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THE FUTURE WORLD FINANCIAL FRAME-
WORK: EUROPEAN AND ASIAN IMPULSES
IN FAVOUR OF A GLOBAL CURRENCY

The summing up of a lecture by

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1. THE DYNAMICS OF THE CRISIS

It can be said that the current economic crisis began in the summer of 2007, with the subprime mortgages episode, and the almost simultaneous bursting of the financial and real estate bubbles in the U.S.; it is true, with ubiquitous and similar situations, previous or simultaneous, in the rest of the world. In any case, the effects of the changes in all kinds of trends were felt in the world's economic structures. Of course, with different local impacts and consequences which; will not be merely temporary, but far-reaching and favourable to a new design in international economic relations.

The changes referred to, will progress, inevitably, towards more globalization, a phenomenon with a long historical evolution going back, at least, to the Treaty of Tordesillas (1494), when the world was divided into two hemispheres by the political purposes of Spain and Portugal, at the time the most important countries in terms of new geographical discoveries. Afterwards, along the centuries, the technological advances, shortening distances, and new economic mechanisms in favour of greater efficiency, resulted in a process leading to universal economic cooperation first, and integration later; with such paradigmatic situation as the European Union¹, a real example of one hundred per cent globalization.

That globalization will continue with the strength of a law not quite formulated –in the way that, among others, Teilhard de Chardin tried to find– promoting social and economic progress on the planet Earth. With the ascertainment that a turn back to the times of the cold war and economic blockades –with so many negative cases of protectionism—, would lead us once again to great of political tension which could even lead again to remilitarization and threat of war; not without the danger that someday a final war could break out, in the case that nuclear proliferation were not curbed to achieve total global atomic disarmament in the not so distant future.

Returning again to the more restricted area of economics, the almost unlimited granting by the banking industry of the aforementioned subprime mortgages allowed loans to the insolvent Ninjas (**no income, no job, no assets**), thus producing a formidable *credit bang*. Really promoted by the financial sector, which in the US developed in a self-regulated and off-balance sheet direction, with a total lack of transparency and a high speculative component, and even real greed in the aims of bankers. This situation came tumbling down upon the

¹ For a broader view of this subject, see Ramón Tamames, "Globalización y Eco-paradigma" (Globalization and Ecoparadigm), Institució Alfons el Magnànim, València, 2003.

already quoted bursting of the real estate bubble due to the saturation of the housing market; leaving the world financial circuits in danger of systemic collapse because of the famous *toxic assets*, etc².

The serious situation emerging in said conditions was first treated in the U.S. by a *drip policy*, that is, by public intervention in banking entities on the verge of bankruptcy; from the first cases of Bear Stearns to the two largest mortgage superagencies (Freddie Mac and Fannie Mae). To such an extent that some of the largest banking corporations fell into the hands of the Federal Reserve and the Secretary of the Treasury. Having to underline a very serious error in that chain of support to banks: the necessary aid to Lehman Brothers, one of the most important merchant banks, was withheld (17/09/08), resulting in the rejection of financial products that contaminated the entire world.

In view of these dangers, 2008, the *Troubled Assets Recovery Program*, TARP, was put into effect on 3 October, 2008 by the U.S. Congress. According to the proposals made by two of President Bush's greatest officials in this field, Paul Paulson (Secretary of State) and Ben Bernake (President of the Federal Reserve); in the idea of acquiring market-depreciated titles from the most affected banks, with the aim of giving them more liquidity. In the same way, banks were recapitalized, in some cases with a partial or total take over by the Federal Government. This was the origin of a never-ending sequence of official support, with such a strong debt issue that even today, (18 November, 2009), there are so many forecasts not in the best direction³.

ON the contrary to what was happening in the U.S., the European Central Bank (ECB) kept very high interest rates during the first half of 2008, in the aim of stopping some inflationary trends. However, when crude oil and raw materials prices began to drop, due to logical market adjustments, the ECB began a series of reductions in interest rates, until it reached its current position of one per cent (with virtually zero interest by the Federal Reserve).

Similar to the U.S., the EU countries had some kind of *drop-by-drop* interventions against the crisis, that started with the nationalization of the British mortgage bank Northern Rock, and continued with support for different financial entities in Germany, France, Belgium, Hol-

² Ramón Tamames, "Para salir de la crisis global: Análisis y soluciones" (To get out of the crisis. Analysis and solutions), Edaf, Madrid, 2009.

