A single global currency

The financial markets of the world have been an integrated market as the development of the globalization. However, the free movement of finance across the different nations over the same period, following financial liberalization, makes the global financial and economic market unstable because of the fluctuation of the exchange rates between different global currencies, such as the dollar, euro pound and yen. Hence, a global single currency is believed to be an effective way of alleviating the fluctuation of financial market, meanwhile increasing benefits and improving business certainty for business groups, especially financial institutions. However, the issue of a global single currency still faces many obstacles, for instance, which country will have the power to issue it, the independence of each country’s monetary policies and the damage to the benefits of the nations who issue current global currencies. The essay will examine that why we need a global single currency, the obstacles that should be solved and why it will not be issued in a near future.

The reason why we need a global single currency is the enormous benefits it can generate. The effect on the global financial market is direct and significant, for instance, an estimated $400 billion a year in foreign-exchange transaction costs will be eliminated and currency fluctuations or currency crises will also disappear. In addition, central banks of every country will no long need to hold large amounts of foreign currencies, especially for the countries which do not issue global currencies, which can be invested in other fields to spur economic development. By using a global single currency, prices all over the world will be named in the same unit and can be easily compared. International trade will be as simple as in the same country and it will be much convenient for global travel, studying aboard, etc. Robert Mundell, a Nobel-winning Columbia University economist, says that ‘ The benefits to each country from a stable currency that is also a universal currency would be enormous.’ (cited in Platt, 2007)He also claims that, ‘ if a global single currency is used, there would be a common inflation rate and similar interest rate, a considerable growth in trade, productivity and finance integration, all of which would generate a considerable increase in economic growth and well-being’.

Because there is no a global single currency nowadays, how it will work can be deduced from two similar examples, the dollar in the Bretton Woods system and the euro after 2001. With the rebuilt of the countries and rapid development of the global economy after the Second World War, the Bretton Woods system was established by western countries. The Bretton Woods system was a fixed exchange system in which Western European countries and Japan maintained fixed exchange rates against the dollar and the dollar fixed to the gold. The United States was at the center of the Bretton Woods system, playing the role of world banker, running balance-of-payments deficits, and supplying dollar reserves to other countries. In this period from 1947 to 1973 when the Bretton Woods system existed, the dollar worked as a global single currency and played a significant role in stabilizing the global economy, rebuilding the world economic order and promoting the rapid development of the global economy. However, the Bretton Woods system ended in 1973 mainly for two reasons. Triffin (1960, cited in Fukumoto, 2011) suggests that one reason is the decease of the gold reserves in the United States. The dollar was linked to gold at the fixed price of the dollar at

$35 per ounce of gold and the USA was obliged to maintain the dollar value of gold. As the demand of the dollar dramatically increased because of the rapid development of other countries, the foreign-held external dollar liabilities had exceeded the USA gold reserves by 1960. When the USA could not continue paying out gold at $35 an ounce to official foreign creditors, the US dollar depreciated against gold. Darby (1983, cited in Fukumoto, 2011) claims that another reason for the collapse of the Bretton Woods system was the international transmission of the inflation taking place in the USA. Under the Bretton Woods system, there was an asymmetry between USA and other countries which is that these countries were obliged to peg their currencies to the US dollar and had to maintain dollar parity in the foreign exchange market. As a result, after the USA boosted inflation in the latter half of the 1960s by expansionary monetary and fiscal policies, the inflation in the USA spread to other countries joining the Bretton Woods system and they lost their trust in the USA. These two reasons, combined with other effects, led to the collapse of the Bretton Woods system.

Another significant example is the euro. Euro, as the single currency of the European Union (EU), was officially launched on 1 January 1991 in 11 of the then 15 EU member states. The Euro system is mainly constituted by three parts: the euro currency, the European Central Bank (ECB) which takes on responsibility for the monetary policy of the euro zone and the Stable and Growth Pact which constraints and coordinates the monetary policies of the member nations of the EU economic and monetary union (EMU). The issue of the euro made a great sense in the process of European Integration at the beginning years. Using the euro as a single currency in the Europe makes the transactions between European countries much easier and cheaper because of the reduce transaction costs. Furthermore, the incidence of the financial crisis generated by exchange fluctuation between European countries also decreases and the financial markets become a whole. However, to a certain extent, the euro is recognized as a failed experiment. It has resulted in the weaker European economy, such as sovereign debt crises in several European countries, such as Greece, high unemployment rate, the serious condition of major European banks and the large trade deficits. The reasons may be that the EMU cannot use monetary policy as a crisis-fighting tool and the policies made by the ECB tend to be passive because of the constraint of the Stable and Growth Pact.

From these two special examples, the obstacles which will be faced when issuing a global single currency can be found. The first and most important thing is that which country will issue it? The dollar became a global currency because the USA was the most powerful country in the western countries after the Second World War. While the current world is a multi-level world and there is no a single hegemony. Maybe the European Central Bank (ECB) can teach us some lessons, which a global central bank who issues this currency can be established by the United Nations and the policies should be made according to the wish of most countries. The second problem is how to set the value of this currency. As we can learn from the dollar, the value of this currency should be stale so that it can promote the development of the global economic meanwhile it cannot be fixed in a real item, such as gold. A possible solution is that SDRs issued by the IMF can be used as the foundation of the global single currency. The third one is a factor which is extremely concerns: the lost of independence in monetary policy, which can be used to adjust the internal economy and avoid the spread of the external financial crises. The result can be clearly found in the euro zone, such as the debt crises of several European countries. It is the cost the countries should pay in order to participate in a monetary community. There is another significant problem which must be faced and is difficult to solve is the damage to the benefits of countries issuing current global currencies. As is known, the dollar and euro all want to be the global single currency because it can bring enormous benefits to the country or community issuing it, for example, the great seigniorage- income by issuing global currency- it can bring and the control over other countries' economy.

To conclude, the issue of a global single currency can bring huge benefits to our world, such as the elimination of transaction charge, the promotion to the global economy and the stability of financial markets. However, there are also tremendous obstacles needed to be faced, including which country will issue it, how to set its value, the problem of the monetary policy and the damage to several countries or communities. Some obstacles may be solved by the experience got from previous monetary systems, while others have no clear solutions yet. So a global single currency will not appear in the near future. However, I believe that with the further development of the globalization, especially financial globalization, a global single currency will emerge absolutely as an effective way to adapt to this development.

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