by 50 percent in 2008.[7]

What happened? Theories abound to explain the reasons for this sudden and catastrophic implosion. A slew of accusations have been cast, blaming recent events on the rapacious practices of international bankers, commodity speculators, multinational oil and food corporations, petroleum exporters, hedge funds, a debt-ridden consumption-addicted American public, or an increasingly energy-hungry China and India. But none of these contributing factors, either individually or in combination, are sufficient to explain what is happening in the world of international finance today. Factors such as these fail to take into account the momentous forces that are reshaping global financial markets. Finance is only one aspect of economy. Economy is only one dimension of society. The answer lies in the revolutionary changes that are transforming global society in general and the global economy in particular.

Globalization of Financial Markets

The term globalization is so often and widely applied that little thought is given to what it actually means. During the past millennium humanity has evolved from an organization of villages, tribes, city-states and petty kingdoms into an international system of nation-states. It is now in the process of moving from nation-states to a single, integrated global community. This movement is evidenced virtually in every field and aspect of life, witness the proliferation of international institutions, the expansion of NATO and the European Union, the rising tide of international travel and immigration, the explosive growth of global communications and, since 1995, the exponential growth of the first truly global social organization, the World Wide Web.

The evolution of the global economy and international financial markets mimic this wider social movement. World trade in merchandise and services has grown four-fold since 1990 and has doubled in the past seven years.[8] Annual foreign direct investment has multiplied seven-fold since 1990 to exceed $1.5 trillion.[9] The

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Available from:
<http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_csmahp/0,0,0,0,0,0,0,0,0,1,5,0,0,0,0,0.html> [Accessed 13 July 2008].

[5] Economic and Social Council. (2008) ECOSOC/6353 [Internet]. United Nations. Available from: <http://www.un.org/News/Press/docs/2008/ecosoc6353.doc.htm> [Accessed 12 July 2008].

[6] BIS 78th Annual Report. (2008) *Conclusion: the difficult task of damage control* [Internet]. Available from: <http://www.bis.org/publ/arpdf/ar2008e8.pdf> [Accessed 10 July 2008]

[7] World Economic Situation and Prospects 2008. (2008) Update as of mid-2008 [Internet]. United Nations. Available from: <http://www.un.org/esa/policy/wess/wesp2008files/wesp08update.pdf> [Accessed 8 July 2008]

[8] Based on WTO: 2008 Press Releases. (2008) *WTO: developing, transition economies cushion trade slowdown* [Internet]. Available from: <http://www.wto.org/english/news_e/pres08_e/pr520_e.htm> [Accessed 4 July 2008].

cumulative stock of FDI tripled between 1980 and 1990 and has since risen another seven-fold to over $14 trillion. International bank lending rose from $265 billion in 1975 to $40 trillion in 2008.[10],[11] International financial flows, which most directly relate to the issue under discussion, rose from $12 trillion in 1980 to $167 trillion in 2006, a fourteen-fold increase in twenty-six years.

At the same time, the ownership of investible funds is changing rapidly. In 1990, foreign investors owned less than 10 percent of equities worldwide, compared with 25 percent today. While the US continues to represent roughly one-third of the world financial market, foreign investors now hold about sixty percent of all US Treasury securities, compared to twenty percent in 1990. They also own 25 percent of all US corporate bonds and 12 percent of corporate stocks. China alone holds $1.4 trillion in foreign reserves, most of it dollar denominated, Japan is holding about $900 billion, and the surge in oil prices has substantially deepened the investment portfolios of oil exporting nations. Foreign capital flows into the US almost quadrupled in the past eleven years and about a quarter of those funds now represent official flows from foreign governments. Global forex reserves have risen nearly ten-fold since 1990 to $7.5 trillion in early 2008.

