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THE PROSPECTS OF A SINGLE-WORLD CURRENCY

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Abstract

This paper considers the possibility of all countries of the world adopting a single common currency for conducting their internal and international financial transactions in view of the enormous benefits that it would induce to all concerned in terms of increased efficiency in trade, international specialization, mobility of capital and labour and the resultant increase in national output. The idea had earlier been mooted at an International Monetary Forum (IMF) held in November 2000. It takes its roots from the suggestion in 1944 by Maynard Keynes that a common means for effecting international settlement would greatly facilitate international trade and finance. The increasing integration and/or interlinking of world economies which proceeded at a tremendous pace in subsequent decades makes the idea even more important and urgent at the present time. The establishment of the International Monetary Fund (IMF) at the Bretton Conference in 1944 and the Special Drawing Rights (SDR) instrument that it created in 1969 constitute some important steps taken in the pursuit of the same goal. The paper examines the feasibility of a common world currency against the backdrop of the political and ideological differences and hegemony that exist among some of the world's powerful nations (USA, Russia and China) and identifies the difficulties and strictures which could militate against such a scheme. Other arrangements such as the elevation of the SDR to the status of a world currency, the universal adoption of the US dollar (the world reserve currency), the multi-polar system, and even the possibility of adopting a digital currency were also considered. The conclusion is that the dream of a single world currency is infeasible and unattainable at the present time or even in the foreseeable future. A multi-polar system, a semblance of which appears to exist at the present time in a limited form is, however, more likely to persist in the foreseeable future.

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Introduction

The rapid pace of economic integration experienced by world economies over the past two or three decades has encouraged speculations about the possibility that there might one day be a single currency operated by all world economies, in view of the tremendous advantages which such an occurrence would confer on all parties. Over two decades ago, precisely in November 2000, a forum was organised by the International Monetary Fund, in which eminent economists offered their views on the subject, **One World, One Currency: Destination or Delusion**?

The contributors at that forum included Professor Maurice Obstfeld of the University of California at Berkeley, Professor Robert Mundell of Columbia University (who was the 1999 Nobel Laureate in Economics), and two in-house experts from the International Monetary Fund - Paul Masson and Alexander Swoboda. The topic itself betrays the complexity of the subject.

The topic evokes a number of issues that are associated with the question of whether there can indeed ever be a single currency or monetary system that serves all the entire countries of the world. The pertinent issues include:

(i) World economies, as variegated and diversified as they are ideologically and economically, can they ever become so closely integrated or interlinked as to permit a single currency serving all their national and international financial needs?

(ii) If such is indeed possible, what would the currency be comprised of?

(iii) How would the value of that currency be determined; what will be the basis of its mintage?

(iv) Who will control the currency?

(v) How will the currency respond to the dissimilar or disparate economic problems which arise from time to time in individual countries?

These are some of the issues discussed in this chapter.

If the idea of a single currency that can serve all countries of the world was mooted in 2000, it is even more urgent and compelling today because of the fact that the world has since become more integrated and intertwined than it was two decades ago. The volume of international trade and international investment has multiplied so many times since then; so also have labour and capital mobility. Equally significant is the phenomenal advances in information and communication technology which have made the entire world become, to use the common parlance, 'a global village'. Among the advantages claimed for a unified currency system are, greater efficiency, reduced risks emanating from exchange rate movement and the related impacts which these have on international trade and investment. Whether the dream of a common currency is realisable, however, will need to be considered from many angles because of the multiple roles which money or currency plays in the modern economy.

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The yearning for a common instrument for making international payments

The yearning for a common medium for conducting international financial transactions and effecting settlements did not commence with the said IMF forum of November 2000. The forum was actually a response to the increasing recognition at the time of its perceived merits. John Maynard Keyes, the famous English economist, had in 1944 mooted the idea of an 'international clearing union' to be operated by an institution called 'Bancor', which would seek "*to invest stability and integrity in the international payment system*". Bancor was envisaged to be an institution like a central bank to all national central banks. The clearing union would devise a 'unit of measure' which would be tantamount to a single world currency. Keynes' advocacy, among others, probably gave rise to the establishment of the International Monetary Fund (IMF) at the Bretton Woods Conference held in July 1944. The Conference also gave birth to another important international institution, the International Bank for Reconstruction and Development (IBRD – the World Bank). Of specific relevance to the subject at hand is the former, (International Monetary Fund), whose assigned role was to facilitate international trade and settlements.

