TOWARDS A GLOBAL CURRENCY? CONDITION AND SCENARIOS FOR EVOLUTION OF THE INTERNATIONAL MONETARY ORDER

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Abstract. *The main goal of the paper is to examine the key features of the current international monetary system and provide an overview of scenarios for the future global monetary arrangements. It is noted that just a few years back there seemed to be a bipolar monetary system based on the U.S. dollar and the euro in the making. The rise of China and the possible emergence of the Chinese renminbi as an international currency gave way to a debate on a tripolar monetary system. Today, the future of the international monetary system is still open. It needs reforming in order to meet the requirements of the new global order with multiple growth centers, the growing role of transnational actors, and the increasing global influence of the major emerging economies.*

The analysis reveals that the relations among the major international currencies are changing, and today at least three scenarios for the future monetary order seem possible. These are the maintenance of the U.S. dollar domination, a shift towards a multipolar currency order, and the gradual regionalization of the currency order. The concept of a single currency – though theoretically attracting – seems impossible to be implemented in the foreseeable future. The analysis is based on monetary and economic theories, historical patterns of the development of monetary regimes, and an extensive literature overview backed by the data provided by the International Monetary Fund (IMF) and the Bank for International Settlements (BIS).

Key words: *global currency, international monetary system, euro, U.S. dollar, single currency*

I. Introduction

Since the financial crises of the 1990s, and the East Asian financial crisis (1997) in particular, the reform of the international monetary system has been in the forefront of the international policy debate. Although the weaknesses of the post-Bretton Woods international monetary order had been diagnosed long before, it was the global financial crisis of 2007–2008 (subprime crisis) that made the international community fully aware of changes undergoing in the system and its increasing instability. The deficiencies of the current monetary order appear to be present in most elements constituting the system and relate mostly to its ineffective governance and inability to provide an effective crisis prevention and management. The problem areas include the choice of exchange

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rate regimes (especially for developing countries), the lack of the mechanism for global liquidity creation, balance-of-payments adjustment, decisions regarding the type of the international reserve asset, or the way of coping with insolvent states (GDH, 2011; Lee, 2010).

There seem to be no doubt that the international monetary relations are on the verge of a deep transformation. At the core of the current debate is the future shape of the international monetary system and the condition of the major international currencies it is based on. Especially the role of the U.S. dollar as the primary reserve currency is being challenged. It is stressed that the United States were not only the source of the subprime crisis, but this economic superpower has also become the major debtor of the world. Many economists link the crisis to the U.S. dollar's dominant role in the global economy. The "exorbitant privilege", as Barry Eichengreen (2012) calls it, given to the United States as the issuer of the global major reserve asset, contributes to the imbalances that undermine the stability of the international financial system. Furthermore, with the many Eurozone countries still burdened with the debt crisis, the condition and international role of the second most important international currency – the euro – is being questioned. And as the internationalization of the Chinese yuan progresses slowly, there seem to be no viable alternative for the U.S. dollar to take over the role of the global currency (Fratzscher, Mehl, 2011; ECB, 2012).

The purpose of this paper is to present the key features of the current international monetary system and the possible scenarios for its transformation. Due to the volume limit, the paper will focus mostly on the relations among the major international currencies and will provide a brief overview of monetary arrangements discussed in the leading research and policy institutions. The analysis is based on monetary and economic theories, historical patterns of the development of monetary regimes, and an extensive literature overview. The opinions are backed by the data provided, *inter alia,* by the International Monetary Fund (IMF) and the Bank for International Settlements (BIS).

The remainder of this paper is organized as follows. The next section discusses the characteristics of the post-Bretton Woods international monetary system. Section III specifies the requirements to be met by the global currency, and subsequently investigates the condition of current and prospective international currencies. Section IV presents the possible scenarios for the international monetary order and explores the probability of introducing a single world currency. Concluding remarks follow in Section V.

II. International monetary system – characteristics and deficiencies

The international monetary system constitutes means for facilitating economic transactions. It can be regarded as a set of conventions, rules, and policy instruments that comprise the conventions and rules governing the supply of international liquidity and the adjustment of external imbalances, the exchange rate and capital flow arrangements, international surveillance arrangements, and the crisis prevention and resolution instruments. Its major component constitutes the international currency (or currencies) that allows private and public sector entities from different countries to interact in the international economic and financial activity (Dorrucci, Mc Kay, 2011). According to Paul Isard (2005), the international monetary system constitutes the "glue that binds national economies together".

The international monetary system is often regarded as a specific subsystem of the international financial system (or international financial architecture). There is no single definition of the international financial system nor of the financial architecture. Usually, these terms relate to global financial structures together various regulatory and coordination mechanisms for preventing financial crises. As Robert A. Mundell (2000) states: "If international financial architecture has any meaning at all, it applies to the exchange rate arrangements at the core of the world economy, the anchor for achieving and numéraire for measuring global price stability, and management of a world currency, if one exists. In other words, there is no financial architecture today, and the problem of reform is to create it".

