

# The world needs to begin planning now for a single global currency - and save the world trillions

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## **Abstract**

The recent global financial turmoil brought the world to the brink of monetary collapse, and reminded us yet again that the current multicurrency system has excessive risks and costs. The only long term alternative is to deliberately move to a single global currency, managed by a global central bank within a global monetary union, and the time to begin planning is now.

As Martin Wolf recently acknowledged in the Financial Times, "...the dollar-based global monetary system is defective. It would be good to start building alternative arrangements" [Wolf (2009)]. The best "alternative arrangement" is a single global currency, managed by a global central bank within a global monetary union, and now is the time to begin planning for that single global currency.

Mr. Wolf agrees with the Chinese Central Bank Governor, Zhou Xiaochuan, who stated last Spring, when proposing a new global reserve currency, that it no longer makes sense for the currency of one nation to have such a primary role in the global monetary system as the U.S. dollar. This statement echoes former Federal Reserve Chair Paul Volcker's wise refrain, "A global economy requires a global currency."

The American colonial revolutionaries in the 1770s argued, "no taxation without representation" and the adaptation of that phrase to global finance, is "no global currency without representation." There are no other countries sitting at the tables at the U.S. Federal Reserve Board and that status quo is increasingly recognized as unfair and risky.

This year, due in part to the global financial turmoil, there has been increased discussion of 'replacing' the dollar, and one ominous headline read, "The demise of the dollar." The best model we have for such a global currency change is the 20th century replacement of the U.K. pound by the U.S. dollar. However, that transition occurred gradually in pre-digital world. Replacing the dollar with another national currency, or even a regional monetary union currency, will not be sufficient. Instead, the next global currency should be a single global currency and such a currency should incorporate the U.S. dollar and not just push it aside. The better model for the dollar's future incorporation into a global monetary union is the role of the deutschmark in the formation of the European monetary union.

We do not need yet another global currency, whether reserve or not. What we need is a global monetary system that will provide monetary stability, and that stability cannot be achieved in a multicurrency system, regardless of which global reserve currency is on top. By definition, in a multicurrency system there are unpredictable currency fluctuations and risky global imbalances. These are not new problems.

The IMF was established by the 1944 Bretton Woods Conference to cope with, or ameliorate, the two fundamental problems which bedeviled the multicurrency world: currency fluctuations and global imbalances. The elegance of a single global currency is that it will solve both problems. To repeat, the establishment of a single global currency will eliminate currency fluctuations and will eliminate the problem of global imbalances. What the IMF should do is to initiate research and planning for such a currency, and then plan a role for itself in the new system as part of the global central bank. If the IMF does not plan to conduct such research and planning, then another organization such as the G20, the Bank for International Settlements, the OECD, or the European Central Bank should do so.

At the recent G20 conference in Pittsburgh, the problem of global imbalances was recognized by the G20 countries as one of three major concerns. The fear is that if the U.S. government continues to run its gigantic deficits, the world's confidence in soundness of the U.S. will decline; and when confidence in a government declines, the value of its currency declines, and the risk of holding assets in that currency increases. That is why the future single global currency should be managed by a representative global central bank, the confidence in which is not dependent upon the fiscal fortunes on one nation, just as the euro is managed by the European Central Bank. Three of the G20 countries, France,

Germany and Italy, are already in a monetary union and there are zero currency fluctuations among them and zero currency imbalances. This is not science fiction. Monetary unions work.

The U.K. and Turkey will eventually join the euro and other G20 countries are likely to form the cores of future regional monetary unions, such as Argentina and Brazil, Japan and China, and South Africa. Finally, the regional monetary unions will join with each other and with one or more of the national currencies. If the Fed were to open up its decision-making to its dollarized currencies, and to possible monetary union partners as Canada and Mexico, the dollar could play a larger role in the future single global currency. Once the 'tipping point' is reached where enough national monetary union currencies merge together to support approximately 40-50% of the world's GDP, that currency will be anointed as the single global currency. During the movement toward that goal, one or more international monetary conferences will legitimize and confirm the process and the goal. Sixteen countries now use the same currency in the EMU, and 13 countries use the West African Franc, and five use the Eastern Caribbean dollar. Why can the 192 U.N. members not use one currency? They use one time and calendar system, and one metric system with a few diminishing exceptions, and one internet system, and share many other global standards. As Robert Mundell has stated, the existing multicurrency system is "absurd."

The goal of the Single Global Currency Association, ironically based in the U.S. with website [www.singleglobalcurrency.org](http://www.singleglobalcurrency.org), is a single global currency, managed by a global central bank within a global monetary union by 2024, which is now 15 years away. However, the process need not take that long. If the decision makers in the U.S. and EMU decided to merge the dollar and the euro into a monetary union, that could be accomplished in less than five years, and that merged currency, whatever its name, would become the single global currency. Other potential mergers could also be executed rapidly. The expansion of the EMU is once again gathering momentum, after many E.U. members, and Iceland, too, understood during the current global financial turmoil that belonging to a large monetary union can protect a country against currency collapse, and the larger the better. We will never know how close the world came to global financial and currency collapse, but why continue to run the risk?

The claimed benefits of a single global currency deserve serious study. In addition to eliminating currency fluctuations and global imbalances, the adoption of a single global currency will save the world U.S.\$400 billion annually in foreign exchange transaction costs, which come from trading U.S.\$3.8 trillion every trading day. As there will be no currency risk, there will be no need for foreign exchange reserves. Indeed, by definition, there will be no foreign exchange, except in non-circulating private and museum collections. Without currency risk, the values of assets in countries presently or recently beset with high currency risk and currency failure, such as Iceland, Zimbabwe, and Argentina, will increase, by trillions.

Around the world, there are hundreds of economists who write hundreds of articles each year about the intricacies of the current multicurrency system, especially about why currencies fluctuate and about currency exchange rate regimes. The truth is that we will never understand the existing multicurrency system well enough to manage it without substantial risk and cost. There are simply too many variables. It cannot be done. Instead, we must study its future replacement. Instead of wasting time researching why the existing, and doomed, currencies rise and fall, we should look forward and study how to make the future global monetary union work. For example, what tools should be available to control real estate and stock equity bubbles without the national ability to control global interest rates?

The primary goal of the global central bank should be the same as for the ECB, monetary stability, and if so established, the world will see lower worldwide inflation and interest rates.

Once these claims are proven valid, then the leaders of the world's monetary systems will need to agree on the goal of a single global currency, just as the leaders of Europe agreed in the 1980s on the goal of a common currency. When the goal is openly acknowledged and its benefits widely understood by the people of the world, they will demand its implementation, because what the people of the world want in a monetary system is stable money. Hopefully, we will achieve this goal without another global financial crisis to focus our attention on the need for monetary stability. Our challenge is to move to a single global currency deliberately and determinedly, and thereby save the world - trillions.

In conclusion, the world must begin now to plan for a single global currency to be managed by a global central bank within a global monetary union. We can no longer afford the excessive risks and costs in the current multicurrency system

### Reference

Wolf, M., 2009, "The rumours of the dollar's death are much exaggerated", Financial Times, 13 October