The process of globalization dates back for centuries. But during the past seventy five years the speed and magnitude of the movement reached a critical stage where the existing social organization was no longer capable of managing the energies released by the process. The very nature of the nation-state system is both a source of that energy and a source of the instability generated when the magnitude of these energies exceed the capacity of national level institutions to constructively harness. This became evident politically when two devastating world wars demonstrated the gross inadequacies of a system of global governance based entirely on balance of power politics practiced by sovereign nation states, leading eventually to the evolution of the multilateral United Nations system that we have today; still patently inadequate, but far better equipped for coordinated action than the bilateral forms of coordination that preceded it. Militarily, the inherent instability arising from the nation-centered, competitive security system in place until 1950 precipitated the onset of the Cold War and the development of cooperative security alliances such as NATO, which eliminated war between erstwhile rivals in Western Europe but loomed as a competitive threat to nations excluded from its orbit. The tremendous hazards and waste engendered by a competitive security system compel us to recognize that for the system to be fully effective it must be inclusive and comprehensive. This has led to increasing calls for establishment of a unified European Army and a global military force under the auspices of the UN.

The same shift from independent to coordinated action has occurred in the field of finance. The evolution of global financial institutions is a work in progress, proceeding slowly and fitfully in an inevitable direction, but subject to the same types of convulsive and destabilizing disturbances that wracked the international

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[9] Report of the High-Level Panel on Financing for Development. (2001) *Global Financial Profile* [Internet]. Available from: <http://www.un.org/reports/financing/profile.htm> [Accessed 1 July 2008].
[10] Choudhury, Ranabir Ray (2005) Tracking the Global FDI Movement. *Business Line* [Internet], Sep 19. Available from: <http://www.thehindubusinessline.com/2005/09/19/stories/2005091900080800.htm> [Accessed 15 July 2008] and UNCTAD Press Release (2003) *Developed Countries Dominate World FDI stock* [Internet], Aug 25. Available from: <http://www.unctad.org/Templates/webflyer.asp?docid=4032&intItemID=2261&lang=1> [Accessed 15 July 2008].
[11] Data on international bank lending from Bank of International Settlements Quarterly Review, September 2008, A7 <http://www.bis.org/publ/qtrpdf/r_qa0809.pdf>

political arena during the 20th century. The current national and international structure of financial institutions established to manage banking and investment activities is grossly inadequate to meet the challenges of a single global market, where more than $5.3 trillion in traditional and OTC foreign exchange transactions take place every day in search of short term profits wherever local conditions appear most attractive.

The international financial situation today is akin to that which prevailed in the USA in the first decade of the 20th century, when rapid industrial and commercial expansion flooded the nation's capital markets with a huge surplus of money seeking lucrative returns in the stock market and commodity markets. In the absence of effective regulation, these funds were highly leveraged through loans by commercial banks and trust banks. The Panic of 1907 occurred because most of the surplus money was channeled into speculation rather than into productive investments that would stimulate employment, raise incomes and raise consumer demand. Spiraling equity prices lured even small investors to seek windfall profits in the market. The lesson of 1907 was not lost on the US government or the bankers. Six years later the US Federal Reserve system was established to regulate the banking industry and prevent speculative squandering of the nation's savings. The system consisted of twelve region reserve banks presided over by representatives of the banking industry and intended to coordinate monetary policies for the nation under the supervision of a board in Washington.

In practice the decentralized structure of the Fed, functioning in almost complete independence from Washington, proved inadequate. Again in 1929 the same tendencies precipitated the Great Crash and plunged the nation into the Great Depression. Only then did laissez-faire capitalists, bankers and politicians become convinced of the need for effective centralized regulation of the banking and financial industries. The Securities and Exchange Commission was set up in 1934 and the Fed was restructured in 1935, concentrating most of the power in the hands of a Washington-based, government-appointed board of governors. The modified structure was dramatically more effective than its predecessor and provided a far more stable basis for domestic economic growth.

