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The case for a world currency

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1. Introduction

Thank you, Dominick. When I see the room so nicely filled with, just a few people standing, I am amazed at Dominick's uncanny instinct for judging the size of his audience and the size of room that is appropriate. I have seen it happen again and again over the years and want to compliment of his special talent for getting things right. Today, I will talk about the case for a world currency.

2. The idea of a universal currency an old one

My topic today is not so very close to the themes heard earlier but it is nevertheless very relevant to them. It is the idea of a world currency. This is by no means a new idea, but it is one that has not had much attention in modern discussions of reform of what many call—rather too optimistically, I think—the international monetary "system".

If some spaceship captain came down from outer space and looked at the way international monetary relations are conducted, I am sure she would be very surprised. She would find 184 members of the IMF representing about 170 currencies. Some IMF members like San Marino have never had a currency of their own and a dozen of its more prominent members have scrapped their national currencies for the new supercurrency, the Euro. But it would strike her as very strange to find the complete disorganization of currency markets, the recurrent currency and debt crises, and wonder why more than one currency was needed

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to conduct international trade and payments in a world that aspired to a high degree of free trade.

Nearly every previous age over the past 3000 years has had something that could pass for "international money". Two thousand years ago, in the days of Caesar Augustus, there was the Roman aureus. Thousand years ago, there was a successor of the aureus, the bezant, which was still a unit of account through most of Europe. Five aurei or bezants were always equal to one libra, the unit of account of the Roman Empire and that was the link through the ages to the currency of Charlemagne to those of Queen Victoria. A hundred years ago, the pound sterling could pass for a universal unit of account. Even as recently as 40 years ago, there was the "1944 gold dollar" that was the universal unit of account for most of the world.

The past three decades is unique in the history of civilization when there has been no money that could even approximately be called a universal currency. What is even more unusual is that among the general body of economists and monetary officials, there seems to be no recognition that anything is amiss. I have heard some people say—including some on this very distinguished panel—that the present "system" is close to an optimal system!

What a contrast from the ideas of the classical economists who over the centuries were almost unanimous in favor of an international monetary system based on the gold or even a common currency. John Stuart Mill even thought that the idea of separate currencies for individual nations was barbaric. He wrote:

"So much of barbarism, however, still remains in the transactions of most civilized nations, that almost all independent countries choose to assert their nationality by having, to their own inconvenience and that of their neighbours, a peculiar currency of their own."

In their treatises on economics, the classical economists typically assumed a single money and never dealt at any length with flexible exchange rates. They assumed that no civilized country would dream of promoting international monetary arrangements based on inconvertible paper currencies with flexible exchange rates. When the world moved to endorse "managed flexible exchange rates" in the second amendment to the IMF articles of agreement in the late 1970s, there was no economic treatise showing how that such an arrangement would be efficient from a theoretical standpoint, and there was not even any comprehensive analysis of how flexible exchange rates would work in practice—then or even now!

3. The defective case for flexible rates

There were, to be sure, pamphlets advocating flexible exchange rates by Milton Friedman and James Meade, two brilliant economists who in the early 1950s came at the subject from opposite ends of the political spectrum. Meade was a liberal socialist who believed in planning, and wanted flexible exchange rates for Britain so that the labor government would not have its planning frustrated by balance of payments problems. Friedman is a libertarian conservative who disliked exchange controls and saw flexible rates as a free market solution that would allow the British Empire to jettison their discriminatory system.

Several advantages were claimed for a regime of flexible exchange rates but they have not proved to be valid:

