Time Overdue For A World Currency

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Note from Pastor Kevin Lea: The Bible predicts (in Daniel and Revelation) that there will be a final attempt to achieve global government in the last days. Global government needs a global currency and religion. Tony Blaire is actively working on the religion aspect and according to this article; others are priming the pump to give us a global currency. The coming economic disaster (and associated global misery) will remove all naysayers about the need for a new global financial system. The Bible teaches that this global system will be used by a world leader (the Antichrist) to enslave all humans on the face of the earth. People have been talking about these prophecies for centuries. Now their fulfillment is cropping up in news headlines. The beating footsteps of the return of Jesus can be heard by those who are watching. Are you ready?

The world economy is suffering from high inflation, stemming from overly expansionary monetary policy in the United States, as indicated by negative real interest rates and the rapidly depreciating dollar. Low interest rates discourage savings, reduce bond yields and cause investors to seek higher yields in speculative commodities and foreign currency markets. Consequently, energy and food prices have exploded to levels threatening social and economic upheavals.

Oil prices, by climbing from US$20 a barrel in 2001 to $135 barrel in May this year, illustrate the extent of the dollar's depreciation and interest rates distortions. Whereas a $100 bill would have bought five barrels of oil in 2001, now it buys only 0.74 barrel, losing approximately 85% of its real value.

Inflation imposes a heavy tax burden on dollar holders, cuts disproportionately the real incomes of workers and pensioners, redistributes wealth in favor of debtors at the expense of creditors, and stifles economic growth.

Given that the US dollar accounted for 41% of total international reserves at the end of 2007, (against 17% for euros), its fast depreciation makes it a risky asset for holders and could lead to a run from the dollar toward more stable currencies or more stable assets, such as gold, commodities, real estate and safer financial assets. A flight from the dollar could create a liquidity crisis, in turn disrupting international trade and world economic growth. Oil and food exporters, wary of the rapidly depreciating value of their foreign exchange reserves, would be induced to curtail exports, with attendant consequences for the real world economy.

The current inflationary episode is neither novel nor surprising, but its severity could prove to be exceptional and it could last for some time. Indeed, following the collapse of the gold standard in 1914, the world economy became vulnerable to recurrent monetary disruptions stemming from expansionary monetary policies in reserve currency centers, suffering deep contractions in trade and economic growth, most notably the Great Depression.

The present monetary conditions are similar in many respects to the ones that prevailed in the 1930s. Major reserve currency countries, now and then, fearing domestic recession and unemployment, were reluctant to contract monetary policy and incurred large balance of payments deficits, followed by competitive devaluations, speculative attacks and inflationary spirals.

In spite of the Bretton-Woods Agreement and successive reforms of the international financial system, a main deficiency of the post-1914 system remained the absence of monetary discipline and ultimately a reserve anchor (formerly gold) for monetary policy in reserve centers.

In this regard, the dollar and sterling, by becoming reserve currencies in the context of the 1922 Genoa (Italy) agreement, expanded monetary liquidity freely through protracted balance of payments deficits, until reaching non-convertibility with gold in September 1931 for sterling and August 1971 for the US dollar. Under the post-1914 mechanisms, known as the gold exchange standard, Bretton-Woods fixed parities, and flexible exchange rate systems, a reserve center was able to run extended balance of payments deficits without loosing foreign reserves, until market forces imposed a disorderly and costly adjustment, including widespread trade barriers and restrictions.

Frequent and drawn-out financial upheavals of the world economy led to the formulation of bold proposals for reforms of the international payments system, such as by John Maynard Keynes (1943), Robert Triffin (1960), Jacques Rueff (1963), Franco Modigliani and Askari (1971), and most recently Robert Mundell and Paul Volcker (2000). While the proposals varied in details, they shared broadly a common objective, namely safeguarding the world economy against disruptive financial instability and a common reserve currency, called bancor by Keynes, Fund (International Monetary Fund - IMF) deposits by Triffin, a reserve asset with constant purchasing power in terms of a basket of commodities (Modigliani and Askari), or purely restoring gold by Rueff.

A number of the proposals called for establishing a central bank for central banks, which for Triffin would be the IMF.

The consequences of the financial instability of the 1930s were most onerous and may have contributed to subsequent wars. The world economy is becoming increasingly globalized and financial markets are becoming increasingly integrated. However, with fully flexible exchange rates, combined with disorderly monetary expansion in the reserve centers, the world economy has now become more vulnerable to financial instability than at any time before.