Historically, international monetary systems have boasted differing characteristics. In a very schematic way, it can be said that the international financial system had evolved in four major stages over the last 150 years. The subsequent regimes had differed mostly in the degree of exchange rate flexibility and the nature of a reserve asset. Another difference constituted the level of supranational governance (or lack of it) over the system.

Until 1914, the gold standard associated with essentially fixed exchange rates and a relatively free flow of capital constituted the major framework for international monetary relations. It was replaced by the gold-bullion standard (or gold-exchange standard) in the early thirties. Under both systems, the latter being a modification of the gold standard, most national governments declared a fixed gold value for their currencies and committed themselves to exchange gold for currency at this rate (Broz, Frieden, 2001). As the classical gold standard was characterized by a high effectiveness and stability, the exchange rates under the gold-bullion standard were subjected to discretionary, and often competitive, changes. In effect, capital controls had become a common feature of the financial landscape prior to the second world war.

After the second world war, the Bretton Woods system combined stable exchange rates and capital controls (O'Driscoll Jr., 2012; de Larosière 2002). From 1946 to 1971, national currencies were fixed to the U.S. dollar, and the U.S. dollar was fixed to gold. National governments, however, could (and did) change their exchange rates in unusual circumstances, so that currencies were not as firmly fixed as under the classical gold standard. Under the Bretton Woods regime, the IMF played a crucial role in providing assistance for countries facing balance-of-payments problems. A major flaw in the system constituted the fact that it was based on a national currency (U.S. dollar) instead of a supranational reserve asset. As a result, the system was highly influenced by changes in the U.S. economic condition and the monetary policy pursued by the Federal Reserve System (Fed). Moreover, due to the high demand for gold, reported by most central banks, the U.S. gold supply was diminishing and keeping the dollar / gold exchange rate to be more and more costly. In effect, in 1971 the U.S. abandoned converting its currency to gold, and subsequently most governments were forced to float their currencies due to the lack of anchor (Bonpasse, 2007).

Since 1973 and the end of the gold / dollar convertibility, the system had evolved towards flexible exchange rates and the general liberalization of capital movements. Contrary to the monetary arrangement preceding it, the today's mechanism has arisen in an *ad hoc* manner without a supranational body to oversee it and without the universal exchange rate regime. Therefore Ignazio Angeloni (2008) and many other economists refer to it as a "non-order" or "non-system". Moreover, since the 1970s, national financial systems had been deregulated and capital accounts liberalized both in industrialized countries and a rising number of emerging economies. This process, which is often described as financial globalization – the integration of national financial systems through rising cross-border financial flows and asset holdings – was expected to contribute to a greater financial stability and growth. These expectations, however, have never been fully met (Bibow, 2008).

The contemporary monetary regime is often described as a hybrid regime due to differing national financial systems co-existing in the global economic space. Yet, despite the variety of exchange rate and monetary policy arrangements, some key features of the system can be found. They include the presence of both floating and fixed exchange rates, the U.S. dollar domination in financial transactions (and simultaneously the U.S. treasury bonds as a major reserve asset), minimization of capital controls, and insufficient international supervision based on the remainders of the Bretton Woods system (IMF above all). In addition, the system is based on fiduciary money whose value is not related to the value of gold or any other material asset (Michalski, 2010). The nature of fiduciary (*fiat*) money is behind unprecedented rise in capital flows over the last 40 years, which has also contributed to the increased volatility of capital flows. It is also worth noting that the system can also be characterized by the presence of multiple currencies issued by independent central banks which often pursue a monetary policy based on direct inflation targeting.

The paradox of the current "non-system" lies in the fact that there are very few countries that fully meet the above characteristics of this regime. Countries complying with the current regime are mostly advanced economies, usually member states of the

Organization for Economic Co-operation and Development (OECD) and / or the European Union (EU). Some of them are former socialist countries (e.g., Poland) that had undergone the neoliberal transformation in the 1990s.

It is worth noting that until recently the advanced and open economies of 'the West' (or rather 'the North') have been not only the major economic powers in the world, but also the major players in the financial space. However, with the shift of power in the global economy and the rise of countries like China and India, the financial landscape has started to change. Through the participation in the G20 meeting or the Basel Committee on Banking Supervision, the emerging powers from the developing world started to influence the governance of the global monetary system. The problem is that financial systems of these new economic powers remain mostly restricted, the independence of central banks is limited, capital controls are still in action, and their currencies are relatively weak and do not fulfil the convertibility criteria under the article VIII of the IMF Articles of Agreement.