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It was in furtherance of this objective that IMF created a special instrument, Special Drawing Rights (SDR) in 1969. From the onset, SDR was designed to serve simply as a supplementary reserve asset for countries in need of it and not as a currency, although there has arisen in recent years a suggestion to elevate it to the status of a world currency. SDR was designed to serve as a mechanism for easing foreign payment difficulties. Whether or not SDR can adequately serve as a world currency is considered later in this chapter.

It is curious, however, that despite the existence of IMF and its intervention instrument (SDR), the world has not been spared the ravages of financial crises arising from time to time due to instability in currency values and the economic dislocations which this generates in some countries, which sometimes reverberate across national borders. The following are some of the better known of such crises:

(i) The Asian Financial Crisis (1997-1999)
(ii) The Russian Crisis (1998)
(iii) The Brazilian Crisis (1999)
(iv) The Argentine Crisis (1999/2000), and more recently,

(v) The Global Financial Crisis (2008/2009).

A close examination of these crises reveals some similar patterns. A period of relative affluence which leads to credit liberalisation is usually followed by another period of economic downturn which results in credit tightening. The period of affluence usually attracts an inflow of foreign money into a country, while the succeeding period of economic downturn sees such foreign money scampering in flight out of the country, thus resulting in a drastic loss in the value of the local currency. What started as a local economic problem thus becomes internationalised, because of the increased interdependence of national economies that has occurred in recent decades. This was the case with the Asian Financial Crisis of 1997/1999 and the more recent Global Financial Crisis of 2008/2009.

In the case of the former (the Asian Financial Crisis), the remarkable economic success that the Asian countries (South Korea, Thailand, Singapore, Malaysia, Hong Kong, Indonesian, and Taiwan) experienced in the early 1990s which earned them the sobriquet 'the Asian tigers', made these countries the destination of foreign money which came mainly from Europe and USA. The massive inflow of money from outside Asia created excess liquidity in these countries. The easy availability of money eventually had adverse consequences on Asian economies in that it led to low-quality investments and the lowering of credit thresholds in loans extended to borrowers. With time the investments/loans began to fail. The resultant loss of confidence in the Asian economies in turn led to the mass exodus of foreign money. The rush to dump the local currencies in exchange for international currencies bound for outward flight resulted in massive losses in the values of the currencies. It is estimated that by the end of the first six months of the crisis the Indonesian 'rupiah' suffered a loss of 80%; Thailand baht', 50%; South Korean 'won', 50% and Malaysian 'ringgit', 45%. Although the governments in question attempted to fight the drop in the value of their currencies with their external dollar reserves, such reserves soon got exhausted, giving way to a free fall in the local currency values.

This drastic loss in value had severe consequences on the Asian economies; it took several years for the economies to recover.

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A similar pattern can be discerned from the global financial crisis of 2008/2009 which originated in the United States of America as a result of the near collapse of some US financial institutions which had earlier financed sub-prime mortgages, and even gone further to collateralize these mortgage debt contracts into derivatives (Collateralised Debt Obligations – CDOs). When the US Federal Reserve began to raise interest rates to fight the excess liquidity, the subprime mortgages began to fail, thus creating a liquidity panic in the banking institutions. In order to combat this situation and ameliorate the credit squeeze, US investors and banking institutions began calling back their overseas investments. This generated financial turbulence in several foreign countries. The financial crisis which originated in the US thus got internationalised.

The periodic financial crises which arise in one country and quickly overflow across national boundaries into other countries aptly illustrate the extent to which world economies have become closely integrated or interlinked in recent decades. It is instructive of the way the crises impact currency values and exchange rates, a phenomenon which considerably stretches the means of international transactions and settlement. There is today, therefore, a greater need for the world to develop a common monetary or currency system (if this is at all possible), that would eliminate the necessity for conversion and ensure greater financial stability. If there was ever such a need before the IMF Forum of 2000, the need is certainly much greater today.

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The evolution of the international payment system

History records that the increased production and output made possible by the industrial revolution which began in Europe and North America in the latter part of the eighteenth century was an impelling force in the growth of international trade. Not much is known about the dominant currencies of settlement in the early years after barter was abandoned due to its awkwardness and inconvenience, but it is certain that gold gradually emerged as from the early nineteenth century as the widely accepted measure of value and means of payment for international transactions. Gold served well for such purposes because of its scarcity value and durability: the quantity of gold cannot be arbitrarily increased. In tracking the evolution of international payment systems, therefore, one does not have to go much earlier than the beginning of the nineteenth century. Madura (2013) recalls that international currency convertibility has gone through three distinct phases during the last two hundred years.