³ Wolfgang Münchau sees it this way in, "Countdown to the next crisis, already under way", *Financial Times*, 19 October, 2009; and Paul Krugman, "Los bancos no están bien" (Banks are not in good shape), *El País*, 25 October, 2009. Also Francisco Cabrillo, "El dólar de Obama" (Obama's Dollar), *Expansión*, 26 October, 2009.

land, Italy, Ireland, Spain, etc. With one important decision: the rise in the minimum guarantee bank deposits from €20,000 to €50,000; parallel to the U.S. where it went from \$100,000 to \$250,000.

Subsequently, with the advancement of the crisis, in October, 2008, the idea of a *Common European Programme* came into shape, especially in the Eurozone, in line with the TARP in the United States. However, that Sarkozy's and the European Commission's project was not successful, resulting 27 separate plans in the end, which brought up a lot of doubts about the real degree of cohesion in the European Union itself.

2. THE G-20 CONFERENCES

Certainly, we can say, the international economic cooperation worked, against the crisis through the Group of Twenty, G-20, in a process that began with the Washington Conference on 15 November, 2008, set up by the U.S., the EU, and the emerging and developing countries included in the said group.

At the first G-20 meeting in the U.S. Capital, and at the successive encounters in London in April, 2009 and in Pittsburgh in September of the same year the target attempted –and achieved– was to prevent an international recession from becoming a worldwide depression. In this sense, the projects studied at the successive Conferences were translated into a series of proposals to develop in subsequent agreements:

- *Fiscal adjustments* to promote internal demand and joint reordering of international monetary policy.
- *Supply of greater resources to the IMF*, up to 1.1 trillion dollars. With the forecast of a future agreement on new quotas within the Fund, to increase emerging countries; and a new composition of *Special Drawing Rights* (SDR).
- *Readjustment of stock markets*, with the help of the International Organization of Securities Commissions (IOSCO).
- *Fight against protectionism*, foreseeing the final settlement of the Doha Round in the framework of the WTO, in 2010.
- Creation of a *Financial Stability Board*, with headquarters in Basel, thus reinforcing the previous *Financial Stability Forum*.
- *Revision of international guidelines* on accounting standards, bankruptcy rules, and performance of mortgage agencies, strengthening the previous rules of the *Bank for International Settlements* (BIS) in the so-called *Basel I and II Rules*.
- *Greater economic allowances* to underdeveloped countries; including a new *Food Security Initiative*, and greater coordination

of the World Bank's with the multilateral development banks (EBDR, AsBD, AfBD, IAB).

- *Support for the Copenhagen Conference* of December 2009, on climate change by global warming; a subject deserving much more attention⁴, as far as since the Stockholm Summit (UNCED) of 1972 when awareness was raised on the need to stop the aggression against its own biosphere.

At the Pittsburgh Conference, a sign of some kind of planning spirits, it was agreed that the following G-20 meetings would be in India (June, 2010), South Korea (November, 2010), and France (2011), a date that gives an idea of the continuing interest in the G-20 as a central forum of universal economic negotiations!

3. TWO VERY DIFFERENT LONDON ATTITUDES, 1993 AND 2009

The experience of the three G-20 meetings –with Spain and Holland as guest countries – marks a great difference with the World Economic Conference which began in London on 12 June, 1933, and lasting not less than 45 days; instead of the few hours of the G-20 meetings, certainly better prepared ahead of time.

In 1933 sixty nations participated in the economic concilium in London: all European countries, the main ones *representing* half of the world still under colonialism, the young republics of the Americas; Japan, the USSR, China, etc. On that occasion, a black cloud of skepticism floated over the conference, that failed in its attempt to overcome the dramatic effects of the 24 October, 1929 crack in the New York Stock Exchange (*black Thursday*); an event in the process of growing deterioration that would lead tragically to World War II.

In said 1933 economic forum, the United States showed no special interest: President Franklin D. Roosevelt did not deign to attend it, immersed as he was in the strongest protectionism; initiated in 1930 by his predecessor President Hoover, with the drastic raise in taxes brought on by the *Smoot Hawley Tariff*⁵.