- It would give policy makers an additional instrument of economic policy.
  This is only true if monetary stability is given up.
- It would make international reserves of gold or foreign exchange unnecessary.
  International reserves are more necessary under floating than under fixed, and actual reserves have exploded since floating began, not just in absolute terms but as a percentage of international trade.
- Unwelcome depreciation of the currency under floating would preserve monetary discipline and avoid inflation.
  The evidence disproves this contention. Mexico, after 22 years of a fixed exchange rate, devalued and then floated; the consequence was hyperinflation followed by a currency reform. Mexico's experience was duplicated elsewhere in Latin America and the Caribbean and in the transition countries after the end of the Cold War.
- Exchange rates would be more stable under flexible rates than under fixed rates because it would eliminate the one-way option of currency crises.
  The instability of the dollar–euro rate, which fell from $1.18 at its inception to a low of $0.82 in the next 2 years, followed by its soaring to $1.35, shows otherwise.
- Speculative international capital movements would be stabilizing.
  On the contrary, concerted speculative attacks against small currency areas have been a source of instability, not a solution.
- Flexible exchange rates would be the best way of achieving balance of payments equilibrium in a free trade area.
  If that were true, why have balance of payments disequilibria on currency account and on reserve account been vastly greater under floating than under fixed rates.
- Flexible exchange rates would be a better cushion against shocks than the use of foreign exchange reserves.
  That has not proved to be the case in the Mexican crisis, the Asian crisis, the Russian crisis or the Argentine crisis. Floating has, on the contrary, been associated with generalized overshooting, as in the case of the dollar–euro rate.
- Flexible exchange rate is the "free market" solution, whereas fixed exchange rates smack of price controls.
  Exchange rates between paper currencies issued by central bank monopolies have nothing to do with a "free market," and quantity fixing is no more liberal than price-fixing. But price-fixing in the case of money is essential: it would be absurd to have the free market determine the relative prices of $10 and $5 bills, and the U.S., like other countries, wisely intervenes in the market for different currency denominations to ensure that the numerical values of the denominations are respected as legal tender!
- Flexible exchange rate gives a country monetary independence and lets it choose its own inflation rate.

This is true, but it involves monetary independence to have monetary instability, and sometimes even hyperinflation. Monetary independence becomes valuable only when the rest of the world is unstable.

4. Historical observations

Let me make some historical notes. I said earlier that our age is unique for its absence of an international monetary standard. The first is that even though the international gold standard gave the world a high degree of monetary unity (and currencies were, as Milton Friedman put it, just names for different weights of gold), there was general recognition in the old days that a global unit of account was desirable. Several monetary conferences in the 19th century made this point, and, with the exception of Britain, most major countries were willing to alter slightly their monetary units in order to make 1 pound = 5 dollars = 25 francs as the common monetary unit. But Britain's policy of abstention killed the idea, and was consistent with the general practice of hyperpowers to reject meaningful international monetary reform. Even though countries enjoyed stability of exchange rates under the gold standard they wanted to go further and fine-tune the system to eliminate or reduce unnecessary information and transactions costs associated with international trade. This concern, which was shared by Bagehot and other far-sighted economists, derived from the common sense of saving on information and transactions costs, before the development of erudite mathematical models of information theory.

The second historical note is that in preparing for the post-war system, President Franklyn D. Roosevelt directed his secretary of the treasury, Henry Morgenthau Jr., to make plans for a world currency. Both the American and British plans at Bretton Woods included provisions for a world currency. The American plan named it unitas; the British plan named it bancor. It was never implemented for political reasons that had to do with American politics. Months before the Bretton Woods conference, the Americans withdrew their proposal for a world currency and when the British, as Lord Robbins tells us, brought up the issue, "the Americans changed the subject." The year 1944 was a presidential election year, and isolationist forces and the next Congress might have resisted an idea that might have been interpreted as sacrificing a degree of sovereignty.[1] But U.S. reluctance to go forward with a global currency fits the historical pattern that the leading power-resist monetary reform that might interfere with the international role of its own currency.

The third note is that the failure to create a world currency at Bretton Woods gave rise to the special problems of the post-war international monetary system, and the triffin dilemma: If the U.S. corrected its deficit, the rest of the world would be starved for reserves and it would bring on a deflation; but if the U.S. did not correct its deficit, there would be a currency crisis and a collapse of the system. To finesse this problem, the IMF actually moved in the direction of a world currency, with the creation of the SDR (special drawing rights), which were agreed upon at the 1967 IMF meetings in Brazil. Why this initially gold-guaranteed credit facility failed is another long story, but the main point I am making is that the leaders of the major countries and the IMF at this time fully favored the idea of a world currency.

The fourth historical note is that the 1976 agreement on "managed flexible exchange rates" was never enthusiastically endorsed, even by the United States. For 3 years (1972–1974), the committee of 20 tried to negotiate a plan that would bring about a reformed

[1] I have discussed this issue in, "Mundell, R. (1995). The international monetary system: The missing factor. *Journal of Policy Modeling*, 17(5), 479–492."

world monetary system.[2] There was never a lack of demand for the system; it foundered because of a lack of supply! There were great difficulties, one of which was how to fit the U.S. into a symmetrical system, and no solution for it emerged at that time. Bu the shift to "managed floating" came not because many people considered it a solution to international monetary arrangements but because the alternatives had failed.