(a) The era of the gold standard (1820-1914)

The world-wide use of gold as a measure of value and as a means of effecting international settlements, popularly known as the gold standard, is believed to have commenced around 1820. Its popularity grew with time until it attained something of a climax after 1880. By this time gold was widely used as a basis for the minting of metal coins and also for printing fiat (paper) money. For purposes of settling international obligations under the gold standard, each country fixed the value of its own currency in relation to the price of gold. The exchange rates between the two currencies, therefore, becomes simply the ratio of each currency's price of gold in relation to the other. For example, if a gram of gold costs £200 in the United Kingdom and the same gram costs $300 in the United States of America, the exchange rate between the two currencies would be the ratio of the USA dollar price of gold to that of the British pound, in this case, $300/£200 or $1.50/£. This would continue to serve as the exchange rate for the purpose of settlement of financial obligations between residents in the US and residents in the UK. The exchange rate between other currencies were similarly pegged to their prices of gold.

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A major problem with the gold standard was that it was not always possible to retain its fixed price in relation to the local currency. If there occurred certain internal factors that affected the currency's value, e.g., inflation, interest rates, depression, etc., such factors would affect the price of gold in that currency, and thus also its exchange value. This was the case during World War I (1914-1918) when the economies of the warring nations were greatly destabilised and weakened. For instance, before WW I, Britain was a major economic power and the British pound (£) was worth almost $5. Due to the toll (depression, unemployment, etc.) which the war had on the British economy, the British pound could no long hold its fixed price of gold. This led to Britain delinking its currency from gold. The experience of the other major countries was similar to that of Britain. The gold standard therefore effectively came to an end around 1920. The few countries that struggled to remain on the gold standard eventually ditched it during the Great Depression of 1929 – 1933.

It should be noted that the British pound did also enjoy a significant degree of international prominence throughout the period of the gold standard. Probably because Britain was a dominant actor in the industrial revolution, the British pound also enjoyed the status of a reserve currency and had a special affinity with gold. The use of British pound as reserve currency,

however, gradually declined as a result of the severe strain which World War I exerted on the British economy. This coincided also with the cessation of the gold standard.

(a) The era of fixed exchange rate system (1944 – 1971)

The abandonment of the gold standard gave way, in the first instance, to a fairly confused system for effecting international settlements. The Bretton Woods Conference which took place in 1944, sought to bring some order into the system by establishing the International Monetary Fund (IMF). IMF was created principally to facilitate international settlements and, in that way promote international trade. The Bretton Woods Agreement required all countries to establish a fixed rate of exchange between their currency and the currencies of other countries with which they had dealings and in the course of their operation allow only 1% variation upwards or downwards. The narrow margin of variation allowed in the Agreement was aimed at achieving stability in the payment system. Of course, the fixed exchange rate system actually amounted to the jettisoning of gold as the basis of exchange rates and its replacement by direct fixed exchange rates between any two currencies. The exchange rate stability which came with this arrangement is believed to have promoted international trade for many years. World trade is believed to have grown by approximately 8% yearly between 1950 and 1970.

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An important implication of the fixed exchange rate system was, however, that it lacked any inbuilt mechanism for redressing adverse balance of payments problems. With time it came to be recognised that this arrangement did not fare any better than the gold standard. It was still vulnerable to changes in individual currency values which result from internal economic shocks, such as inflation, and any monetary policy measures which a country may employ to address budget deficits or economic depression. As a result, fixed exchange rates could not be maintained for any reasonable length of time between any two currencies. The fixed exchange rate system was therefore abandoned around 1971-1973.

(c) The era of floating exchange rate system (1973 to-date)

Beginning from the early 1970's it became clear that owing to their peculiar economic difficulties, many countries could no longer operate the fixed exchange rate system. They had no option but to adopt a floating rate system. Under the floating rate system, the exchange value of a country's currency is determined by the demand for the currency in relation its supply, this being

itself a reflection of the relative strength of the country's involvement in international trade. A country that exports more than it imports thus earns more foreign currency than it expends, and this would boost the value of its currency in relation to other currencies, and vice versa.

As the term implies, the exchange value of the currency thus floats, since the relationship between export and import will not always remain the same. In order to maintain a certain degree of stability, therefore, some countries resort to certain measures which may be classified as 'direct' and 'indirect' intervention. Direct intervention involves the open sale or purchase of foreign currency by the government (or its monetary agency, the central bank) in order to influence the quantity of the currency demanded and the quantity supplied. Indirect intervention on the other hand involves the use of certain macroeconomic mechanisms and controls designed either to restrict or to liberalise the use of foreign currency, e.g., changes in interest rates, money supply, inflation rates, etc. Once a government resorts to any of these methods of intervention, however, it can no longer be said to be operating a freely floating exchange rate system.