As already mentioned, there is a wide variety of exchange rate arrangements present in the contemporary financial space. According to J. Lawrence Broz and Jeffry A. Frieden (2001), national monetary authorities must decide whether to fix the value of a national currency (to the dollar, another national currency or to a basket of currencies), or to allow the currency to float. Furthermore, if a government "chooses to let its currency float, it must decide whether it intends to let currency markets freely set the currency's value or whether it intends to target a particular range of exchange rates. If the latter, the government needs to determine the desired level of the currency's value" (Broz, Frieden, 2001). In sum, each government needs to decide on the currency regime and the value of a currency. An overview of the contemporary exchange rate arrangements according to the IMF classification is presented in Table 1. It is worth noting that, in spite of the current monetary order being described as a "floating exchange rate system", most *de facto* arrangements do not comply with this description.

TABLE 1. ***De facto*** **classification of exchange rate arrangements and monetary policy frameworks, IMF classification (April 2013)**

Exchange rate regime	Number of countries
No separate legal tender	13
Currency board	12
Conventional peg	45
Stabilized arrangement	19
Crawling peg	2
Crawl-like arrangement	15
Pegged exchange rate within horizontal bands	1
Other managed arrangement	19
Floating	35
Free floating	30

Source: International Monetary Fund (IMF) (2013). Annual Report on Exchange Arrangements and Exchange Restrictions. Washington D.C.

Therefore, in parallel with the global monetary arrangements, a number of regional fixed-rate systems exist within the global monetary regime. Most of these regional subsystems have involved fixing the national currencies of relatively small countries to the currency of a larger nation. In such cases, the relative stability of a peg is expected to reduce the transaction costs between aligned countries, as compared with the economies with more flexible or freely floating rates (Cohen, 2010:20). One of the examples of such a regional arrangement is the African Financial Community (*Communauté Financière Africaine* – CFA). Formerly the French franc and today the euro ties the currencies of 14 African countries to each other. Several countries in Latin America and the Caribbean have similarly tied their currencies to the U.S. dollar. Another type of a regional fixed-rate system involves linking a number of regional currencies to one another, which may further lead to adoption of a common currency. The best example of a monetary union today is the European Monetary Union (EMU). The initial success of the European common currency led to an enhanced debate on similar arrangements in other regions, including East Asia, Eastern Caribbean, and Southern Africa, or even the Gulf Cooperation Council member states. However, due to political obstacles, an insufficient level of economic integration, and – more recently – sovereign debt problems highlighting the drawbacks of the EMU integration model, the majority of these concepts does not have prospects for realization in the coming years (Jędrzejowska, 2012; Broz, Frieden, 2001; Furceri, 2007).

In spite of the monetary integration, the international monetary system is characterized by a high number of independent currencies corresponding largely to the number of independent states, stressing the role of national currency as an attribute of state sovereignty. With over 180 official currencies in the world, it is hard to talk about a single global system. Moreover, there is no universal reserve asset or an anchor currency that would further link the national systems together. On the other hand, as Benjamin Cohen (2003) states: "Once upon a time it was not inaccurate to think of monetary spaces in simple territorial terms. Many currencies existed, but for the most part each circulated separately within the political frontiers of a single nation-state. Each government was in charge of its own sanctioned money. Today, however, the world's monetary landscape is being rapidly transformed under the impact of accelerating competition among currencies across national borders. Money is becoming increasingly de-territorialized, no longer the instrument of an exclusive national sovereignty". This internationalized nature of national currencies can be thus regarded as another feature of the international monetary regime.

Despite its deficiencies and complex nature, the *ad hoc* international monetary system until recently has been performing relatively well. The weaknesses of the system have become visible with the increasing number of financial crises. It has become obvious that the system does not guarantee a reliable mechanism forcing economic entities to balance the incurred expenses against the income both in a long and in a short run. For this reason, the problem of deficit and surplus countries has intensified. What is worse, it is the fundamental cause of the escalation of the global imbalances of payments. In the recent years, the amplitude of these imbalances has been increasing dangerously, giving rise to the 2007–2008 financial crisis (Michalski, 2010).

TABLE 2. **Major surplus and deficit countries (current account balance, U.S. dollars), 2013**

Surplus countries		Deficit countries	
1. Germany	257.100.000.000	1. United States	-360.700.000.000
2. China	182.800.000.000	2. United Kingdom	-93.600.000.000
3. Saudi Arabia	132.200.000.000	3. Brazil	-77.630.000.000
4. Netherlands	82.900.000.000	4. India	-74.790.000.000
5. Russia	74.800,000.000	5. Canada	-59.500.000.000
6. Kuwait	69.130.000.000	6. France	-58.970.000.000
7. Norway	67.400.000.000	7. Turkey	-58.350.000.000
8. Switzerland	65.600.000.000	8. Australia	-44.900.000.000
9. Taiwan	56.660.000.000	9. Indonesia	-28.720.000.000
10. Japan	56.600.000.000	10. South Africa	-23.780.000.000

Source: CIA, The World Factbook. https://www.cia.gov/library/publications/the-world-factbook/rankorder/2187rank.html (18.05.2014).