The fifth consideration deals with the history of the international adjustment mechanism under fixed exchange rates. For over a quarter of a millennium—ever since the publication of Hume's essays—economists have accepted the fact that under fixed exchange rates the balance of payments is self-adjusting, as long as the monetary authorities do not interfere with it by sterilizing the changes in the money supply on which the adjustment mechanism depends. Unfortunately, the economics literature got the nature of the adjustment wrong and for a couple of centuries economists talked about the "price-specie-flow" mechanism as the adjustment mechanism under the gold standard or fixed exchange rates. The usual textbook story was that "countries in surplus experienced inflation and countries in deficit, deflation" perpetuate a mistake that has been refuted in both the theoretical and empirical literature. Under bimetallism or the gold standard, a well-working fixed exchange rate system, a common currency arrangement such as that in the United States or the European monetary union, or most nation-states, the price level is connected together and rises and falls in both surplus and deficit countries together. But the fallacious view of the adjustment mechanism of the gold standard (which, by the way, was not shared by a sophisticated theorist like Ricardo) had already done its harm and persuaded them of the need for fluctuating exchange rates to avoid changes in the price level and unemployment.[3]

5. Defects of current system

A case for a change in the present system must ipso facto be a case against the current arrangements.[4] What are its defects? Besides the omission of a global unit of account,

[2] The committee of 20 represented the "members" that were the 20 constituencies of the executive board of the IMF, headed by the Minister of Finance of the largest member in a constituency (in several countries like the U.S. there was only one member). Each member could be accompanied by two associates who were also allowed to speak in addition to the executive director of the fund and various advisers. This cumbersome group, representing (them) 124 IMF members, to develop a plan for reform involved over 150 people in the room. It was a far cry from the comparatively successful procedure at the Bretton Woods conference in 1944, and in the procedure that went through the Delors report to the Maastricht agreement in the planning for the euro. For a valuable account of the efforts of the committee of 20, see, "Robert Solomon. (1977). *The international monetary system 1945–1976*. New York: Harper and Row, (Chapter 14)."

[3] See, "The international adjustment mechanism of the balance of payments. *Zagreb Journal of Economics*, 1(1), 1997", for a review of the literature on this subject and a theoretical analysis of the key issues. See also, "Samuelson, P. A. (1980). A corrected version of hume's equilibrating mechanism for international trade. In: John S. Chipman & Charles P. Kindleberger (Eds.), *Flexible Exchange Rates and the Balance of Payments*, Amsterdam: North-Holland."

[4] I have critiqued the present system in a number of articles over the past few decades. See for example, "Reform of the international monetary system: The sixth robbins memorial lecture. In: Mundell, R. A. & Zak P. J. (Eds.), *Monetary stability and economic growth: A dialogue between leading economists*, Cheltenham, U.K.: Elgar. (2002) pp. 1–23" and "A Reconsideration of the Twentieth Century, American Economic Review."

anchor for neutral countries, and means of settlement, the major defect and the main threat to prosperity in the world system lies in the wild gyrations of major exchange rates and the risk of instability of the dollar.

Since floating began, the world economy has been characterized by a pronounced dollar cycle. Two-digit-inflation, low real interest rates and soaring gold and oil prices accompanied the weak dollar of the late 1970s; falling inflation, high real interest rates, rising deficits and falling gold and oil prices characterized the strong dollar of the early 1980s; low inflation; low inflation and low oil prices accompanied the weak dollar of the of the late 1980s and early 1990s; low inflation, rapid growth and (relatively) low gold prices were associated with the soaring dollar of the later 1990s and early part of the new century; and low interest rates and low inflation have characterized the weak dollar since 2002. For the past two decades inflation has not been a major problem for the United States, Europe or Japan, so that the large swings of the dollar have reflected changes in real exchange rates.

Real exchange rate changes are sometimes necessary as an inevitable response to real shocks and relative changes in productivity. Within a common monetary area, these changes are handled by adjustments in relative prices. But real exchange rate changes that do not reflect basic changes in economic structure can be thought of as distortions. When floating began most advocates thought that nominal exchange rate changes would reflect differences in inflation rates not by themselves be a source of real exchange rate disturbances. Yet this has not proved to be the case. Real exchange rate adjustments in a common currency area work out slowly. But under flexible exchange rates, expectations of real changes—often incorrect and reversible—lead to instantaneous adjustment in the foreign exchange market and swings in real exchange rates that have little if anything to do with any fundamental need for changes in real exchange rates. As a consequence, exchange rates under floating need to false values of the real exchange rate and the perceived need for intervention—as, for example, during the November 1 crisis in 1978, the plaza accord in 1985, or the converted (but failed) intervention in September 2001.

