Forum: Economic and Social Council 1 (ECOSOC)

Issue: The question of a one-world currency

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Introduction

Currency is well known as a medium used for the exchange for goods and services, in other words most commonly known as money. Currency takes in many forms, such as paper or coins, but it is also deemed as a symbol that represents each country's economy. Each country has their own type of currency, such as the United States Dollar, Chinese Yuan, or European Union's Euro. Each type of currency represents a country's independence. Countries are able to create money of their own, set their own prices, or create government revenue with the use of currency- depending on their own needs.

Despite all these reasons, the question of one-world currency is a topic that has been disputed over for many years, starting from as early as 1944, when at an international conference in New Hampshire, economist John Maynard Keynes (head of the British delegation) came up with the idea and named the global currency as 'Bancor'. He proposed to set up a central bank of all central banks in order to ensure the stability and integrity of the international payment system. This meant that the banks of all countries would be unified into one. Since then, the debate on whether the single currency system should be implemented or not has long lasted until today; however, many have said this system seems feasible only in the long run and not in the near future. This is due to numerous limitations such as the varying economic conditions of countries, therefore needing to go through steps such as forming a nationwide consensus on policies that would benefit all countries.

The United Nations will be highly affected by the implementation of the world currency system, as it needs a stable source of funding. The United Nations was created to provide global public goods including security, welfare, and development for the world. Currently the funding system of the United Nations is weak, which hinders it from providing public services to its full potential. The United Nations struggles with getting contributions from member states due to the risks of "conflict of interest". In October 2019, Antonio Guterres, the Secretary-General of the United Nations, warned members about the cash shortage instructing managers to adjust their non-post expenditures, on account of the limit on the amount borrowed. To solve these problems, the United Nations has proposed the new "Global Currency", which is a unit of currency that is accepted for trade throughout the world.

Definition of Key Terms

One World Currency

One unit of currency that is shared among every country throughout the world. This means that there is one central bank, a common currency, and shared policies among the nations. One example of this system already implemented is the Euro, which is a unit of currency that is shared among the members of the European Union.

Reserve Currencies

Large quantities of foreign currency maintained by central banks and other major financial institutions to arrange investments, transactions, and international debt obligations, or to influence domestic exchange rates. The reserves are obtained through trade, with the country selling goods in exchange for currency. Current reserve currencies include the US dollar, the euro, the British pound, the Swiss franc, and the Japanese yen.

International Monetary System

Set of internationally agreed rules, conventions, and institutions. This system aims to reduce global poverty, encourages international trade, and promotes financial stability and economic growth. Its main function is to oversee economic development, lending, and capacity development. This system is crucial because most countries have national currencies that are not usually accepted as legal payment beyond their borders.

Non-post expenditures

The revenue expenditure of the government including capital expenditure. It includes the biggest proportion of the government's total expenditure- interest payments and debt servicing, defense expenditure and subsidies. It is what the government spends on the non-productive areas which are naturally obligatory. This also includes salaries, subsidies, loans and interest.

Liquidity constraints

Liquidity is the availability of assets of a market. Liquidity constraints imposes a limit on the amount an individual can borrow or changes the interest rate one pays.

Exchange Rate

The value of one currency while converting to another currency. Most exchange rates depends on the supply and demand in the market, which may cause it to rise or fall.

Economic Welfare

The level of prosperity and the quality of living standards in a country's economy. This is measured through several factors including Gross Domestic Product (GDP) that reflect the welfare of the population, in terms of money.

DEY (Dollar-Euro-Yen)

Goal of moving towards three or four major currencies from countries that take up the market. This includes the US Dollar, European Union's Euro, the Japanese Yen (or Chinese Yuan).

Monetary Policy

Macroeconomic policy laid down by the central bank. This involves the management of money supply and interest rate. The objectives of monetary policy are to control inflation, manage employment levels, and maintain long term interest rates.

Cryptocurrency

Form of digital currency that is used to buy goods and services using cryptography to secure online transactions.

Background Information

The history of one-world currency

The idea of one-world currency was first presented at an international forum in 1944 by John Maynard Keynes, who was the head of the British delegation. The currency was named "Bancor". This proposal included the setting up of an International Clearing Union, which will act as the Central Bank of all central banks in order to ensure the stability of the international payments system. If this were to have come true, it would've eased problems faced by the trade deficit countries.

The history of the us of the US dollar

Ever since the end of World War II, the dollar has been seen as the currency of the United States and the world economy. Although dollar exchange rates have continuously fluctuated, it still remains as the dominant currency today as a result of the Bretton Woods Agreement. The Bretton Woods Agreement was an agreement created in 1944 after World War II by the allied nations. The countries promised that their central banks will maintain steady exchange rates between their currencies.

International monetary system

Although the International monetary system has numerous benefits such as access to information on economic policies; assistance in banking, foreign affairs, and exchange matters; financial support; and increased opportunity for trade and investment, the system still contains numerous disadvantages. For long, the United States has been privileged from the International monetary system. For other governments to stand on the same level as the US dollar, they must be first recognized by investors and ready to have transparency on their liquidity and assets.