Although most countries avow to float their currencies, very few actually allow them to float freely. Many restrict the boundaries of float within specified margins. It would, therefore, be correct to say that most countries of the world today practice only a 'managed float system'. Some countries, notably China, even contrive to keep the exchange values of their currency deliberately low in order to maintain import competitiveness.

Nigeria, like many other countries, also abandoned the fixed exchange rate system in the early 1970s. The country thereafter resorted to certain administrative measures (such as the famous 'Form M' (import licensing) and other import restrictions) which were designed to influence the demand and supply of foreign currency. In more recent times, the Nigerian Central Bank has employed the policy of direct sale of foreign currency also in order to shore up the value of the naira and maintain a certain degree of stability in its exchange value. Unfortunately, such interventions have not achieved the desired success. Evidence of this is the continuing free fall in naira value experienced in recent times.

The experience of the different systems of currency conversion which have been in use for the past two hundred years provides some insight into the nature of the difficulties which would be

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encountered in the search for a single world currency. It would be correct to say that most countries of the world, as of necessity or expediency, operate exchange rate systems which float in various degrees but not certainly freely. It is against this background that the search for a single world currency should be situated.

Advantages and disadvantages of a single world currency

Advocacy for 'one currency' for the whole world, idealistic or surrealistic as it may be, is founded on some perceived undeniable benefits that it would confer on national and citizens' wellbeing. There are, however, certain conditions that must be fulfilled to make the dream come true. Whether these conditions are feasible or not remains to be considered. Among the benefits or advantages are:

(i) A single world currency will reduce the cost of goods and services by eliminating currency conversion costs (bank charges, brokerage, etc.). It is believed, for instance, that the use of a common currency by the 18 countries in the eurozone results in yearly cost savings of between €13bn and €19bn (Fontinelle, 2021).

(ii) A common currency will also eliminate exchange rate risks (movement in exchange rates), and thus, some of the uncertainties that tend to inhibit international trade and investment.

(iii) The elimination of currency barriers (transaction costs and exchange rate risks) will encourage international specialisation by facilitating a freer flow of goods and services across national borders with a positive effect on overall productivity (theory of comparative advantage).

(iv) This can also facilitate international mobility of capital and labour, a further impetus to regional specialisation, increased output and increased national and individual wellbeing.

The benefits which will accrue from a single world currency have actually never been in doubt. Maynard Keynes's (1944) advocacy had these in view. The benefits derive mainly from the '*stability and integrity in international payments'* which will come with the adoption of a single world currency.

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Against the above potential benefits must also be weighed the following disadvantages:

(i) Under a single currency system, all countries may not benefit or benefit to the same degree. The countries which have little or no comparative advantage could be permanently disadvantaged.

(ii) The adoption of a common currency comes with a loss of national autonomy over monetary policies and thus its ability to respond appropriately to economic shocks (what someone has termed 'idiosyncratic shocks'), such as inflation, depression, unemployment, adverse trade balance, deficit budget funding, etc. A national government would ordinarily use a combination of both monetary and fiscal policy measures to redress these shocks.

Loss of control over monetary policy represents a significant curtailment or abridgement of national autonomy. Countries use a combination of fiscal policies and monetary policies to resolve their economic difficulties in the pursuit of price stability, full employment and economic growth. A single currency will, therefore, constitute a loss of the government's legitimate autonomy over its monetary affairs. Countries would only thus be left with their fiscal autonomy. It would be impractical anyway to excise from them their right to impose taxes or control public expenditure because a government without fiscal autonomy would simply be an aberration!

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The difficulties which a country which belongs to a currency (monetary) union may encounter are aptly illustrated by the hardships that Greece and Italy (members of the European Monetary Union) experienced between 2011 to 2013.

In the case of Greece, the country found itself burdened with a humongous public debt in 2012. Ordinarily, Greece should have been able to address this problem with a combination of monetary and fiscal policy measures. However, having ceded the former over to a central body (European Central Bank - ECB), she was only left with fiscal austerity measures (which Greek citizens found unpalatable), in order to qualify for bailout facilities from ECB. The experience of Italy (2011) was similar to that of Greece. In both cases, the bailout austerity measures comprised: (i) wage reduction or freeze; (ii) increase in taxation (VAT, wealth tax, property tax, etc); (iii) increase in the cost of social services (such as health); (iv) cuts in social services; (v) rise in pensionable

age, and sometimes even (vi) cuts or deferment in new infrastructural projects such as new rail lines, military spending etc. No doubt, had these countries retained their monetary autonomy, they would have been able to abate the severity of the externally induced austerity measures by a partial resort to monetary policies such as credit easing (lowering interest rates) and an increase in money supply (quantitative easing).