On the other hand, England and its overseas possessions (The British Empire was at the time almost one-quarter of the planet) had also begun an ultra-protectionist policy, starting in 1932, with the *Imperial Preferences of Ottawa*. In the aim of reciprocally reserving trade between the members of the *Commonwealth*. France, in turn, intro-

⁴ Leader's Statement, *Pittsburgh Summit*, 24-25 September, 2009.

⁵ About the London Conference, 1933, Pablo Martín Aceña, "De Londres 1933 a Londres 2009" (From London, 1933 to London, 2009), *El País*, 31 March, 2009.

duced quotas to block imports, in the attempt to preserve its industry and agriculture: that was bilateralism, a policy imitated by all countries in the world (Spain among them). In this way, a collapse of world trade resulted; with a decrease of almost 80 per cent on the 1928 level, an impact which further fed the crisis itself⁶.

In this context, Germany and Italy advanced in the consolidation of National Socialism and Fascism, in what they thought would be the road to a new autocratic capitalism. And what can we say about the USSR? That its leaders (Litvinov was its representative in London), rubbed their hands together, thinking that the dominant capitalism system had come to an end in favour of Socialism. While geostrategically, the British Empire and the Third Reich would enter a definitive conflict; and on the other side, the U.S. and Japan would fight for control of the broad Pacific Ocean basin.

Contrary to the three black omens of London in 1933, the 2008-2009 G-20 conferences (Washington, London and Pittsburgh) were, indeed, much more encouraging; with guideposts to avoid the greatest errors of the 1930s: Central Banks injected cash into the world financial system at low interest rates, and protectionism was not admitted; except in sectors like the financial sector, the automobile industry and a few other production branches. Thus, the reduction of world trade was not more than 10 per cent, against 80 per cent between 1929 and 1933.

However, at the three mentioned G-20 summits there was an almost total lack of attention to the international monetary subjects; something due to the unwillingness of the U.S. to discuss such affairs at a moment of strong depreciation of the dollar, due to the lack of confidence produced by its triple deficit in trade, fiscality, and savings and investments. Besides that, very little attention was paid to the serious problems of underdeveloped countries, and above all the impact of the world hunger crisis⁷.

In spite of those not so much considered aspects, the three G-20 2008 and 2009 conferences worked rather well, mostly because the institutional network of the UN – and of the collateral institutions such as G-8, IMF, WTO, etc. --, was in operation rapidly; contrary to the slow and fragile mechanism of the League of Nations during the Great

⁶ This is the way Gottfried Haberler saw it with his famous *polar graph*, expressing the contraction of international trade over the years, with a spiral snail-like path, towards the centre.

⁷ For some references to the subject: Ramón Tamames, "Impact of the financial and economic crisis on agriculture inside Southern European countries", *BASF Symposium*, Bardolino, 28 September, 2009 (available by email to castecien@bitmailer.net).

Depression that started in 1929. All done in the perspective of a UN system stronger in the future, with the IMF in possession of greater resources, a World Bank more alert to difficult situations, and a WTO able to culminate as early as possible the Doha Round of trade negotiations begun in 2001.

4. WHAT KIND OF RECOVERY AND WHAT DEVELOPMENT MODEL?

Regarding the possibilities of an economic recovery on a world scale, it would be good to remember some words from Winston S. Churchill, in his *Second World War Memoirs*⁸, when he stated: "the French army is always ready to fight and win the previous war, but not the current one"; thoughts inspired by the capitulation of France to the German Army in June, 1940. A statement that I believe helps to clear up what has been happening since 2007: the general incapacity to solve problems derived from the new situations in the current crisis, insufficiently understood due to its novel global systemic character.

On the other hand, in contrast to the excessive optimism prevailing almost everywhere, even in this writing, we should highlight that the three commented G-20 conferences were not specifically dedicated to solving the current crisis (although doubtless they had had a great psychological impact), but to stopping new crises in the future with the reform of the institutions which we have examined.

In any case, it is clear that our future, is not predestined, and apart from the more or less long-lasting inevitable trauma, the future will greatly depend on economic policies applied on a national scale, and on what we will do in terms of international cooperation. In short, we will find ourselves before a possible **V**- or **L**-shaped economic evolution in the medium-run. The former with a sharp decline and a rapid recuperation, similar to what seems to be happening in China (with a 9 percent GDP growth in the third quarter of 2009). And the latter, also with a sharp decline, but with a slower growth, as was the case in Japan since the 1990s, something very well known by the Canon Foundation in Europe by all observers.