Bretton Woods & Its Aftermath

After World War II, the Bretton Woods Conference established a new system for international financial management based on the existing system of national central banks and supported by the IMF and the World Bank. Bretton Woods can be likened to the original constitution of the Fed. Its chief function was coordination, leaving almost all the power concentrated in the hands of national central banks. The fixed exchange rate system agreed upon provided a relatively stable basis for international financial management over the next twenty-five years. But by the late 1960s, the rapid growth of international financial activities exposed the inadequacies inherent in a nation-centric system, leading to abandonment of the gold standard by the USA and of the fixed rate exchange system by most countries in the early 1970s. The old system of exchange rate management broke down because it was inadequate to meet the needs of a rapidly expanding global economy. Thus, each country was left to fend for itself.[12]

The end of the Gold Standard was followed by financial deregulation of banks including offshore banking, globalization of the bond markets in the 1980s, globalization of trade under the WTO, banking and equity markets in the 1990s, most importantly, globalization of risks, so that today a breakdown in the system anywhere can generate powerful global shockwaves like those that bombarding India in mid-2008.

The 1970s marked the beginning of a new phase of increasing financial instability. The US dollar was devalued twice during the decade. The first oil crisis occurred in order to re-establish the international price of oil. The US economy suffered double-digit inflation and low growth, giving rise to a new phenomenon, stagflation. This was followed in succession by financial crisis in Latin America's southern cone in 1979, the developing country debt crisis in 1982, the US Savings and Loan debacle in 1985, the bursting of the Japanese asset bubble and the ensuring financial crisis in 1989, Europe's ERM crisis of 1992, the Mexican crisis of 1994, the East Asian crisis of 1997, the Russian crisis of 1998 and the Brazilian crisis of 1999.[13] Michael Hutchison and Ilan Neuberger estimated that currency crises in twenty-four emerging market economies during the years 1975-1997 were responsible for a 5-8 percent reduction in GDP output over a typical two-to-three year period, before returning to a normal growth rate.[14]

The Wild West of Finance

Money is a form of social energy which grows by movement. The more rapidly it moves, the faster it grows. Organization transforms raw energy into productive power, the way a dam and hydroelectric power plant convert the kinetic movement of a raging river into useful electricity. When the organization is insufficient to contain the power generated, it can generate a short circuit, a breakdown or an explosion. Like other forms of energy, money requires an appropriate structure to harness and apply its power constructively. When the power released is greater than the carrying capacity of the organization—in this case, the financial organization—designed to contain it, it can result in devastating damage to the wider social fabric.

The global financial instability of the past one year is a symptom of a deeper malady, or rather an expression of a deeper evolutionary process. It is possible that the present crisis will be temporarily overcome by some patchwork mechanism and followed a few years later by an even greater bout of investment hysteria followed by an even more precipitous collapse of prices and disappearance of wealth. There are striking parallels between the instability of US financial markets in the early part of the 20th century and in global financial markets today. Now, as then, the market is dominated by highly leveraged funds in search of highly speculative returns, rather than productive investment. In 1973 daily foreign exchange trading around the world ranged between $10 and 20 billion, not exceeding twice the value of world trade. By 1992, financial

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[12] Mundell, Robert. (2003) The International Monetary System and the Case for a World Currency. *Leon Kozmiski Academy of Entrepreneurship and Management (WSPiZ) and TIGER*, Distinguished Lectures Series n. 12, Warsaw, 23 October.

[13] Eatwell, John and Taylor, Lance (1999) *Global Finance at Risk,* Polity Press. .

[14] Hutchison, Michael and Neuberger, Ilan (2001) *Output Costs of Currency and Balance of Payments Crises in Emerging Markets* [Internet], September 2001. Available from: <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=288721> [Accessed 2 July 2008].

flows equaled fifty times world trade.[15] In the early 1970s, 90 percent of the currency trading was aimed at financing trade and 10 percent for purely financial transactions. By 2004, the mix was reversed with 90 percent of the daily trading for non-trade related purposes.[16] Today annual international financial flows are equivalent to 114 times the value of goods and services traded globally and roughly 1300 times annual foreign direct investment.[17]

The world today is in a position similar to that of the US financial system one hundred years ago. As an Economic Report to US President Clinton observed in September 1998, "Financial liberalization and innovation have rendered national boundaries irrelevant. If regulation was necessary within national boundaries, then it is now equally necessary in the international market."[18] High volatility, highly liquid capital, an ever-expanding complex of markets, rapid innovation of new financial products, high susceptibility to contagion, and high systemic as well as individual risk characterize global financial markets. Welcome to the wild west of global finance. Today, led by the US Federal Reserve, the world's central bankers confer frequently behind closed doors to stabilize financial markets and exchange rates, just as J.P. Morgan cajoled the money-centered banks of New York to deal with the onset of Panic in 1907. The informal arrangements of the money-centered banks were not sufficient then to prevent highly leveraged speculation, periodic panics, banking crises and huge financial losses to the US economy. The informal cooperation engendered by the Basel Committee and the Financial Stability Forum are not sufficient now.