It can be surmised that the unwillingness to surrender their monetary autonomy probably explains why only 18 of the 27 countries of the European Union are in the eurozone. The European countries that remain outside the eurozone to date include Austria, Bulgaria, Croatia, Czechia, Denmark, Hungary, Poland, Romania and Sweden. Great Britain was also one of these until Brexit which took effect on 1st January 2021.

Some problems which stand in the way of a single world currency

From the above, the following can be discerned as some of the critical difficulties that a world currency would have to contend with.

(a) **Control of inflation**. Inflation erodes the purchasing power of a currency and therefore its exchange value. When a currency experiences inflation, its value drops in relation to other currencies. Where a country belongs to a common currency zone, the central monetary authority usually specifies the maximum inflation rate that is allowed. This is because an inflation rate which exceeds the permitted level has the effect of eroding the value of the common currency.

(b) **The financing of budget deficits**. Deficit budgeting, especially when this becomes a perennial phenomenon, also tends to erode currency values, particularly when the affected government resorts to financing such deficits with loans or increasing the money supply. In a monetary union, the power to increase the money supply would not be available to individual countries, unless the initiative comes from the central monetary authority.

The above two factors (inflation and deficit budgeting) affect the integrity of a currency and are therefore inimical to a common currency system. It is the reason why countries

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in a common currency zone are required to place a lid on their rates of inflation and their permitted level of the budget deficit. An example of this is the proposed 'eco', the common currency which ECOWAS countries plan to adopt. The conditions for admittance into the proposed ecozone include a maximum annual inflation rate of 5% and a yearly budget deficit of not more than 4% of the country's gross domestic product (GDP).

(c) **The issue of fiscal and monetary autonomy**. The IMF Forum of 2000 deliberated extensively on the problem of the dissociation of these two autonomies which would be necessitated by a single world currency. As has become evident in the case of the European Monetary Union (as already mentioned), such dichotomy gives rise to a bitter pill that the cooperating nations must swallow. Some of the countries in the European Union found this unacceptable and therefore declined to join the eurozone.

(d) **The issue of seigniorage**. Seigniorage is the difference between the cost of minting or producing a currency and the face value of the currency. In most cases, especially with regard to paper money, the cost of production (printing) is usually an infinitesimal fraction of the face value of the money that is put into circulation. Seigniorage can therefore amount to a substantial sum which usually accrues to the issuing government or its central bank. The question which would arise if there is a world currency is, who would be the beneficiary of seigniorage? Even if there is a World Central Bank which controls all the money in circulation in all the countries, there will still remain the question of how to allocate or distribute seigniorage in an equitable manner among the countries that are entitled to a share of it.

Is 'One World, One Currency' attainable?

It can be seen from the foregoing that the dream of a common-world currency faces some insurmountable difficulties. The answer to the question of whether there can be a 'one world, one currency' will, therefore, clearly be in negative. Despite the immense economic advantages that a single world currency would confer, it is apparent that not all countries would benefit to an equitable degree from surrendering their individual monetary autonomy to a central monetary authority.

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Again, the diverse and variegated economic and ideological systems in a world which include countries that are in perpetual contention for economic, political and military hegemony, stand in the way of such a dream being realised. The words of Professor Robert Mundell expressed in the IMF Forum of 2000 very appropriately epitomise this. In Mundell's words: "*One world, one currency could exist in a dictatorship or a world empire, but I cannot imagine a world democracy with a single currency.*" He further added: "*I regard regional currency developments like euro area as sort of a second-best process. Whenever there is a political handle to latch on to, that gives some additional focus*".

With the benefit of hindsight, we now know that even the political motive (such as the promise of a political union - the inchoate United States of Europe), does not suffice to encourage or induce all countries to surrender their monetary autonomy to a central monetary authority. If all of the 27 EU countries could not agree to accept 'the euro' as their common currency, it is difficult to imagine that the 193 odd member countries of the United Nations Organisation will accept a single currency. The EU experience thus provides further evidence of the infeasibility or impracticality of the dream of a world currency.

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Why IMF's Special Deposit Rights (SDR) cannot serve as the world's currency

Some persons hold the view that there already exists an international payment instrument which could, with little modification, serve as a world currency, viz., the Special Drawing Rights of IMF. SDR was an instrument created in 1969 in furtherance of IMF's commitment to facilitate international payments among nations that trade or transact business with one another.