Early warnings, such as rapidly rising inflation, tight oil markets and food riots, call for decisive reform of the international payments system. Reverting to beggar-thy-neighbor policies between major currency centers and emerging economic powers can become very costly to the world economy. While drawing lessons from shortcomings of past reforms is essential, a reform plan may evolve around three pillars: create a world central bank, create a world currency, and establish safeguards for member countries' monetary policy in the form of quantitative ceilings for money growth.

A world central bank is becoming a necessity in a global economy. Such an independent central bank, not subject to the political whims of a particular government, would be more likely to apply orthodox and safe central banking. Contrary to any country's central bank, a world central bank would have no obligation to accommodate budgetary deficits, war spending, domestic wage and price rigidities, speculative asset bubbles, or rescue ailing domestic banks. Its law should be as meticulously applied as any constitutional law of a Western democracy.

Most important, as prescribed by Triffin, little discretion should be allowed for this central bank in the conduct of its mandate. Namely, its reserve currency growth should never exceed fixed annual ceilings, and its operations, resembling those of any central bank (rediscount, open market, lending and so forth) should be strictly regulated.

Second, a world central bank would create a reserve currency, not be a fictitious unit account such as the IMF's Special Drawing Right (SDR), but a true legal tender represented by a currency bill, the same as a dollar, euro, sterling, or any other currency bill. Rueff was a strong proponent for a gold standard. Recently, Mundell maintained that gold could be used as a reserve asset in a reformed international monetary system for the 21st century.

While there are many schemes for introducing a common currency, as in the case of a common currency area (for example the euro), the easiest is to define a world currency in terms of gold (or preferably in terms of a selected basket of internationally trade commodities as the reserve currency would have a more stable purchasing power), as gold has possessed over the centuries the characteristic of money instead of any other commodity or paper money.

Once defined in terms of gold, its value will remain fixed and will be preserved through strict laws controlling its issuance, including quantitative annual ceilings that can never be exceeded. The world currency note will circulate along with national currencies, serve as a reserve asset, and become part of the international payments system.

By becoming a full-fledged reserve asset, a world currency would cushion the real value of international reserves against inflationary policies of reserve currency centers and wide fluctuations in exchange rates. It would restrain extended balance of payments deficits of currency centers, and may contribute significantly to promoting financial stability and sustained world economic and trade growth.

A third area for a world monetary reform is mandatory monetary discipline in member countries. While member countries in the euro zone have fully surrendered monetary sovereignty to the European Central Bank, reserve currency centers may have to surrender partially, not totally, their monetary prerogatives to a world central bank. Most indicated safeguards would be to establish rigorous annual ceilings on money supply not exceeding 5% a year (or a fixed multiple of a country's holdings of the constant purchasing power reserve currency above).

Observing this law would be like observing the constitutional law of electing a US president for a four-year term. As constitutional laws have ruled over two centuries in the US and have preserved economic and political freedom, similar laws have to prevail in a monetary area to reduce discretionary powers of central bankers and attain monetary stability.

Monetary instability has had serious consequences at the national as well as world levels. Promoting safeguards for monetary stability and surrendering part of the monetary sovereignty to a world central bank would be necessary for checking selfish policies and eradicating root causes of monetary instabilities.

Previous reforms of the world monetary system, as well as negotiations under the General Agreement on Tariffs and Trade (predecessor to the World Trade Organization), were very slow and moved under forced conditions rather than through a planned and organized process. Often, conflicts of national interests undermined these reforms or severely limited their scope.

With long strides in trade liberalization, the formation of a monetary zone in Europe, and globalization of the world economy, it is hoped that progress in monetary cooperation will be easier now than in the past. The present system of flexible exchange rates and unchecked money expansion by reserve centers could turn into monetary chaos and disrupt trade and economic stability. Progress achieved in 1980-2000 against inflation has been wiped out by current expansionary policies in major reserve centers and has created unmanageable difficulties in oil and food markets.

It will be important, at the level of the United Nations, the IMF and world governments, to move as quickly as possible in redressing the prevailing monetary chaos and initiating a reform process for a world central bank, most likely the IMF, and the creation of a world reserve currency.

Standing put in the face of mounting inflation and financial disorder would inflict costly stagflation, contraction in trade and disorderly oil and food markets. Allowing a free hand for central bankers in waging monetary warfare, or pursuing exclusively domestic full employment irrespective of inflation and external imbalance, could be even more costly for the world economy than the monetary anarchy of the 1930s.

Without establishing a full-fledged world central bank, world currency and safeguards for reserve centers' monetary policy, any reform of the international financial system will suffer the same shortcomings as the successive regimes that prevailed in the post-1914 period.

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