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WORLD TRADE AND WORLD MONEY

The Case for a New World Currency Unit

1. ONE WORLD

In an earlier world of formal colonies and imperial centres, the number of currencies used in international trade and finance was limited. Decolonization saw the widespread emergence of national monetary units, and also persistent and widespread current account deficits, which have to be financed through acquisition of internationally acceptable money or foreign exchange (Harrod, 1972a; Williamson, 1977; Grieve Smith, 1999). The balance of payments adjustment process routinely overwhelms democratic governance in weak or emerging economies. The efforts to meet human development goals (Sen) or even basic human needs are thwarted by a hostile world monetary order overseen by the International Monetary Fund. Could we not get closer to meeting the Millennium Development Goals of the United Nations by adopting a world monetary unit? This question provides the focus for this chapter.

Foreign exchange problems have characterized much of the efforts to promote international development in the post-colonial period. Keynes (1980a: 21) indicated that in the last 500 years only two of the various efforts to promote international monetary cooperation have 'worked' in promoting international trade. For the weaker countries, financial instability incapacitates efforts to eradicate hunger, promote social well-being, and human development. Recent examples of 'dollarization' indicate the lengths to which some countries have gone in trying to avoid foreign exchange difficulties (Mack, 1999, 2000; Cohen, 2002). Moreover, the gold standard, gold exchange standard, and key currency periods of world economic history have produced turbulence, international conflicts, and ongoing disagreements among national governments. For Polanyi (1957) international monetary affairs featured, centrally, in his telling account of the causes of the first and second world wars *The Great Transformation*.

For these reasons the idea of a world monetary unit remains an intriguing possibility, or at least worthy of further thought, reflection, and discussion. The successful launch of the Euro suggests that some monetary schemes of an over-arching

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nature can be realized. However, past experience suggests that one-currency schemes carry with them the limitations of any utopian ideas. It was not without full appreciation of the hazards associated with grand, somewhat implausible projects that John Maynard Keynes set out his ideas for an international clearings union, including a world money (bancor) for central banks. But his rational enthusiasm, as exemplified by his statement 'These advantages of the proposed International Clearings Union are surely so great that they overshadow most reasons of objection on lesser grounds' (Keynes,1980a: 47), could not overcome resistance to grand planning on a world scale.

The familiar concepts of a monetary unit are as a unit of account, means of exchange and settlement, and store of value. Not surprisingly, a world monetary unit has often been discussed in these terms. However, the conceptual issue of interest here comes under what is called the anchor problem: what shall constitute the main reference value for international transactions (Mundell, 1982: 3)? Or to change the metaphor, what should be the pivot point for world finance (Chesnais, 1997) Keynes was used to thinking about a world where London was the financial centre and the pound offered features of a world money. In drafting his post-war proposals he was conscious that only a fully multilateral system would allow the sterling bloc to operate and London to maintain its position in world finance, as restrictions would drive surplus members out of the bloc (Keynes, 1980a: 69–71, 93–94). A review of the much discussed current topic of globalization reveals that for most observers we already have one financial world characterized by integrated currency trading, money and securities markets, and massive capital movements across national boundaries (Eatwell and Taylor, 2000; Davidson, 2003). It appears therefore that the extent to which one world implies one currency is worthy of consideration.

The survey undertaken here cannot address all aspects of how a world currency might work. It does not include an enumeration or examination of the various attempts to think about a new world money or central bank (Blecker, 1999: 85–145; Smithin and Wolf, 1999). It does seek to assess whether the central bank money conceptualized by Keynes makes sense in this era, and whether we can think about the world using his categorization of the international monetary problem, keeping in mind, as he did, that a utopian outlook can be useful, if only to push the world a little closer to seeing itself differently (Harrod, 1972b). The short answer is that the vision contained in the international clearings union and the bancor proposal has contemporary relevance. Indeed, the conceptual framework developed by Keynes can be used to look at the issues that were neglected, or inadequately dealt with, by the practices since the Second World War. The adoption of a fixed gold price, the dollar exchange standard, the Special Drawing Right (SDR), the floating exchange rate system, and the Euro raise issues and questions similar to what did, and did not, figure in his thinking about a world currency, and an attempt needs to be made to see what went wrong since the Keynes plan, and what could be done to put things right. Overall his conception of a world money need to be understood in the context of the British Empire, and recast again in the era of American hegemony, and European supranationality.