From the onset, SDR was never meant to be a currency but simply a 'supplementary asset' that member countries can draw upon either to settle their deficit payment balances or simply hold in order to increase their external reserves. Every member country has an allocated 'quota' which takes cognizance of the individual nation's degree of prominence in international trade. The countries which have larger shares of international trade also have higher quotas than those which do not.

SDR is backed by five major currencies which contribute to its value - viz., US dollar, EMU's euro, Japanese yen, Chinese yuan and British pound. Each currency's weight is determined by its

relative contribution to the international payments system. The weighting system is reviewed approximately once every five years; the latest was in 2016. The next review is due in 2021 or 2022.

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Table 1 shows ten major world currencies used in effecting international payments.

Table 1 - Ten Major World Currencies Used in World Payments (as of August 2019).

Rank	**Currency**	**Currency Symbol**	**% of World Total**
World Total			**100.00%**
1	United States dollar	USD ($)	42.32%
2	Euro	EUR (€)	32.06%
3	Pound sterling	GBP (£)	6.21%
4	Japanese yen	JPY (¥)	3.61%
5	Chinese yuan (Renminbi)	CHN (¥)	2.22%
6	Canadian dollar	CAD (C$)	1.76%
7	Australian dollar	AUD (A$)	1.57%
8	Hong Kong dollar	HKD (HK$)	1.48%
9	Thai baht	THB (฿)	1.00%
10	Singapore dollar	SGD (S$)	0.98%

Source: Wikipedia

Table 2 shows the weights assigned to each of the component currencies in the 2016 valuation of SDR.

Table 2: Currency weightings in the valuation of SDR

Currency	Weighting (%)
US Dollar	41.73
Euro	30.93
Chinese Yuan	10.92
Japanese Yen	8.33
Pound Sterling	8.09
TOTAL	**100%**

Source: IMF

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It will be observed in Table 2 that the currency weightings roughly correspond with the contributions that they make to the international payments system (as shown in Table 1). This currency mix gives the SDR a measure of stability in value.

As of August 2, 2021, SDR amounting to USD943bn have been created and are in the hands of IMF member countries. It should be noted that this is a tiny fraction of the total value of currencies that are in circulation in the world. For SDR to serve as a world currency the amount will have to be considerably increased beyond USD943bn, and the status of IMF, the controlling authority, will also have to be elevated to that of a monetary authority which is vested with the power to create money and control money supply. This would be tantamount to making it something of a behemoth, a monetary super monster, which has no political authority superintending over it, but which will be in control of all the monetary needs of all countries of the world. If this becomes the case, it will end up like ECB in the eurozone, but of a considerably larger size and operational scope.

It is also feared that if the value of SDR continues to be based on the five most widely traded currencies in the world, it will no doubt strengthen the dominance of these currencies. For it to serve as a world currency, it would also have to be *a medium of exchange* within each country

and also a *store of value* for all countries. SDR clearly lacks these essential characteristics of a currency. This, therefore, rules out the possibility of SDR becoming a world currency.

Can the US dollar (the global reserve currency) be elevated to the status of a single world currency?

If there is any currency that singularly contends for accession to the status of a world currency, it is the US dollar. The dominance of the US dollar in world finance has its origin in WWII when the United States began selling arms to the combatant European countries and demanded payment in gold. By the end of the war, the US became the country with the largest gold holding. At the Bretton Woods Conference of 1944, it, therefore, made sense for other countries to abandon the gold standard when their own gold reserves were seriously depleted. Instead, they chose to peg their currencies to the US dollar, which was, incidentally also backed by gold. This had the effect of making the US dollar the strongest currency in the world, and one in which many countries to date choose to maintain their reserve. The pegging of national currencies to the dollar does not conflict with the IMF requirement that countries should 'fix' their exchange rates with one another.

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As seen earlier, Table 1 shows the volume and ranking of the ten major currencies used in contemporary times for international payments. The table, however, does not portray a complete picture of the relative strength of the currencies. It does not show, for instance, the currencies in which countries maintain their reserves. It is estimated that as of 2020, the US dollar accounted for just over 59% of all external reserves; the euro, 21%; and the Japanese yen, 6%. IMF estimates that of the $11.7 trillion worth of foreign currency-denominated loans in 2019, the US dollar accounted for $6.8trn, and the euro came a distant second with $2.2trn.