The distortions in real exchange rates have their counterparts in distortions of real interest rates, investment and the markets for financial assets, which involve huge and arbitrary shifts in financial wealth.

The exchange rate gyrations associated with the dollar cycle and other swings have been very costly to the international monetary system. The conventional wisdom is to blame the developing countries for their difficulties. It is always possible to find mistakes that the developing countries—or any country for that matter—have made. But this is just or at least partly an alibi for the mistakes in the system. The debt crisis of the early 1980s was caused mainly by the swings of the dollar: negative interest rates in the late 1970s led to easy and lax borrowing, followed by soaring real interest rates and dollar depreciation in the early 1980s, pushing emerging market countries all over the world into default. The tripling of the value of the yen after the plaza accord between 1985 and April 1995 weakened balance sheets and clogged up the Japanese banking system with non-performing loans that persist to this day. The soaring dollar from 78 yens in April 1995 to 148 yen in June 1998 set in motion the Asian crisis, by cutting off FDI from Japan to SE Asia and undercutting the export markets of countries whose currencies were fixed to the dollar. Similar stories could be told about the Russian and Argentine crises.

6. The case against the case against intervention

There is an old argument made by opponents of exchange market intervention that it cannot work. The trans-border financial markets, so the argument runs, amount to more than $1.5 trillions of transactions every day, or about $0.5 quadrillion every year! This is so much larger than actual interventions by central banks that it would be just a drop in the bucket in the foreign exchange markets. In one of the most recent cases of generalized G-7 intervention, just before the IMF annual meetings in Prague in September 2001, the G-7 countries tried to arrest the continuing fall of the euro when it had dropped as low as 85 cents. For a few days, the intervention seemed to work when the euro rose over 90 cents, but once the intervention was over, the euro hit an all-time low of $0.82.

This argument would have validity if it applied to the activities of a small speculator. But central banks have the power to make their targets self-verifying. Five important principles of intervention are as follows:

1. The intervention target must be realistic in terms of fundamentals.
2. The target should be explicit and clear about floors or ceilings.
3. The intervention should be unsterilized, so that the market will realize that the adjustment process is involved.
4. The intervention should take place in the forward as well as the spot market.
5. The intervention should be concerted with partners.

In the failed 2001 G-7 intervention, there was no announced exchange rate target (floor for the euro), the intervention took place only in the spot market, and it was unsterilized. That the intervention had the fundamentals on its side was proved when the euro soared over 50 per cent in the next 4 years. The basic conclusion about intervention is that it will fail: if it is half-hearted; if it has no effect on monetary policies; if it ignores expectations; and if it is confused in terms of its objectives.

7. Setting limits on extreme movements

It is time to turn to the world currency. One route to it would start off by defining it in terms of a known substance, such as gold, the historic monetary metal. Gold has the sanction of history and the Bretton Woods agreement in 1944, which settled on gold as the basis for currency parities. One possibility would be for the United States to fix the dollar price of gold and then use that “convertible-into-gold” currency as the anchor for a new world currency system, much like the system created at Bretton Woods with the dollar and gold.

Such a proposal, however, would not stand up under careful scrutiny. There is no price of gold anywhere near current price levels that would make it plausible to convert the trillions of dollar claims into the precious metal. Nor would the second most important currency in the world, the euro, want to take upon itself the burden of convertibility. A useful role might be found for gold in a future international monetary system, but, unless a drastic change for the worse were to come over our planet, the possibility

of a system involving the convertibility of reserve money claims into gold is out of the question.[5]

My approach is rather to start out with arrangements for stabilizing exchange rates, and move from there to a global currency. It would start off from the situation as it is at present and gradually move it toward the desired solution. We could start off with the three big currencies in the world, the dollar, euro, and yen, and with specified weights, make a basket of them into a unit that could be called the DEY. Bearing in mind that there is no important inflation in the DEY area, I would propose that the three DEY central banks undertake to minimize currency fluctuations, using a combination of unsterilized currency intervention and monetary policies. The DEY could then become the platform on which to build a global currency, which I shall call the INTOR.

For example, if the proposal were to be considered today, activity would start off with a plan to prevent excessive depreciation of the dollar or excessive appreciation of the euro or the yen. There would be a period of tâtonnement in which the central banks get a feel for the market and sustainable exchange rates. If we look at the dollar–euro exchange rate historically, it would have been fairly easy to put a floor to the euro at $0.90 or at least $0.85 when market participants and officials asserted that the euro had fallen too low, much below its long run equilibrium. It might have been easy for the central bank to put a floor to the euro, and established the precedent that would have allowed a ceiling to it at a future time.