The evolution could also be outlined in a **U**-shape, like France or Germany (slow decline and delayed recuperation), or in a **W**-shape, as some predict for the U.S., improving and declining successively⁹. In the former case, it could be the result of a wise intervention on the

⁸ Published by the Houghton Mifflin, with the Spanish version by Plaza y Janés.

⁹ This is the case of Wolfgang Münchau's forecasts in *Financial Times*. and Paul Krugman in the *New York Times*, October, 2009.

part of public powers with the aim of impeding a collapse, thus mitigating the recession. The latter would be a consequence of more erratic policies, with strong deficits and growing public debt.

Anyway, it is clear that the evolution of the crisis to recovery and prosperity, will depend on how the global growth model gains in flexibility, with adequate reforms making it more and more dynamic. One could even ask if it is really feasible to get out of the crisis with an obsolete model which ostensibly no one in the government or the trade unions wants to modify, as is the case in Spain.

In other words, it is necessary to adapt the development model to the needs of a more and more globalized world. But this change is not going to be made easily in the short or medium term taking account of the previous models.

For example, the previously much-lauded *Irish model*, of fiscal advantages for the incoming multinationals, is now held back by the rise in salaries and the financial and real estate bubble, with the consequent loss of competitiveness. But in the case of *the Finnish model*, with its *Nokia effect*, with great technological development based on a most advanced education system and a far-reaching R&D, does not seem to have lost strength, despite the industrial aggressivity of emerging countries.

Another model that is showing itself to be resistant to the crisis is the Danish one, known as *flexisecurity*; a combination of a good market performance (the costless right to hire and fire working force), combined with a powerful Welfare State, endowed with an efficient unemployment insurance which encourages to seek again for a job. And with a very particular mortgage system, which dates from the eighteenth century, with little exposure to the risks of real estate cycles, as Mr. Soros has underlined.

It is clear that we are not facing some kind of *fashion show*, in which the most attractive model can be easily selected. Actually, what we need is to change the current model through a series of reforms offering new possibilities¹⁰.

¹⁰ In the particular case of Spain, and this is something I have developed it in my book "Para salir de la crisis global. Análisis y soluciones" (Edaf, Madrid, 2009) (To get out of the global crisis. Analysis and solutions), the most significant *bottlenecks* economy would have to be sorted out in the way we briefly enumerate: market unity, seriously questioned by the centrifugal forces of almost all of the autonomous communities; new market framework, in terms of giving greater importance to productivity and competitiveness in the bargaining of collective agreements; greater flexibility regarding the fixing of wages, a forceful attack on absenteeism and other labour questions. The third topic is tax collection, in order to attract foreign capital

5. A WORLD GOVERNMENT FOR THE ECONOMY

What we have seen up to this point, in the dialectic analysis of the crisis and its dealing by different countries and economic areas – U.S., EU, emerging countries, globalization trends in the G-20 conferences in Washington, London, Pittsburgh, etc.— already permits to get the conclusion that against great turmoil, in search of solutions on the international scale, the only way out, in the long run, will be something similar to a *World Economic Government* (WEG).

Obviously, this approach is not done with the intention of creating a Public Administration to deal casuistically or exhaustively with all subjects, as such pretensions would be impossible. One cannot think of an executive cabinet in session on Friday mornings, to announce its initiatives in the afternoon on legislative subjects and other questions.

The future WEG would be something very different, and in some way – according to the Peter Drucker's method to search for the future on the basis of *current realities* —we already have in performance some kind of world structure: a series of institutions within the United Nations and some outside of it, with a certain coordination among them; to assure economic and financial stability to the world as a whole: IMF, World Bank, WTO, FAO, G-8, G-20 etc., all of them are working along world government lines. And in that trend we much remember in September 2009, in Pittsburgh a solemn transfer of economic functions from G-8 to G-20 occurred within a general scope of the world, a *transfer of powers* extremely significant, since, until 2008, the G-20 was not very well-known, and the forecasts at that time were more or less along the lines that the G-8 would be enlarged, in order to accept the entry of countries such as China, India, Mexico, South Africa, or even Spain. But this trend has been broken, definitely, with the centre of attention already focused on G-20. For the simple reason that in the larger group¹¹ are included not only the most advanced na-

instead of expelling it. And something also needed is a deep reform of public administrations spending in search of efficiency and cutback of practically intolerable bureaucracy. The rest of the questions like education, science and technology are fundamental.