The amount of reserves held in Chinese yuan is not known for certain, but it is believed that this has been growing steadily in recent years as China continues to pursue trade and investment aggressively in the global arena. Some countries, particularly African countries, now hold part of their external reserves in yuan. Nigeria which is a major importer from China is one of them. This is because it makes sense for countries which import from China to maintain some of their external reserves in yuan. The advantage of this is that it eliminates the inconvenience of going through the circuitous route of first converting local currency to US dollar which is then

subsequently converted to yuan. Paying for imports from China directly from yuan reserves saves conversion costs and minimises exchange rate risks.

It remains true that the increasing use of the euro or yuan by some countries as their external reserves has not considerably reduced the dominance of the US dollar. The popularity of the dollar as a reserve currency derives not only from its vast gold reserve, and the strength of the US economy which continues to be the largest in the world, but also very significantly, because of the fact that approximately 40% of euro bonds (external debts owed by various countries) are denominated in US dollar. Since these financial assets are continuously traded in world financial markets, the US dollar continues to feature strongly in terms of its availability and liquidity. Users of the US dollar, therefore, continue to hold a high degree of confidence in the expectation that the US government will always be in a position to redeem the value of their dollar holdings if and when the need does ever arise.

The dominance of the US dollar as a reserve currency has, however, not failed to arouse the displeasure and envy of some other powerful world countries, such as Russia and China. Both countries have since 2009 called for a new global reserve currency which would be disconnected or delinked from the US dollar. These agitations have become louder in more recent times. The question engendered by the agitations is whether the replacement of the US dollar as the global reserve is immediately feasible or foreseeable in the near future. Some grounds for anxiety over the possible decline in the strength of the US economy (and therefore of the dollar) include: (i) the over one trillion dollars that the US owes to China and other countries as a result of its perennial adverse trade balance; (ii) the perennial deficit budgeting which the US government has recorded in recent years and (iii) the seemingly unbridled printing of more dollars necessitated by such deficit budgeting.

It remains true that in spite of these debilitating factors, the US dollar continues to hold its own as the global reserve currency as of today. It should be noted, however, that even if these seemingly enervating factors do not diminish the dollar's appeal as a global reserve, they do in any case stand in the way of it being accepted by all countries as the single global currency!

The inevitability of a multi-polar system

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The suggestion by Mundell that we should be talking of a '*common currency area'* rather than a single '*world currency'* merits some comments. A 'common currency area' would imply that, short of there being a single currency, some measure of benefits (in terms of efficiency and specialisation) can still be achieved if the currencies used for effecting international payments are reduced to a small number. Such currencies would of necessity be the strongest ones used within the different geographical or economic zones – thus, the US dollar in the Americas, the euro in the EU countries, the pound sterling in Britain and her post-colonial appendages, and either Japanese yen or Chinese yuan (RMB) in the Asian countries. Such an arrangement would constitute what may be termed a 'multi-polar currency system'. It is at this point not yet clear whether the dominant currency for the Asian countries would be the Japanese yen or the Chinese yuan. There is a suggestion in some quarters that the BRICS nations (Brazil, Russia, India, China and South Africa) may one day also come up with a currency that would be exclusively theirs!

The multi-polar system would probably merely be recognition or confirmation of a payments system the nucleus of which is already in existence, although it does not seem to have a very strong geographical characterisation. The dominance of the US dollar, of course, extends beyond the continents of America, just as the yuan is also prominent beyond east Asia. There is no doubt that apart from the US dollar which has a worldwide appeal for reasons already noted, the dominant world currencies have emerged largely as a result of traditional trade relationships across the globe. The euro for good reasons serves European countries, including those EU member countries that have retained their own national currencies. The yen may serve some neighbouring Asian client states. The yuan (RMB) has in recent years come into increasing use as a result of China's aggressive international trade posture. Some experts believe that while the US dollar, the euro, and JPY yen, can each aspire to achieve the status of a multi-polar currency, the Chinese yuan does have some difficulty attaining that status - the fact that it is subject to much government control in addition to the deliberate China policy of keeping the value of the yuan low in order to improve its export competitiveness. A typical multipolar currency should ordinarily command the confidence of its being relatively free from direct government control.

China's ambition to make the yuan (RMB) a world reserve currency is not in doubt. Indeed, because of its aggressive posture in international trade, especially in Africa and some other third-world countries, and her growing influence in the international crude oil trade (where some crude

oil exports from the Middle East are now billed in yuan), RMB appears to be gaining in popularity in more recent years. Some countries, for example, Nigeria, have even gone as far as placing some of their external reserves in RMB. The general opinion, however, is that until China completely liberalises the RMB, it would not qualify for adoption as a significant world reserve currency.

