World currency

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In the foreign exchange market and international finance, a **world currency** or **global currency** refers to a currency in which the vast majority of international transactions take place and which serves as the world's primary reserve currency.

Contents

United States dollar & the Euro

Since the mid-20th century, the *de facto* world currency has been the United States dollar. According to Robert Gilpin in *Global Political Economy: Understanding the International Economic Order* (2001): "Somewhere between 40 and 60 percent of international financial transactions are denominated in dollars. For decades the dollar has also been the world's principle reserve currency; in 1996, the dollar accounted for approximately two-thirds of the world's foreign exchange reserves" (255).

Many of the world's currencies are pegged against the dollar. Until July 2005, the Chinese renminbi was one such currency. Some countries, such as Ecuador, El Salvador, and Panama, have gone even further and eliminated their own currency in favor of the United States dollar.

But its dominance has begun to be undermined by the very recently (1999) by the euro, that represents an equivalent size economy, with the prospect of more countries adopting the euro as their national currency. Quite a few of the world's currencies are pegged against the euro. They are usually Eastern European currencies like the Estonian kroon and the Bulgarian lev, plus some north African currencies like the Cape Verdean escudo and the CFA franc.

In July 2005, the euro together with the American dollar, the South Korean Won and the Japanese yen are the main currencies in the basket of the renminbi.

History

Prior to and during most of the 1800s international trade was denominated in terms of currencies that represented weights of gold. Most national currencies at the time were in essence merely different ways of measuring gold weights (much as the yard and the metre both measure length and are related by a constant conversion factor). Hence some assert that gold was the worlds first global currency. The emerging collapse of the international gold standard around the time of World War I had significant implications for global trade.

In the period following the Bretton Woods Conference of 1944, exchange rates around the world were pegged against the United States dollar, which could be exchanged for a fixed amount of gold. This reinforced the dominance of the US dollar a global currency.

Since the collapse of the fixed exchange rate regime and the gold standard and the institution of floating exchange rates following the Smithsonian Agreement in 1971, currencies around the world have no longer been pegged against the United States dollar. However, as the United States remained the world's preeminent economic superpower, most international transactions continued to be conducted with the United States dollar, it has remained the *de facto* world currency.

Only two serious challengers to the status of the United States dollar as a world currency have arisen. During the 1980s, for a while, the Japanese yen became increasingly used as an international currency, but that usage diminished with the Japanese recession in the 1990s. More recently, the euro has competed with the United States dollar in usage in international finance, however as of 2006, the United States dollar remains by far the most widely-used currency.

Hypothetical single "true" global currency

An alternate definition of a world or global currency refers to a hypothetical single global currency produced and supported by a central bank which is used for *all* transactions around the world, regardless of the nationality of the entities (individuals, corporations, governments, or other organizations) involved in the transaction. No such official currency currently exists for a variety of reasons, political and economic.

There are many different variations of the idea, including a possibility that it would be administered by a global central bank or that it would be on the gold standard [1] (http://www.gold-eagle.com/editorials_05/wallenwein070805.html). Supporters often point to the euro as an example of a supranational currency successfully implemented by a union of nations with disparate languages, cultures, and economies. Alternatively, digital gold currency can be viewed of an example of how global currency can be implemented without achieving national government consensus.

Arguments for a global currency

Some of the benefits cited by advocates of a global currency are that it would:

- Eliminate the direct and indirect transaction costs of trading from one currency to another[2] (http://www.singleglobalcurrency.org/why_an_sgc.html).
- Eliminate the balance of payments/current account problems of all countries.
- Eliminate the risk of currency failure and currency risk.
- Eliminate the uncertainty of changes in value due to exchange-caused fluctuations in currency value and the costs of hedging to protect against such fluctuations.
- Cause an increase in the value of assets for those countries currently afflicted with significant country risk.
- Eliminate the misalignment of currencies.
- Utilize the seigniorage benefit and control of printing money for the operations of the global central bank and for public benefit.
- Eliminate the need for countries or monetary unions to maintain international reserves of other currencies.

Arguments against a single global currency

Many economists argue that a single global currency is unworkable given the vastly different national political and economic systems in existence.

Political difficulties

In the present world, nations are not yet able to work together closely enough to be able to produce and support a common currency. There has to be a high level of trust between different countries before a true world currency could be created. Critics argue that a world currency would undermine national sovereignty.

Economical difficulties

Some economists argue that a single world currency is unnecessary, because the U.S. dollar already provides many of the benefits of a world currency while avoiding some of the costs [3] (http://www.oracle.com/oramag/profit/02-aug/p32forward.html).

If the world does not form an optimum currency area, then it would be economically inefficient for the world to share one currency.

A world currency would not allow for adjustments by national central banks to accommodate local economic problems. A single currency can only have a single interest rate. However, different regions in the world, with varying rates of economic growth, may require different interest rates.

As an example, consider a hypothetical Country A that is a petroleum exporter and a hypothetical Country B that is an oil importer. If the price of oil goes up, this is an advantage for Country A, and a disadvantage for Country B. If the oil price goes up, this stimulates the economy of Country A; to avoid "overheating" the economy, Country A's central bank would support increasing the interest rate of Country A. At the same time, Country B's economy is damaged by the increased price of oil, and Country B's central bank would seek to lower the interest rate in order to stimulate the economy. However, Country A and Country B would be unable to do this if they shared the same currency.

See also

- Digital gold currency

External links

- Single Global Currency Association (http://www.singleglobalcurrency.org/).
- A Single Global Currency? Sure, why not. But, only if it's Gold and Silver Bullion! (http://www.gold-eagle.com/editorials_05/wallenwein070805.html).
- Malaysia Mahathir Proposes Single Global Currency (http://www.nni.nikkei.co.jp/FR/NIKKEI/inasia/future/2001/2001news12.html).
- Is it Time for a Single, Global Currency? (http://www.oracle.com/oramag/profit/02-aug/p32forward.html).

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