¹¹ The group of 20 or G-20, was formed in 1999 with its inaugural meeting in Berlin on 15 and 16 December. The founding members were the G-8 countries: (United Kingdom, the US, Germany, Canada, France, Italy, Russia and Japan), 11 *recently industrialized countries* from all the regions of the world (Saudi Arabia, Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Republic of Korea, South Africa, Turkey), plus the European Union as a whole. The origin of the G-20 must be viewed with the idea of finding a solution for the financial crises of the 1990s. As a forum, it works for cooperation and consultation on subjects related to the international financial system; with the aim of maintaining financial stability. Thus the G-20 is in charge of subjects beyond the scope of other organizations of less hierar-

tions, but also emerging countries (specially the BRIC); as well as the developing areas, previously known as *Third World*. Therefore, the G-20 could be considered a much more *realistic* world representation than the G-8, which always had a very *elitist* imprint.

The actual fact is that with the new G-20 plus the aforementioned world economic institutions, there is already a *corpus* from which the WEG could emerge. In that sense as a pioneer project, the League of Nations (LN) promoted in 1919, mainly by the purposes of President Wilson, ended up in a great fiasco with the Second World War in 1939. But the same objective was intended again with the United Nations in 1945, basically on the initiative of President Roosevelt; this time more successfully even if the UN is far from perfect.

Precisely on the road to improve the performance of the United Nations it would be necessary to carry out the revision of its *Charter*, signed in San Francisco in July, 1945; in which its subsequent reform was foreseen after a period of ten years. And even though nothing was said in detail, it always appeared that the real target was to abolish the *right of veto* of the five great powers in the Security Council (U.S., United Kingdom, France, Soviet Union and China), thus withdrawing from the UN its most non-democratic features¹².

That reform is still pending, since none of the *Great Five* wants to give up its privileges. Thus, unless there is real progress in global nuclear disarmament, it will be difficult to abolish the disgraceful right of veto. In that sense the solution could be some kind of right of vote, in accordance with the importance of each country in terms of population, GDP and foreign trade. As in fact is already happening in certain organisms in the United Nations itself, such as the IMF and the World Bank; or in the European Central Bank when it comes to voting in its governing bodies.

In the mentioned direction, it was of unquestionable interest the announcement by the U.S., in the voice of President Obama (Nov. 08) on the possibility of a complete nuclear disarmament.

6. THE IDEA OF A GLOBAL CURRENCY

A much less arduous task than the one for global disarmament is the one for a global currency to which the second part of the lecture re-

chy. Its nature is intergovernmental; not within the sphere of the UN, but is linked to it in many ways.

¹² Ramón Tamames, "Un nuevo orden mundial?" (A new world order?), Espasa, third edition, Madrid.

fers. And we could say that if within the G-20 the U.S. does not take the initiative in favour of said global currency, the BRIC will end up doing it; and among them, especially China, who *is already on its own way*. Not being impossible that the People's Republic itself stimulate the U.S. inside the G-20 where both countries play a duo (G-2) as the only superpowers in the world; something already orchestrated in periodic meetings, in which economic, technological and environmental questions are continually discussed in search of solutions¹³.

The United Nations also has a decisive role in the project of a global currency. In this sense, the IMF has already begun to act as a real *central bank*, on the world scale, as a *bank of banks*. When on 28 August, 2008, 250,000 dollars was distributed to several central national banks, to strengthen their international reserves¹⁴: "Such resources will increase the liquidity of the world economy, completing the currency reserves of the member States of the IMF", said Carolina Atkinson, spokesperson of the Fund at the time; underlining the effective materialization of the agreement reached at the G-20 summit in London in April, 2009, in order to accumulate a total of 1.1 trillion dollars to revitalize world economy and trade.