Regions oppositions

Unlike the European Union, other regional groups such as ASEAN or SAARC have not been able to come up with a one-world currency system. This could be due to the different political interests of countries, absence of a common economic agenda, or even simply due to the lack of communication between the countries. This is why cooperation between countries is important in order for the one-world currency to be implemented. However, this will be hard to achieve as each country has their own financial interests.

The benefits of a single currency

Eliminate currency exchange fees

Implementing the single currency system will allow countries to eliminate currency exchange fees. This will further allow countries to utilize their money better, as they will be able to save money and use it in other areas. For example, according to the European Commission, they estimated that after the use of the Euro was implemented, around 13 to 20 billion euros were saved every year by nations as it was not required to pay exchange fees while trading between them. Not only that, but it will benefit citizens as well because when citizens exchange money to other currencies or send currency abroad, they are required to pay fees in order to do so. A one world currency will solve this problem as everyone will be able to use the same currency and not have to pay extra fees.

A single currency will also end currency instability by fixing and reducing exchange rates. This will further allow countries to generate more exports to promote market growth.

Businesses that trade across borders would no longer have to face extra administrative costs while exchanging currency. The use of one-world currency will facilitate commercial transactions and decrease the time needed for the trade.

Allowing free trade

The implementation of one-world currency will boost trade between countries. While trading, there will be transparency of importing and exporting goods. For example, when the use of the Euro was implemented, the trade between EU members increased from 8% to 16%. The increased transparency in a world where all countries use a single currency will increase public recognition of the unequal distribution of income among citizens of different countries. Therefore, it may bring the citizens close together, as there would be democratic consensus on alternative trading systems.

End currency instability

A single currency will end currency instability by fixing and reducing exchange rates. This will further allow countries to generate more exports to promote market growth.

The disadvantages of a single currency

The different economic conditions of countries

Each country has different economic conditions. To form a central bank that has authority to print currencies and set interest rates requires contribution from all governments. Therefore, in order to implement the one-world currency system, it needs to be fair that it does not have any policies favoring one region over the other. This means that the interest rates should be the same for all. This is not practical as it would take extensive measures to ensure that every country gets the same benefits out of this system.

Political Independence

If there were to be a one-world currency, governments would have to give up their political independence. This implies that even economically strong and stable countries would have to cooperate with other weaker countries which could potentially lead to hyperinflation. Take China for example. China is a country where its exports are greater than their imports. This means that if they were to implement the single currency system, it would actually devalue its currency, meaning the same amount of foreign currency will be able to buy more goods from China. If there were to be more money flowing into the economy, the value of each individual paper currency decreases, thus in the end, some economies may collapse.

Uncertainty on international exchange values

Adopting the one-world currency system will cause present flexible exchange rates. However, this further causes uncertainty about international exchange values, because of the total inability to predict the size and direction of future exchange rate fluctuations.

Economic crisis

Adopting the one-world currency system may start an economic crisis. When implementing a global currency, it is important for all countries to get the same amount of benefits as other countries. However, in the process of doing so, there may be some cases where only a few countries truly benefit, and the other countries do not. For example, from the adaptation of the Euro, Germany benefited the most while other countries did less. German exports became attractive to the rest of the countries

Major Countries and Organizations Involved

United Nations (United Nations)

The United Nations is funded in two ways, mandatory payments and voluntary contributions. However, getting contributions from member states has always been a struggle for the United Nations. In October 2019, the United Nations Secretary General warned member states of the increasing cash shortage and pronounced that the works of the United Nations are being driven by the availability of cash at hand. Therefore, the United Nations proposed the development of "global currency". It declared that it is time to invent a successor currency that would be managed by a Global Reserve Bank.

China

China is currently working for its currency, the yuan, to become the world's global currency. This would replace the US dollar, which is currently the world's global currency. Allowing China to become the world's global currency would mean that it would have more control over its economy. The Yuan would be used while pricing international contracts. As of June 2009, China became the largest foreign holder of US Treasury's worth a total of $776.4 billion. In the same year, China, along with Russia called for a new global currency. They wanted the world to create a reserve currency that can be stable in the long term. China called on the IMF to develop a currency to replace the dollar.

United States of America

According to the IMF, the United States Dollar is the most popular currency IN 2019, it took over 60% of all known central bank foreign exchange reserves. The dollar is known as the most powerful currency and is frequently used as hard currency in day-to-day transactions. Almost 40% of the world's debt is issued in dollars. Thus, the demand of dollars is high.

International Monetary Fund (IMF)

The IMF is responsible for monitoring the monetary system. This organization recognizes the Australian dollar, the British pound sterling, the Canadian dollar, the Chinese renminbi, the euro, the

Japanese yen, the Swiss franc, and the US dollar. The IMF announced on April 13th, 2020 that the world should adopt a global currency called the "Bancor" and that a global central bank should be established to administer that currency.

Zimbabwe

Zimbabwe suffered through one of the worst hyperinflation crises in history due to numerous economic shocks. In response, the government increased the money supply to cover the national debt and declined economic output and exports. Therefore, the Zimbabwean dollar had to be replaced in April 2009 by foreign currencies, including the US dollar. In February 2020, the annual inflation rate in Zimbabwe was 540% and rose up to 676% in March 2020.