The imbalances that have become a major issue in the global economy can be regarded as a consequence of the use of dollar as a reserve currency and the so-called Triffin dilemma. This phenomenon is based on the tension between the currency demands of rapidly growing economies, the domestic policy incentives of reserve issuing / holding countries, and the global economic and financial stability (Smaghi, 2011). The world's demand for international reserve assets increases with international income and trade. The reserve-issuing country must run the balance of payment deficits to meet the growing demand, while surplus countries can almost indefinitely accumulate reserves. The outstanding external debt of a reserve-issuing country rises without limit, causing some loss of confidence in the value of the reserve currency. Under the current monetary system, there is no ready mechanism forcing surplus countries or the reserve-issuing countries to make adjustments to fix this systemic imbalance (Lee, 2010). Moreover, many advanced economies, particularly the U.S., have been running significant current account deficits financed by current account surpluses in the emerging Asian economic powers, particularly in China. As the world's emerging economies transformed themselves from debtor to creditor economies, the (geo)economic power began to shift towards them (WEF, 2010). For major surplus and deficit countries, see Table 2.

This shift of power is also marked by an unprecedented increase in global foreign exchange reserves holdings over the last two decades. The above-mentioned capital account surpluses of emerging markets date back to the 1997 Asian crisis. The growing stocks of reserve assets were intended to make developing economies immune to financial crises and contagion. As a result, the value, ownership, and the currency composition of the international foreign reserves have changed (see Fig. 1 and Fig. 2).

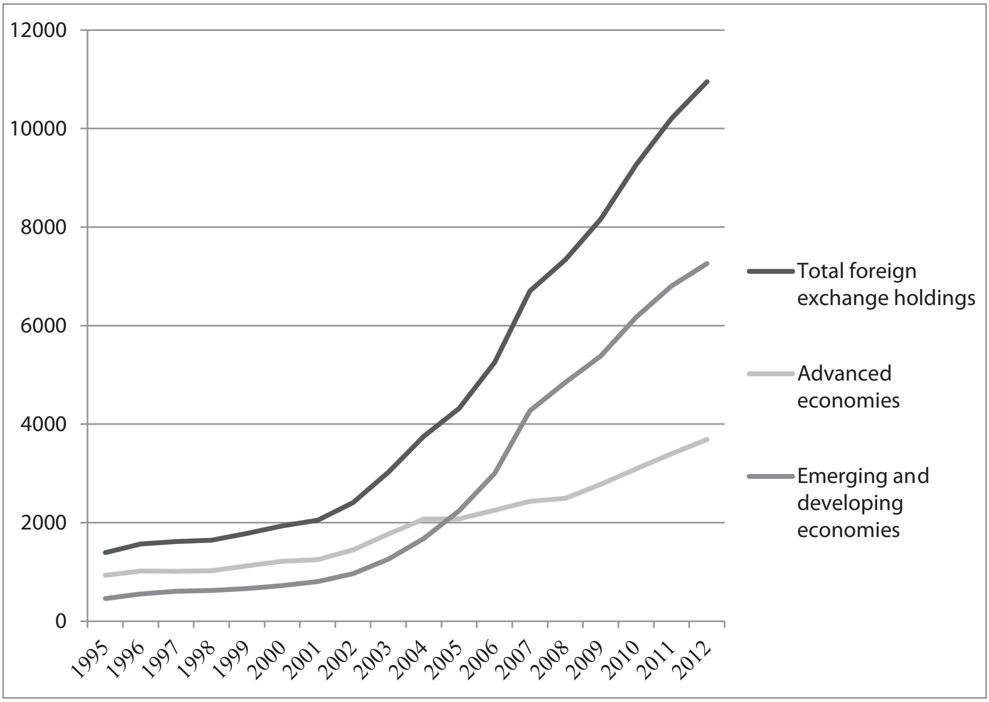

FIG. 1. **Foreign exchange holdings (U.S. dollars, billions)**

Source: Currency Composition of Official Foreign Exchange Reserves (COFER), IMF 2014.

III. CURRENT AND PROSPECTIVE INTERNATIONAL CURRENCIES

"Each international monetary and financial system has to rely on one or more international currencies in order to allow economic agents to interact in the global economy" (Smaghi, 2011). Therefore a major component of any international monetary system constitutes internationally acceptable money.