The Price of Instability

The global economy suffers from the very same syndrome today—high levels of instability and massive destruction of wealth. The remedies for the Sub prime Crisis recently proposed by the US Federal Reserve are not going to solve the problem of global financial instability. Expanding the regulatory powers of the Fed and tightening up the mortgage business are not going to prevent future financial calamities in the USA or abroad. They will simply divert the pressure of the world's still rapidly accumulating capital assets to other sectors or other markets. No matter how much we cherish an illusory sense of control over our own destiny, national level financial management is simply no longer capable of dealing with an increasingly unified global financial market. Europe has been far more willing to recognize the benefits of ceding financial sovereignty to the European Central Bank and is now reaping the benefits of that foresight. Nor will negotiating global banking standards under the Bank of International Settlements be sufficient. More radical steps are needed. High volatility, instability, crisis, panic and loss are not the only deficiencies in the current system. It is also a high cost system. Apart from periodic catastrophic losses, even when the system

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[15] Eatwell, John and Taylor, Lance (1999), Op. cit., p.4.

[16] Litan, Robert E. and Steil, Benn (2006), citing Richard Cronin's,"Financial Crisis: An Analysis of US Foreign Policy Interests and Options," April 1998, Congressional Research Report, pp.98-74, Report for the United States Congress, at http://countingcalifornia.cdlib.org/crs/ascii/. Quoted in: Bonpasse, Morrison. (2006) *Single World Currency* [Internet]. Endnote 55, p 68. Single Global Currency Association (USA). Available from: <http://www.scribd.com/doc/265090/EcopyNo15forFreeUnlimitedDistribution?query2=%22thomas%20oberlechner%22> [Accessed 6 July 2008]

[17] UNCTAD Press Release. (2008) *Foreign Direct Investment Reached New Record in 2007* [Internet], United Nations. Available from: <http://www.unctad.org/Templates/webflyer.asp?docid=9439&intItemID=1528&lang=1> [Accessed 18 July 2008].

[18] Eatwell, John and Taylor, Lance (1999). Op. cit., p.21.

functions smoothly, it involves exorbitant costs. Most obvious is the direct cost of global financial transactions, estimated at $400 billion a year.[19]

Next, is the cost of maintaining high levels of forex reserves in order to protect national currencies from attack. The UN estimates that the interest charges incurred by developing countries in holding these reserves costs upwards of $100 billion a year.[20] The forex reserves of developing countries presently exceed $4.5 trillion, funds which could be better utilized for investment in domestic physical infrastructure and human resource development.

Of even greater importance is the lost opportunity cost in the form of investment foregone when reserves are piled up. In addition, fluctuating currency values raise domestic interest rates and reduce the value of real and financial assets in countries subject to high currency risk. Richard Cooper noted in 2000 that "among Latin American countries long-term fixed interest mortgages exist only in Panama, a country that uses the US dollar domestically." The inability to raise longer term mortgages depresses property prices considerably.[21] Edmunds and Marthinsen estimated that monetary union in the Euro zone raised asset values by $5-11 trillion between 1993 and 2003.[22] Bonpasse argues that introduction of a single world currency would result in a more equal ratio between GDP and asset values around the world, which he estimates could raise asset values by as much as $36 trillion globally.[23]