Is digital currency the answer?

The emergence of digital currencies in the global arena in the last decade or so, made possible by advances in information and communication technology, provides some ground to speculate that digital technology may hold the prospect of one day producing a world currency. Digital currencies now play a role that was formerly performed by banks, namely, money transfers, and they do this seamlessly without human intervention, thus greatly reducing time and cost. The digital currency uses a computer technology called 'blockchain'. Blockchain is a computer application which makes it possible for data to be generated, accumulated and accessed from different points in the world. It comes with an inbuilt security device that ensures the creation of permanent records, records which cannot be manipulated, corrupted or erased. A pet name for blockchain is *decentralised ledger.*

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It is the incorruptibility of blockchain technology that has made possible the creation of digital currencies (also popularly known as cryptocurrencies) which have gained prominence in recent times in world financial circles. The better-known digital currencies are *Bitcoin, Litecoin, Ethereum, Monero, Libra, Ripple, Dogecoin,* etc. New ones continue to be created by the day. It is estimated that there were as of August 2021 up to 5,000 such currencies in existence. Cryptocurrencies serve for value transfers (making payments) without human intervention. They attract investors from across socio-economic brackets, high and low.

A feature of cryptocurrencies is that although they serve for purposes of value transfers within the restricted circles of those who use them, they cannot serve as a store of value since they do not have any underlying intrinsic value. They are not backed by any assets or legal authority. Unlike normal currency, they are not legal tender. They do not carry any promise of redemption since no one owns or controls them. Because their values depend simply on the strength of demand and supply, they are extremely volatile. They can be worth so much today, and suddenly

tomorrow, so very little. In the words of Warren Buffet, "cryptocurrencies will always remain a worthless delusion!".

To the question of whether digital currencies stand a chance of producing a world currency, the answer is emphatic, No.

Conclusion

This article examined the proposition or prospects of the whole world adopting a common currency for all their monetary needs. Money traditionally plays three important functions, viz., *a measure of value, a store of value and a medium of exchange*. A common currency would be expected to embrace all three functions and serve all countries for their national and international transactions. The advantage of having a common currency would be that it will promote greater efficiency in transactions and transfers by eliminating conversion costs and exchange rate risks, and thus encourage national or regional specialization which will in turn boost output, and international trade and also aid mobility of capital and labour to countries where they would be most efficiently employed. The end result of all this would be to enhance national output and the welfare of citizens.

The above discussion showed that the proposition of a common currency will face enormous difficulties. It would require nations to cede their authority over monetary policies to a higher authority which would function on a global scale. It would leave national governments only their fiscal authority to manage or navigate through their idiosyncratic shocks such as inflation, economic depression, unemployment, etc., whenever these do occur. It was shown that such an arrangement would be unacceptable to a vast majority of countries, especially the more powerful ones like the United States of America, the EU, the United Kingdom, Russia, China and Japan, which seem to be in perpetual contention for economic, political and military hegemony.

For these reasons, the idea of a common currency for the whole world is simply not feasible. This was the same conclusion reached at the IMF Forum of November 2000. The usual international rivalry has over the years only intensified to a greater degree than was the case in 2000.

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The next best alternative to a global currency which was considered in this article is the multi-polar system which consists of countries that are clustered around a powerful economic power or a geographical zone adopting the currency of that dominant country. This can also achieve some degree of efficiency with positive impacts on world trade, and national output, although such benefits would be on a much smaller scale than that which could accrue from a single world currency.

A multipolar system of some sort already appears to be in existence in a world in which the US dollar occupies the dominant place of being the most widely used currency as well as the global reserve currency. There, however, appears to be an imminent threat to this dominance coming mostly from Russia and China, countries that want the US dollar replaced with another currency to be created and managed by the International Monetary Fund. The possibility of IMF creating a world currency was however considered not realisable.

It was noted that China's aspiration to make RMB a dominant global currency will continue to be undermined by the country's penchant for controlling the value of its currency in order to maintain its global trade competitiveness. For reasons discussed in this article, the US dollar appears poised to remain the global reserve currency for the foreseeable future; this, in spite of the USA's recurring deficit budgeting and her frequent resort to quantitative easing as a means of cushioning the effect of such deficits. It is noted, however, that in spite of these threats, most world countries continue to repose a high level of confidence in the US dollar, no doubt because of the size of the US economy, the liquidity and availability of the currency in world financial markets and the position which the US occupies as the world's foremost political, economic and military power.

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