For a national currency to play an international role, the currency must meet several requirements. It needs to perform the key functions of money such as the medium of exchange, the unit of account, and the store of value at the international level for both private and public use. At the private level, an international currency is a vehicle for foreign exchange trading, an instrument for trade invoicing and settlement, and a means to facilitate cross-border investment. At the official level, it serves as intervention currency, an exchange rate anchor, and as a reserve currency (Cohen, Benney, 2012). Moreover, international currencies are issued by countries characterized by a high level of financial stability, open and deep financial markets, and a large share of world trade and global output (GDH, 2011). The functions of and the conditions for a global currency are summarized in Table 3.

TABLE 3. **Functions of international currency**

Functions.	Private use	Official use
Medium of exchange	Foreign exchange trading	Intervention currency
Unit of account	Trade invoicing and settlement	Exchange rate anchor
Store of value	Financial markets / investment	Reserve currency
Additional requirements for issuing countries:	• Deep financial market • Major exporter & importer (high level of economic opening and integration with the global economy • High level of financial stability	

Source: Cohen, 2010, Bonpasse, 2007.

In the past, only a few national currencies played an important international role and could have been regarded as global. As the Nobel laureate R.A. Mundell (1993) once wrote: "Great powers have great currencies". Countries issuing most influential currencies tended to be the most powerful economic and political players of the time, and changes in the international monetary order to some extent have reflected the general shift in the economic power. It was, e.g., the case of the pound sterling being replaced by the U.S. dollar in the international markets, which marked the decline of the British empire and the U.S. global supremacy.

There are several benefits attributed to the issuer of a global currency. According to Cohen (2010), they include four major factors. The first is seigniorage which can be defined as the excess of the nominal value of a currency over its cost of production. Next, there is an increased macroeconomic flexibility of an issuer of a reserve currency. Further, the international currency promotes the international reputation of its issuing country. Finally, prominence in the hierarchy of currencies may promote the issuing state's capacity to exercise a leverage over others through its control of access to financial resources.

In addition to the national currencies, the Special Drawing Rights (SDRs) also have a restricted position as a reserve asset. The SDRs are an international reserve asset created by the IMF in 1969 to alleviate a perceived shortage of reserves and to address the Triffin dilemma. The SDRs are, however, not really an asset but rather the unconditional right to obtain international currencies through the IMF (GDH, 2011). The value of the SDRs is defined by a basket of key currencies (the dollar, euro, yen, and pound). SDRs are not accepted for transactions and with the total value barely exceeding the U.S. dollar 300 billion (March 2014 estimate) constitute just a tiny fraction of the total reserves. However, due to their supranational nature, there have been calls for transforming the current SDRs into a global reserve currency (Dorn, 2009).

In parallel to currency holdings, gold reserves are still present in most central bank policies. Despite the decline in the international use of gold as a reserve asset, there

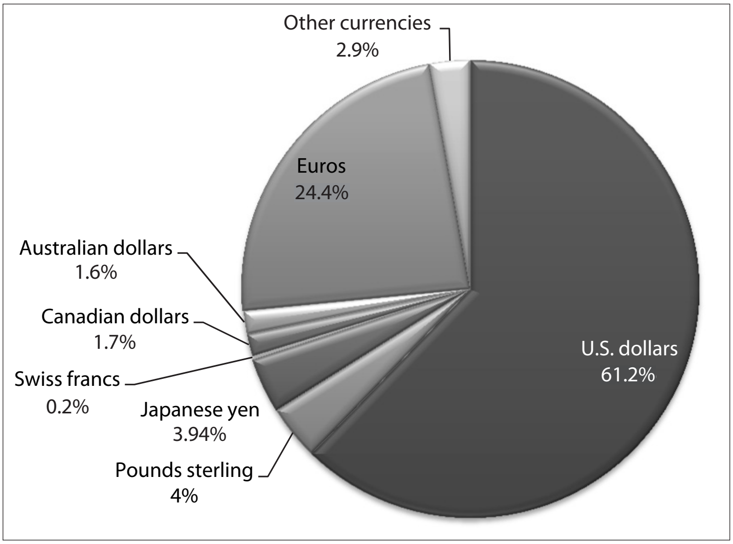

FIG. 2. **Currency composition of foreign exchange reserves**

Source: IMF, 2014. Currency composition of official foreign exchange reserves (COFER). http://www.imf.org/external/np/sta/cofer/eng/ (18.05.2014).

might be a gradual return to the use of dollar because of the lingering crisis of the major international currencies and the uncertainties created by the renminbi's gradual rise to international prominence (OMFIF, 2013).