The present international system also results in significant costs in terms of negative or lower than optimal rates of GDP growth. As a result of the East Asian Crisis, Indonesia's GDP declined by 13.8 percent in 1998. Argentina's GDP dropped 7 percent in 1989 and 10.9 percent in 2002. In a study of twenty-four merging markets during the period 1975-1997, Michael Hutchison and Ilan Neuberger estimate that currency crisis accounted for a 5-8 percent reduction in GDP over a typical two-to-three year period, before a return to normal rates of growth.[24] In India it is estimated that a significant 3.5 to 4 percent of GDP is not invested owing to RBI's forex policy.[25] Channeling these forex reserves into the global banking system could support a total expansion of global credit for investment of up to ten times the value of the reserves themselves, sufficient to finance the whole world's development needs many times over. Critics will, no doubt, caution against the inflationary effects of such massive investment, but when rightly targeted on investments in education, vocational training, green energy, infrastructure, housing and related fields it will lead to the rising productivity, employment and incomes needed to put surplus funds to productive use.

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[19] Bonpasse, Morrison, Op.cit., p.3..
[20] UN Economic & Social Council. (2008) *World Economic and Social Survey 2008: Overcoming Economic Insecurity* [Internet], United Nations. Available from: <http://daccessdds.un.org/doc/UNDOC/GEN/N08/312/30/PDF/N0831230.pdf?OpenElement> [Accessed 18 July 2008].
[21] Cooper, Richard (2000) *Toward A Common Currency?* In: Conference on the Future of Monetary Policy and Banking, organized by the IMF and the World Bank, June 2000 [Internet], Available from: <http://www.world bank.org/research/interest/confs/upcoming/papersjuly11/cooper.pdf> [Accessed 2 July 2008], p.19.
[22] Edmunds, John and Marthinsen, John. (2003) *Wealth by Association: Global Prosperity through Market Unification*. Westport, CT: Praeger Publishers, pp. 43-77.
[23] Bonpasse. Op.cit., p.35.
[24] Hutchison, Michael and Neuberger, Ilan (2001) *Output Costs of Currency and Balance of Payments Crises in Emerging Markets* [Internet], September 2001. Available from: <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=288721> [Accessed 2 July 2008].
[24] Marongiu, Federico. (2005) *Towards a New Set of Leading Indicators of Currency Crisis for Developing Countries: An Application to Argentina* [Internet], draft of March 2005. Available from: <http://econwpa.wustl.edu/eps/pe/papers/0512/0512011.pdf> [Accessed 4 July 2008], p.3.

Over the years, a number of partial measures have been introduced to stabilize the international system. In 1969 the IMF created its special drawing rights (SDRs), essentially a fiat paper gold currency whose value was tied to gold, as an international reserve asset to supplement the existing official reserves of member countries. In the aftermath of serious disturbances in international currency and banking markets, the Basel Committee was established in 1974 by the Group of Ten to coordinate policies for banking regulation. In the 1980s, the Bank of International Settlements also became the home of a tripartite committee of banking, securities and insurance regulators.[26]

The International Organization of Securities Commissions was established in 1987 to set minimum standards for securities firms. The Financial Stability Forum was set up by the G8 in 1999 in response to the East Asian Crisis to establish consistent international rules, but it lacks the critical capacity of a central bank to act as a lender of last resort.

A World Currency

There is not much meaning in harping on the disadvantages of the present system in the absence of viable alternatives. Fortunately there is a viable alternative which has attracted renewed attention in recent years. That alternative is the creation of a global central bank and a single global currency. The idea itself is not new. Both Britain and the USA came to the Bretton Woods conference in 1944 with proposals for a world currency. The British supported a plan developed by Keynes for a world reserve currency called the bancor administered by a central bank vested with the power to create money. President Franklyn D. Roosevelt directed his secretary of the treasury, Henry Morgenthau Jr., to also develop plans for a world currency, though the US subsequently withdrew support for domestic political reasons.[27]

The final plan for establishment of the International Monetary Fund, which focused on maintaining international price stability rather than promoting economic growth, created a fixed pool of national currencies as opposed to a world central bank capable of creating money. The system served adequately until the late 1960s, when it was overtaxed by the vast expansion of international financial transactions, increasing levels of monetary interdependence, the emergence of international banking consortia, and—with the rise of Europe and Japan—a more widespread distribution of global economic power. In recent years a number of eminent economists have also argued strongly in favor of a radical revamping of the international financial system, including proposals for establishment of a global financial authority with powers far exceeding those of the IMF and BIS and a world currency to be utilized either in parallel with or in place of the present cumbersome and costly system of national currencies. Twenty-five years ago, Richard Cooper proposed what he called a 'radical scheme' for the 21st century — "creation of a common currency for all the industrial democracies with a common monetary policy and a joint Bank of Issue to determine that monetary policy."