We must emphasize that this process of reinforcement of the IMF owes a great deal to Japan, who with its huge international reserves has stated to be in position to contribute to reinforcing credit capacity of the Fund. That was promised in the G-20 conference in Washington DC in November, 2008, announcing then a grant to the Fund of a loan of 100,000 million dollars; thus initiating the movement that finally reached the quoted figure of 1.1 trillion.

The referred Japanese initiative becomes even more relevant if we remember that in 1997, on the occasion of the *Asian financial crisis*, there still was some kind of temptation to create an *Asian Monetary Fund*, apart from the Bretton Woods institution. Therefore, it could be said that similar to what is happening regarding the idea of not developing any more regional currencies, a subject to be considered

¹³ In any case, the most important new category within the emerging countries arose with the *BRIC countries*. It was in 2001 when Jim O'Neill, head economist at Goldman Sachs, grouped the initials of Brazil, Russia, India and China into this acronym. "The BRIC countries plus South Korea and Mexico," said O'Neill then, "should not be considered anymore as simple emerging markets in the classic sense, but we should look at them as participants in modern globalized economy." Ramón Tamames, "Para salir de la crisis global. Análisis y soluciones" (To get out of the crisis. Analysis and solutions), Edaf, Madrid, 2009.

¹⁴ "El FMI reparte 175.000 millones de euros entre los bancos centrales" (The IMF distributes 175,000 million euros among central banks), *Expansión*, 29 August, 2009.

later, neither does it seem logical to promote *monetary funds* outside of the world sphere.

7. ON THE ROAD TO A WORLD GOVERNMENT: THE NECESSARY MONETARY UNION

We have already pointed out the insufficient attention on the international stage still paid to the project of a global currency. And this is happening not by any amazing coincidence, but as a result of underlying forces which work to maintain the *status quo*, based on *rights of senioriage* of the most significant currencies in the world; like the U.S. Dollar and the Euro, and to some extent with the Japanese Yen and the Chinese Yuan or Renminbi.

Within the panorama hereby presented, the statement of our thesis must be very clear: if everything is at present being globalized, how is money not going to be globalized also, with the creation of a truly global currency as the indispensable means of payment for any kind of international exchanges?

The previous approach is perfectly possible taking account of the *dollarization* of many countries; and at the same time there is a growing *diffusion of the Euro*, which already is the official currency in 20 European countries, with its own *eurozation* all around in the rest of the world. That means we are facing a very strong *currency simplification* (Larry Summers *dixit*) through fact that some 80 per cent of all the economic transactions in the world are done in the two main currencies (the Dollar and the Euro), leaving the rest of them for merely local payments.

Nevertheless, these tendencies do not prevent many from blatantly misunderstanding the idea of global currency, which is qualified as *utopian*; and it really is a difficult goal to reach; that means *utopia*: yet not impossible when great efforts are done, something different with the *chimera*, which is impossible.

Furthermore, history shows that a new currency in current circumstances is in fact wholly logical. In that sent sense, almost all important currencies of the past and present have been created through monetary unions. This happened with the Dollar in the United States, when, in 1792, Alexander Hamilton proposed the *Coinage Act* which bears his name; in order to create a single currency for his new nation, based on the earlier *Spanish Milled Dollar (Real de a ocho)*, which circulated in the U.S. until 1853, even after it stopped being used in Spain.

Furthermore, the origin of the German Mark (DM) created in 1948 had its precedent in the Reichsmark of Chancellor Bismarck. Who in 1871, after consolidating the new German Empire, established a global currency that subsequently, after Erhard's reform of 1948, would become the most powerful monetary unit in Europe, until the emergence of the Euro in 1998.

Moreover, we must remember the well-known fact that in at the 1944 Bretton Woods Conference (New Hampshire, U.S.), the Chief of the British Delegation, John Maynard Keynes proposed the creation of a global currency for all countries, the *Bancor*. But that idea was not accepted by the U.S., who stipulated the alternative of the *gold-dollar exchange standard*, administered by the IMF to permit the free convertibility among the main currencies. An extraordinary experience that lasted until 1972, when the United States dropped out the system, thus entering into the still present situation of *floating exchange rates*, with all kinds of complications through successive financial crises, some of them very serious.