Today, there is only one currency fully meeting all of the requirements for an international currency: only the U.S. dollar can be regarded as a global currency. Its major rival is the euro, but its global use lags behind that of the dollar. Other than the U.S. dollar and the euro, only three currencies play an international role: the yen, the pound sterling, and the Swiss franc. In all three cases, their role in comparison with the U.S. dollar and even the euro is limited (Cohen, Benney, 2012; GDH, 2011). Despite the dominance of the U.S. dollar, some changes in the currency order are visible with the rise of emerging markets and a gradual shift towards a multicurrency system centered around the U.S. dollar, the euro, and the renminbi. Moreover, the so-called "alternative" reserve currency, such as Australian and Canadian dollar are getting stronger in relation to the "traditional" units. Their rise has been acknowledged by the International Monetary Fund which last year has classified them separately in its yearly foreign exchange reserves currency composition report. The brief characteristics of the major currencies and factors influencing their position are presented below. For currency composition of foreign reserves, see Fig. 2.

The U.S. dollar

The dollar achieved world dominance after the second world war (De Grauwe, 2011). Until today, despite a gradual decline, the dollar remains the most important currency in the world. It is still the most important reserve currency for the world's central banks. It is also the leading currency that countries use to invoice imports and exports, and the dominant currency in pricing commodities. The amount of the foreign exchange market turnover in dollars, exceeding U.S. dollar 3 trillion per day, is still more than double the amount of turnover in euros (De Grauwe, 2011; BIS, 2013). However, according to many economists, including Barry Eichengreen and Paul De Grauwe, the dollar remains the most important international currency mostly because of the weakness of its opposition (De Grauwe, 2011).

The nature of the dollar as the major reserve asset remains one of the fundamental flaws in the current monetary system. Despite its global use, the dollar is a discretionary government fiat money. As James A. Dorn (2009) states, "the Fed neither follows a convertibility principle nor a monetary rule that would commit it to a single objective – long-term price stability". The global financial crisis of 2007–2008 has weakened the dollar's dominant position. The confidence in the U.S. dollar was further undermined by the U.S. public debt exceeding 100 percent of the U.S. GDP. The U.S. debt continues to pose a growing risk to China and other countries holding large amounts of their foreign exchange reserves in dollar denominated assets (Dorn, 2009).

Nevertheless, the dollar denominated assets still constitute over 60 percent of the international reserve assets (IMF, 2014). The dollar remains also the most dominant vehicle currency, appearing on one side or the other of 87 percent of all market transactions (BIS, 2013).

The Euro

Shortly after its creation over a decade ago, the euro has become a legitimate rival to the dollar, and monetary integration has been seen as a solution for preventing financial crises, particularly after the 1997 financial crisis in East Asia (De Grauwe, 2011). However, the 2007-2008 financial crisis and the subsequent sovereign debt problems have highlighted the drawbacks of the EMU integration model and questioned the future of the common currency.

It is worth noting that there have been no huge improvement in the international position of the euro compared to the joint role played by the major currencies the common currency is based on. The Euro has taken over the shares in the market of the German mark or the French franc, and by the end of 2013 only around 25 percent of international foreign exchange reserves were denominated by the euro (IMF, 2014), and it was part of only 33 percent of foreign exchange market transactions (BIS, 2013). Taking this fact into consideration, the euro's growth of importance in the international markets has been far from spectacular.

The slow increase in the euro's international position was blocked by the sovereign debt crisis in the Eurozone. It has to be remembered, though, that, in spite of flaws in the EMU fundamentals, there have been no currency crisis in the Eurozone yet. It is worth noting that in spite of persisting debt problems in some of the Eurozone economies, the future of the common currency is not being questioned any more. The accession of Latvia and the approaching accession of Lithuania show that the common currency still has the development potential and is able to maintain and strengthen its international status.

Prospective international currencies

Several states around the world are believed to harbor ambitions to amplify their monetary power – including, most prominently, the four BRIC countries (Brazil, Russia, India, and China in particular). One way to achieve this goal is to promote a reserve role for their currency (Cohen, 2010). Even though the shares of turnover accounted for by several emerging markets currencies – such as the Brazilian real, the Indian rupee, the Korean won, the Polish zloty, or the Russian rouble – have grown in the recent years, their roles in the global currency markets and the use as a reserve asset remain limited (GDH, 2011). On the other hand, however, the major progress in the international position has been noted for the currencies of developed economies (Canada and Australia), indicating that the financial systems of the majority of developing countries still miss sufficient stability and depth.

The only emerging market currency with a potential to become global is the Chinese renminbi. As the second largest economy of the world, China possesses the means to turn yuan into a major alternative for the U.S. dollar. However, as of today, the international position of the renminbi remains restricted by its *de facto* fixed exchange rate, lack of full convertibility, capital controls in China, and insufficiently developed financial markets in the mainland China. In spite of these limitations, the renminbi is already the dominant currency in Asia, exerting a considerable influence on the exchange rate and monetary policies in the region (ECB, 2012). Moreover, Chinese authorities have started a strategy that can be described as "managed internationalization" of the renminbi, which includes, e.g., launching the offshore markets, currency swaps, and the issuance of renminbi-denominated bonds (WEF, 2012). In effect, the use of the renminbi in the settlement of border trade between China and most of its neighbors is increasing, even though its global role remains limited (Lee, 2010).