With foresight, he observed that when communication, transport, technology dissemination, trade in both goods and services, corporate strategy, banking and investment are becoming global and expansive catalysts

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[26] Eatwell and Taylor, Op. cit., p.21.
[27] Mundell, Robert. (2005) The Case for a World Currency, *Journal of Policy Modeling,* p. 468.

of world development, a national level monetary system is out of sync and no longer a viable option. Arguing that national level regulation cannot be effective in a global market, Cooper proposed five central banking requirements needed to convert the IMF into a world central bank empowered to issue a common world currency.[28] Two years ago, Joseph Stiglitz proposed that the adoption of SDRs as a reserve currency by the national central banks could pave the way for the eventual creation of a single world currency.[29]

The 1999 Nobel laureate economist, Robert Mundell, has been an outspoken advocate of introducing a common currency. "The benefits from a world currency would be enormous. Prices all over the world would be denominated in the same unit and would be kept equal in different parts of the world to the extent that the law of one price was allowed to work itself out. Apart from tariffs and controls, trade between countries would be as easy as it is between states of the United States. It would lead to an enormous increase in the gains from trade and real incomes of all countries including the United States."[30] Mundell has suggested that a Global Central Bank could issue a global currency backed by reserves of dollars, yen, euros, and gold."[31]

In spite of sound economic backing, proposals such as these still encounter the skepticism which precedes every new stage of the world's evolutionary social progress. During the 1920s bank suspensions averaged between 366 and 975 annually. During the early 1930s they rose to a high of 4000. In spite of the high bank fatality rate, when establishment of a Federal Deposit Insurance Corporation was proposed in 1934 to guarantee savings accounts in commercial banks, major opposition came from apparent beneficiaries of the act, the American Bankers Association. After FDIC was introduced over the objections of the banks, the phenomenon of panic banks and collapse virtually disappeared.[32]

Conservative central bankers and politicians—obsessed with preserving national sovereignty over management of the domestic economy at a time when international market forces have undermined the very notion of national markets—no doubt scuff at the proposal of a world currency, but it may not take much to turn the tide of opinion in the other direction. As Mundell observed, "It looks as if we are a long way from that position [a world currency] now. Yet it is surprising how quickly moods can change and producers of statecraft can escape the old modes of thought."[33] Eatwell and Taylor sound a similar note in calling for establishment of a World Financial Authority and fully empowering the IMF as a true lender of last resort to the international community.[34] "What is utopian one day is conventional wisdom the next."[35]

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[28] Cooper, Richard. (1987) *The International Monetary System: Essays in World Economics*, MIT Press, p.259.
[29] Stiglitz, Joseph. (2006) *Making Globalization Work*. W.W. Norton & Company, Inc..
[30] Mundell, Robert. (2000) *Exchange Rates, Currency Areas and the International Financial Architecture* [Internet] Remarks delivered at an IMF panel, 22 September 2000, Prague, Czech Republic. Available from: <http://www.usagold.com/gildedopinion/mundellprague.html> [Accessed 20 July 2008].
[31] Mundell, Robert. (2002) *Currency Areas, Volatility and Intervention* [Internet], Columbia University, Discussion Paper #: 0102-09, January 2002. Available from: <http://www.columbia.edu/cu/economics/discpapr/DP0102-09.pdf> [Accessed 17 July 2008], p.11.
[32] Greider, William. (1989) *The Secrets of the Temple: How the Federal Reserve Runs the Country*, Simon & Schuster, p.310.
[33] Mundell, Robert. (2000) *Exchange Rates, Currency Areas and the International Financial Architecture* [Internet] Remarks delivered at an IMF panel, 22 September 2000, Prague, Czech Republic. Available from: <http://www.usagold.com/gildedopinion/mundellprague.html> [Accessed 20 July 2008].