European Union (EU)

The European Union is a union between 27 European countries. They aim to ensure the free movement of people, goods, services, and capital between the internal market; maintain common policies on trade, regional development, agriculture, etc. The countries involved in the European Union include Austria, Belgium, Germany, Italy, Spain, and Hungary. These countries share a common currency, the Euro. The Euro was created to promote growth, stability, and economies of countries in Europe. However, the Euro is still not adopted by all of the EU members as the main currency.

Venezuela

Venezuela has been suffering from hyperinflation for the past several years. There have been numerous reforms such as implementing half-baked currency and creating new values, but the prices in Venezuela have continued to triple on a monthly basis. Venezuela currently does not have political stability. This is the reason why they are not able to recover from their hyperinflation crisis. Venezuela could tackle its hyperinflation by reducing the average price level and causing fewer shortages, allowing more people to be employed in the labor market.

Timeline of Events

Date	Description of event
1994	Concept of one-world currency introduced
1994	Bretton Woods agreement created
January 2009	Bitcoin network first introduced
March 2009	United Nations panel calls for the replacement of the US dollar-based system

June 2009	China becomes largest foreign holder of US Treasury
April 13th, 2020	IMF announces that the world should adopt a global currency
October 2020	IMF proposes World Bank Plan which includes the use of Digital Currency

Relevant United Nations Resolutions and Treaties

There hasn't been any relevant United Nations Resolutions and Treaties as the topic of one-world currency is still very controversial. Although the United Nations has mentioned and started the discussion about the idea of global currency, such as the DEY proposal, nothing has yet been put into action by the United Nations.

Possible Solutions

Creation of the DEY and avoiding unnecessary exchange rates

Exchange rates are constantly changing. This shows that markets are not working in a direction and a degree that is benefitting economic welfare. For example, the dollar-euro exchange rate has been dropping and rising for numerous years. With this in mind, the solution would be to create a common currency, called the DEY (Dollar-Euro-Yen). This could be implemented through working with a joint Monetary Policy Council to determine policies of the areas. Countries could start with large margins and gradually reduce them to complete convergence. In addition, the IMF could also designate the DEY as the new currency, as its primary purposes are to create global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth. Adopting this unitary system will get participating members to develop an exchange rate between them. Thus, will immensely lessen the risks involved in international transactions and will transform the trading system.

The use of Bitcoins and digital currency as global currency

Recently central banks have been conducting research into digital currencies and are attempting to create their own digital currency. If central banks were to create a network of digital currencies, they will be able to provide countries with a more balanced and effective system. They could do so through the use of bitcoins. With bitcoins, banks could issue digital cash with greater anonymity and make more efficient transactions. Recently, the International Monetary Fund (IMF) proposed the use of digital currency, especially following the COVID-19 pandemic. Therefore, countries could work with the IMF in order to shift towards the use of digital currency as it has numerous benefits such as being able to reserve the ecosystem. Otherwise, countries could also possibly work with private digital currencies (PDCs)- for example Facebook's digital currency, Diem. PDCs also have the potential to become global currency as they are supported by fiat currencies which could in the long-term lead to an increase in demand. Another way to implement digital currency is through the use of AI. This could ensure credibility as networks between countries would be supervised and could provide emergency liquidity easily across borders.

The use of Special Drawing Rights (SDR)

Special Drawing Rights is an international type of monetary reserve currency that was created by the IMF in order to solve problems. If SDR were to be used, it could finance IMF programs, private transactions for national bonds. However, it should be noted that the substitution of SDR will not happen in the short term. This is because only developing countries and the central bank use SDRs as a means of exchange. In order to fully implement the special drawing rights system, there should be nationwide consensus on policies so that every country would be able to benefit equally. With this in mind, governments could work with the IMF in order to implement this system and to make sure that every government is given the same benefits.

Dealing with hyperinflation in countries

Hyperinflation is when the costs of goods and services rise up to more than 50% a month. This is usually caused by an increase in the money supply and demand-pull inflation. Demand-pull inflation is when the increased pressure on prices follows a shortage in supply. Another cause of hyperinflation is increased consumer spending due to a growing economy, a sudden rise in exports, or more government spending. Countries that have suffered from hyperinflation include Germany, Venezuela, Zimbabwe, and the United States during the Civil War. Hyperinflation decreases the value of currency especially in foreign exchange markets. Unemployment rates rise, and government tax revenues fall.

There is no quick easy fix to hyperinflation. However, through institutional and political efforts, it could be stopped. One solution would be for the countries suffering from hyperinflation to create a new currency or use the world currency. If these countries were to be given individuality even with the use of other types of currencies, countries will be able to gain their economy back, even while using one world currency.

Developing short-term interest rates

Monetary authorities must maintain the short-term interest rate at a sufficiently high level in order to balance out the economy. If the domestic wage rate doesn't grow rapidly, price stability will be assured, ensuring a steady exchange rate. When countries start to share a common currency, there should be transparency. Therefore, developing short-term interest rates will allow countries to reduce the risk of implementing the one-world currency.

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