IV. TOWARDS A GLOBAL CURRENCY?

Over half a century ago, John Maynard Keynes presented an ambitious project of a single global currency. Although the "bancor" – as the new currency unit was supposed to be called – never came into being, the idea of a global currency is ever present in the monetary policy debate, pointing out the possible direction of reform of the international monetary system.

Michel Camdessus (2009), the ormer Managing Director of the IMF, has stated in one of his presentations during the subprime crisis that it is not the reform of the international monetary system that really matters, but the verification what type of an international currency would best respond to the demand for the international stability and stable economic growth. As the major drawback of the Bretton Woods regime constituted the fact of the U.S. dollar being simultaneously a national currency and the international reserve asset, the calls for an analogical system based on a single global currency appear well-grounded.

The idea of a single global currency can be traced back to the mid-19th century works of John Stuart Mill. Robert A. Mundell states that creation of a global currency is "a project that would restore a needed coherence to the international monetary system, give the International Monetary Fund a function that would help it to promote stability, and be a catalyst for international harmony." He continues: "The benefits from a world currency would be enormous. Prices all over the world would be denominated in the same unit and would be kept equal in different parts of the world to the extent that the law of one price was allowed to work itself out" (taken from R.A. Mundell's website).

A global currency can be defined as "a common currency, managed by a Global Central Bank within a Global Monetary Union, that people can use within member countries as a legal tender and for international transactions. In short: A euro-like currency for the World" (Bonpasse, 2007). Morrison Bonpasse provides a selection of arguments in favor of and against the global currency. His arguments are summarized in Table 4, but it has to be remembered, though, that most of the points are rather controversial, and simultaneously many contradictory opinions can be found.

Following the 2009 G20 summit, plans were announced for creating a new global currency to replace the U.S. dollar's role as the world reserve currency. Despite support given to the idea by the Chinese and Russian monetary authorities, no actual progress has been made in the area since. Paradoxically, during the presidential campaign of 2011–2012 in the U.S. the idea of reinstituting a gold standard was introduced by the Republican Party, reflecting the awareness of problems with the dollar's status (White, 2013:1). The reform of the international monetary system appears also to be a factor uniting the BRICS (Brazil, Russia, India, China, and South Africa) countries that oppose the global domination of the U.S. dollar. Yet, despite declarations in favor of the new reserve

TABLE 4. **Single global currency – costs and benefits**

Benefits	Costs
• Elimination of costs of foreign exchange transactions	• Loss of sovereignty
• No need to maintain foreign exchange reserves	• Loss of adjustment mechanisms provided by the national monetary policy
• No excessive capital flows among countries	• Monetary policy not suited to the individual county's needs
• Lower cost of operating the monetary system	• Larger economic fluctuations and budget deficits (in case of substantial differences in the economic condition of union members)
• Elimination of the Balance of payments and current account imbalances	• Employment cuts in central banks
• Separation between the value of money and economic condition of a particular country	
• No national currency crises and currency speculation	
• Possibly lower inflation worldwide	
• Increase in trade and price transparency	

Source: Bonpasse, 2007.

currency (based, e.g., on the expansion of the SDRs framework), most members of the group seem to be trying to strengthen the regional and global role of national currencies.

Given the changes in the global economy, only a few years back there seemed to be a bipolar monetary system based on the U.S. dollar and the euro in the making. Despite disparities between the two players and their obvious weaknesses, there seemed to be no alternative, and both currencies fulfilled their international function with sufficient effectiveness. However, the rise of China and the possible emergence of the Chinese renminbi as a global currency gave way to a debate on a tripolar monetary system. Today, given the debt crisis in the Eurozone and the level of indebtedness of the U.S. economy, the future of the international monetary system is still open. It needs reforming in order to meet the requirements of the coming global order characterized by multiple growth centers, with the growing role of transnational actors and leading emerging markets on the global stage. It is, therefore, possible that there is a multipolar global monetary system in the making, or maybe it is the shift towards multiple regional monetary systems that has begun. Simultaneously, calls for the new Bretton Woods and a radical reform of the system, including the single global currency, are recurring.

As the shift of power from the "West" to the "East" in the global economy is advancing, there undoubtedly will be new international currencies appearing on the global stage. Based on the Global Development Horizons – GDH (2011), World Economic Forum – WEF (2012) predictions, and the subsequent works by Angeloni and Sapir (2011), at least six possible scenarios of the evolution of the international monetary system can be named: 1) the dollar standard *status quo*, 2) the multipolar international monetary system, 3) a single multilateral reserve currency, 4) a single supranational currency, 5) return to the dollar standard, and 6) regionalization of the international monetary system.