[34] The IMF has assumed some powers as a lender of last resort after the Mexican bond crisis in 1994 and the East Asian Crisis in 1998. However, it is hampered by several limitations; notably, the limits on how much it can lend and the slow

Economics is not the only perspective from which the establishment of a world currency is justified. It is unfortunate that other social scientists have failed to recognize the broader significance of money as a social institution and to examine its role and relevance from the wider perspective of global social evolution. No partial system—political, military, economic or financial—can be immune from crisis and potential collapse, because it is always subject to impacts from that which lies outside the system. Only a comprehensive and inclusive system that embraces the whole can be immune from threats and instability. The current nation-centric financial system is partial and flawed, because it concentrates power at the national level and leaves even the strongest currencies subject to external impacts beyond the control or power of national central banks to regulate. It also supports a competitive system of global trade that necessitates the generation of deficits in some countries to offset the surpluses in others. As Stiglitz has pointed out, "Thus deficits are as much the fault of surplus countries as they are of deficit countries. These deficits are like hot potatoes: if one country manages to get rid of its deficit, it must show up elsewhere. That is one of the reasons why the world, under current arrangements, has faced a succession of crises. When Korea suffered a crisis and converted from a deficit to a large surplus, other countries around the world wound up with larger deficits."[36] Paul Volcker, former chairman of the US Federal Reserve, summed it up this way: "If we are to have a truly globalized economy, with free movement of goods, services and capital, a world currency makes sense. That would be a world in which the objectives of growth, economic efficiency, and stability can best be reconciled." [37]

Trade and finance are themselves only parts, of which society is the whole. Money can no more insulate itself from impacts coming from outside the sphere of finance than politics can insulate itself from economics or economy can insulate itself from environmental impacts. Thus, in order to achieve the goals of maximum stability and maximum growth, a global financial system must be fashioned as an integral part of a greater whole which is global governance. Furthermore, financial stability and economic growth are not the only functions which money serves in society. Money is an instrument for harnessing the unlimited potentials of society in every sphere. Like language, money is a catalytic, creative power, a force and form of social organization. In its essence it is a transformative force incessantly pressing for greater social integration. It is a universal medium for promoting constructive social interactions. Production, trade and finance are direct functions of money. But money is also deeply integrated with politics, security, the environment, education, scientific development, health, and every other aspects of human welfare. What happens to money influences every field of human existence, not merely production and living standards. A truly global financial system is laden with rich possibilities for advancing the entire agenda of human progress. Left unaltered, it is also fraught with dangers that could threaten the gains of civilization over the

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and cumbersome process by which members must collectively approve such action. Thus, it lacks the inability to inject liquidity as and when required unconditionally and without limit as national central banks do now.

[35] Eatwell and Taylor, Op.cit.,p.xi.

[36] Stiglitz, Joseph. (2003) *Dealing with Debt: How to Reform the Global Financial System* [Internet], Harvard International Review, Spring. Available from: <http://www.globalpolicy.org/socecon/bwi-wto/critics/2003/sp03reform.htm> [Accessed 21 July 2008].

[37] Volker, Paul. (2000) Globalization and the International Finance System [Internet] Speech delivered in Bangkok, Thailand, Jan 27. Available from: <http://www.trilateral.org/membship/membtxts/pv/000127.htm> [Accessed 8 July 2008].

past century, as illustrated by the collapse of Germany's social structure after World War I and the collapse of national confidence and aspirations during the Great Depression.

Based on the historical record, radical steps toward a single world currency are unlikely until or unless humanity faces an even more devastating round of financial instability than that which is currently circling the globe. Yet it is not the potential dangers of inaction that are of greatest significance. It is the positive opportunities for radically accelerating global progress within a short span of time, far greater even in speed and magnitude than the dramatic and substantial progress which the world has made since the end of the Cold War. A single world currency is not the last step in global financial management. It is the first logical step in the evolution of a truly democratic system of global governance, peace and security for all nations, and universal prosperity.