Today, one might start off with the ECB and FRB putting a ceiling on the euro at $1.30. No doubt that ceiling would be tested by speculators, but provided, the principles alluded to above are taken into consideration, the victory of the officials in maintaining the ceiling cannot be in doubt. Just as 11 European countries fixed bilateral exchange rates credibly on July 1, 1998—at once eliminating speculative capital movements—they could do the same with the dollar-euro exchange rate. A similar procedure could be conducted between the ECB and the Bank of Japan (BOJ); and the FRB and the BOJ.

8. A G-3 monetary union

Let us make a leap of the imagination and consider the possibilities of a monetary union of the FRB, ECB and BOJ, i.e., a G-3 monetary union. Of course the argument will be made that these areas are too different to have a monetary union. But in terms of economic reality, there are much more similar than the twelve countries that now make up the EMU and a different magnitude from the diversity of the 25 countries that now make up the European union and which will probably at some future date all be members of the same currency area.

The first point it is necessary to make is that the G-3 monetary union, I am thinking about is not a single-currency monetary union. I am not proposing that the U.S. give up the dollar,

[5] An alternative, weaker form would be for the major willing countries to use monetary policy to "target" the gold price, tightening or loosening monetary policy as the dollar or euro price of gold went above or below, respectively, an agreed parity. The problem with this solution is that gold itself has not been stable over most of the 20th century, so that successful gold targeting would involve movements in the dollar price level that would reflect real fluctuations in the value of gold. Moreover, even if gold were stable in the absence of gold targeting, it would become a victim of "Goodhart's Law" and become unstable once it had.

that Europe give up the euro or that Japan give up the yen. It is rather a multi-currency monetary union, a fixed exchange rate area with a common monetary policy.

Formation of a monetary union for members of a either a closed economy or an open economy with flexible exchange rates requires five conditions:

1. Consensus on an inflation target (e.g. 1–3%).
2. Construction of a common index for measuring inflation (e.g., euro area's harmonized index of consumer prices (HICP)).
3. Locking of exchange rates, as EMU did in July 1998.
4. Establishment of the DEY central bank to determine monetary policy as the ECB did in 1999–2002.
5. Mechanism for distributing seigniorage (in EMU it is proportionate to equity in ECB).

The duty of the DEY central bank would be to pursue monetary stability in the DEY area, which represents nearly two-thirds of the world economy. Successful monetary unions need some arrangement to prevent free-rider fiscal policies. The problems should not be insurmountable in an arrangement with three central banks. There would be a great increase in efficiency and the gains from exchange and payments once the huge gyrations of exchange rates are removed and an enormous gain to the rest of the world. The DEY unit should become the platform on which to base a multilateral world currency in which every country would have a share.

9. Toward the INTOR

A strong case can be made for making provisions for widening, extending and generalizing the monetary union to other countries. First, the other countries would benefit from stability of exchange rates among the three largest currency areas because it would serve as a more stable anchor for their own currencies. Second, all countries would benefit from the adoption and use of a global unit of account. Third, countries outside the G-3 (especially the larger countries) might resent trilateral dominance in money matters in which they have no voice. Fourth, a world currency is in the nature of a social contract in which every country has a juridical stake in proportion to its economic size.

The board of governors of the IMF, composed of the finance ministers or central bank governors of each member country, represents a broad-based international monetary authority in which all countries have votes. The adoption of an international currency with a name like INTOR, sanctioned by the board of governors of the IMF, freely convertible into dollars, euros, yen and DEY, would mark a great advance in the creation of an international financial architecture.

The board of governors of the International Monetary Fund could make whatever changes are necessary in the IMF articles of agreement. Instead of emphasizing the necessity of flexible exchange rates to its clients, the IMF executive board would be asked to stress the advantages of achieving stable exchange rates to a an INTOR that is stable in terms of the main world currencies.

The process could start bilaterally between the U.S. and Europe, Europe and Japan, or U.S. and Japan, or simultaneously, with all three. The core basket of the three DEY

currencies would not be fixed for all time and it could be altered at the discretion of the board of governors. As the economies in the basket expand or contract in relative terms, weights in the basket would be duly adjusted.

Consideration could also be given to the changes in the currencies in the basket. At the present time, Britain's pound and China's yen represent, respectively, the fourth and fifth largest currency areas and consideration could be given to those two areas, allowing for the possibility that Britain might join the euro, and that China's currency might become convertible.