The dollar standard status quo

According to this scenario, the U.S. dollar retains its position as the dominant international currency for at least two consecutive decades. The condition for the realization of this forecast is success by the United States in curbing unsustainable fiscal deficits and a delay by China and the euro area in making the reforms necessary to expand the international use of their currencies. In this scenario, changes to the current arrangements are introduced through incremental reforms. These would include enhanced surveillance, a voluntary reform of exchange rate arrangements, and improved international liquidity facilities, including regional initiatives to complement the current IMF facilities (Angeloni, Sapir, 2008).

Multipolar international monetary system

In this scenario, the decline of the U.S. dollar will continue. As a result of the Chinese and the Eurozone (reestablished) growth, the dollar-oriented system will be replaced by a global system with three roughly equally important currencies: the dollar, the euro, and the renminbi (if it is sufficiently internationalized) or a possible single currency of East Asia or the BRICS currency (GDH, 2011; WEF, 2012). Given the fact that the Yuan bloc is already de facto in existence in East Asia, the tripolar currency regime seems possible in the coming years. However, the rise of the further financial centers, including Switzerland, Canada, South Korea or India, might also lead to a truly multipolar currency regime.

A single multilateral reserve currency

In this scenario, a single multilateral reserve currency is at the center of the system. The single currency could be based on the existing framework provided by the SDR system or an entirely newly projected entity based on gold or other commodities (GDH, 2011). This scenario is far less likely than the previous two scenarios to materialize over the next two decades, as it necessitates developing a set of rules for managing international liquidity and moderating the exchange rate movements, and requires countries highly protective of their national monetary policy to relinquish full control (Dailami, Masson, 2011).

A single supranational currency

In spite of numerous declarations favoring the new global reserve asset, the possibility for its creation in the coming years appears very low due to the unequal development in the world and the lack of political will for such move in most countries. From the strictly economic point of view, a single supranational currency would seem to be appealing, since transactions costs would be minimized (see Table 4). From the political point of view, however, the option seems almost impossible due to extreme differences in the level of economic development among the countries and, of course, the lack of willingness of most countries to abandon privileges given by a strong national currency (Cohen, Benney, 2012).

New dollar standard

There are also voices in favor of the reestablishment of monetary arrangements similar to the Bretton Woods regime or even the gold standard. In spite of the volatility of gold prices after 1971 and its possibly insufficient holdings, the advocates of this solution stress that there were less financial crises under the fixed exchange rates, and such arrangements have effectively constrained inflation (White, 2013).

Regionalization of the international monetary system

Following this forecast, the international monetary system will have been fragmented into various regional systems, and there would be little coordination of policy beyond the regional level. Barriers to trade will significantly increase, and there would be only a limited capital mobility among the regions. The IMF would become largely obsolete, while various regional initiatives, such as the Chiang Mai Initiative in Asia or the BRICS Development Bank, would take over the Fund's place (WEF, 2012). It is worth noting that Chinese steps towards an extended regional use of the renminbi or attempts at creating more monetary unions in Africa and the Middle East indicate that this scenario seems very probable.

It is worth noting that the idea of currency regionalization is to a large extent compatible with the concept of the multipolar currency order. Moreover, it seems that both scenarios are already in progress.

V. CONCLUSIONS

The effectiveness of the current international monetary system was questioned after a series of financial crises culminating in the 2008–2009 subprime crisis and the consecutive sovereign debt crisis in the Eurozone. The crises and uneven economic development in the world have intensified the debate on the future of the international monetary system. Although the need for the reform of the current *ad hoc* monetary arrangements has been diagnosed over two decades ago, only limited progress has been reached in the field. Until the subprime crisis of 2007–2008, most of the changes constituted gradual adaptations of the existing framework rather than a planned reform.

There are several scenarios for reforming the international monetary system. The exact direction and outcome of this transformation remain unknown. The most radical option seems to be the introduction of the global currency which would enable eliminating the exchange risk, equalizing commodity prices, and – theoretically – preventing future financial crises. Such proposals have, however, very little chances for realization, and the global currency union most probably will remain just a theoretical concept.

Only a few years back, a shift towards a bilateral system seemed highly probable. The Eurozone debt crisis and the decline of the U.S. dollar have slowed down these developments. As the major international currencies are undergoing several difficulties and the growth of developing countries is indisputable, very soon the Chinese renminbi may challenge the U.S. dollar (and the euro) over the monetary supremacy. Alternatively, instead of the international monetary system, there could be several regional currency arrangements emerging.

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