The basic plan for the world currency could be implemented in three stages:

- Stage I: Transition to stable exchange rates.
- Stage II: The G-3 monetary union based on the DEY
- Stage III: Creation of the INTOR.

Stage I would be inaugurated with steps preparatory to the G-3 monetary union. A gradual process could start with ceilings and floors on the G-3 currencies.

Stage II would involve the steps outlined above: the fixing of an inflation target and definition of the price level in terms of the DEY; the locking of exchange rates; the establishment of the joint monetary policy committee; and the arrangement for the division of seigniorage.

Stage III would begin after Stage II has been completed. It would involved the selection of a definitive name and value of the currency, the mechanism and agency by which it will be introduced, the system and criterion for controlling its quantity, its backing in terms of currency or commodity reserves, and the location of its central authority.

10. Conclusions

The achievement of an international currency may seem remote today. Yet it is surprising how quickly events can overcome inertia. It would have been hard to imagine the Bretton Woods articles of agreement before World War II, but the shock of that war brought it about. It would have been hard to imagine the creation of the special drawing rights, the embryo of a world currency, in the early 1960s, but it was agreed to at the IMF meeting s in Rio de Janeiro in 1967. It would have been hard to predict the formation of the European monetary system but it came about, under the pressure of a weak dollar, in the later 1970s. The next big crisis might be the occasion for a reconvening of a Bretton Woods type conference to establish the conditions for a new international monetary system.

The idea of a world currency is actually an old one. Julius Caesar set up a Roman monetary standard in 46 BC based on a 12:1 bimetallic ratio, monopolizing and overvaluing gold. The arrangement was to last through its successors in Constantinople for over twelve centuries, with the Roman aureus, solidus, nomisma or bezant fulfilling the role of universal unit of account over the reaches of that great empire.

The Italian merchant and banker, Gasparo Scaruffi (1519–1584), published in 1582, an impressive work on money that contained a viable proposal for the establishment of universal mint, the adoption of one uniform coinage throughout Europe, with the same shape, weight and name in every country, "as if the world were one city and one monarchy."

At that time, as now, the international monetary system was in a state of great confusion, owing to alternations in the values of coins, multiplicity of coin, bad coinage and other abuses. His world was called Alitinonfo, a name derived from the Greek meaning "true light," and taken from his desire to spread true light on the subject of money. He did spread true light but centuries late, the monetary system was still in a state of great confusion and it was said, in the nineteenth century that Italians had the best writers on money and the worst coins!

Later in the 19th century, at the Paris conference of 1867, presided over by Prince Jerome Napoleon, a plan for a world currency linked to gold coins in multiples of five gold French francs was widely discussed. Several international conferences followed up on this idea. However, it never achieved the agreement of Britain, already the world's leading financial power. A common theme throughout monetary history is that the top financial power has a stake in rejecting international monetary reform because it reduces the monopoly power of its own money.

Less than a century later, by the time of Bretton Woods conference, a world currency figured in the major plans for the post-war world monetary order. The British plan—essentially Keynes's plan—envisaged a world currency called 'bancor'. Note the change in the British view. When sterling was top dog, Britain rejected an international currency. Now that the dollar had become top currency, Britain wanted and pushed the idea!

One would have expected the United States to be cool to the idea of a world currency at Bretton Woods. Surprisingly, the official American plan—essentially White's plan—made provision for a world currency, to be called 'unitas'. But in the discussions leading up to Bretton Woods, the Americans reverted back to form and withdrew the idea. The United States then used its dominating position at the conference to bury the world currency idea and base the Bretton Woods arrangements on gold and the dollar. It might have been for the best because the idea might have been premature. The technology required for creating and managing a fiat currency at the global level had not been developed.

Does the role of the United States today as the sole superpower foreclose the possibility of an agreement to create an international currency? I think there are grounds for optimism. First of all, as a consequence of the frequent currency crises of recent years, there is growing recognition that international monetary arrangements are in a state of crisis. Second, the advent of the euro has changed the power configuration of the international monetary structure and diminished the monopoly position of the dollar. In the future, the dollar will have to compete for seigniorage and control with the euro even in the absence of the reform. Under these circumstances, the United States may see that its self-interest as well as the stability of its economy and that of the rest of the world lies in the direction of a reconstructed international monetary system.

A world currency would level the playing field for big and small countries alike. Paul Volcker has aptly put it," a global economy needs a global currency." Why not make one?