The Euro also emerged in 1998 on the basis of a monetary union which today encompasses 20 member states in Europe, and that serves as a reference for 14 additional countries through the African Financial Community with CFA Franc. In other words, in one way or another, the Euro performs as the currency of 34 countries, and it is most foreseeable that by 2015 there will be 50 States, the same number –just some amusing coincidence— that make up the States of the American Union who accept the *greenback* as its own¹⁵.

8. REAL PRINCIPLES AND POSSIBILITIES FOR THE FUTURE GLOBAL CURRENCY

The proposed global currency which could bear the name *Cosmos* –as an expression of the *beauty of the Universe* in classic Greek— is not only not impossible, but is already becoming a necessity in many aspects. First of all, because of the already mentioned *monetary simplification* that is currently taking place on an international scale. And secondly, because of the advances in the aforementioned globalization: all transactions are at present regulated on the world system of WTO: goods and services, capital movements, copyright, information and communication technologies (ICT's), and financial services-. Why shouldn't –we insist— the most important piece of all of them, the payment means, be globalized?

¹⁵ The previous paragraphs are part of my letter to Senator Obama, published on February 19th, 2008 in *La Razón*, and sent to the candidate to the Presidency.

But of course, many will say that a project like this will never take place, "because the U.S. will strongly oppose the *loss* of its almighty Dollar, the obvious foundation of the *American Way of Life*". But, that is not the case: if we examine recent history, the *green back* is not any more that; since it is the currency of a country that it is going through a triple deficit; in terms of fiscal, commercial and savings imbalances¹⁶.

More specifically, the evolution of the Dollar against the Euro is most eloquent: when the single European unit came into circulation in 2002, the exchange rate was 1 Euro=80 cents of Dollar. Seven years later, at present, the rate is 1 Euro=1.50 Dollars, which means an 87.5 per cent appreciation of the euro, or a 46.40 per cent depreciation of the Dollar. And the consequences of that evolution are very clear: a growing distrust of the hitherto, and still now, considered *world reserve currency*. So that some countries, starting with China, as we shall see, are demanding a new international reserve currency less dependent on the U.S.'s decisions. Furthermore, the U.S. is no longer considered the monetary hegemonic power, and the proof of it is the growing cooperation between the Federal Reserve, the European Central Bank and the other large central banks of the world.

In favour of our proposal of a global currency, we can evaluate if the U.S. will never give up its monetary privileges. And in that sense, we have to remember that in the same direction, in 1998, in Europe, Germany, despite the relevance of the DM, accepted becoming part of the monetary union that led to the Euro. And this occurred not only because it was a pre-requisite (from President Mitterrand) for the reunification of East and West Germany, but also due to the conviction that the Euro would be a step forward in the process of internationalization of the German economy.

In any case, the first step towards the global currency, would be to settle a fixed exchange rate inside a currency basket, made up of Euro, Dollar and other main currencies, Yen and Yuan at least. The following steps should include the preparation of a new world conference similar to that of Bretton Woods in 1944; but in a world with almost triple population and much more complex... and absolutely needed of monetary integration to guarantee the continuity of the process of globalization.¹⁷

¹⁶ "The diminishing dollar", *The Economist*, 24.X.2009.

¹⁷ More on this subject in Ramón Tamames, *International Economic Structure*, Alianza Editorial, 21st edition, Madrid, 2009.

9. A NOT ANTI-AMERICAN PROPOSAL

In the present/future context, it must be remarked that the previous statements are not connected to the nowadays popular idea of trying to foresee when the *U.S. Empire* will come to an end, in the logics of history first presented by Arnold Toynbee in *A Study of History*: the cycle of civilizations that have a beginning and an end. An idea that was later fully developed by Paul Kennedy, among others, in *The Rise and Fall of the Great Powers*. And more recently by the historian Goldsworthy on the similarities and differences between the fall of the Roman Empire and that of the U.S.; a subject to which we shall return at the end of this paper.

These predictions, with all due respect, do not make sense nowadays, when we all *enjoy* the same scientific and technical civilization (more or less advanced, depending on each country), a high economic interpenetration and a real economic symbiosis in the case of China and the U.S.¹⁸ In such globalized circumstances, it is not possible to make comparisons with the past, on the rise and fall of empires, when the concept of multilateralism did not even exist.

To be clearer: in the future it is difficult to believe that in only one or two decades China will replace the U.S. as hegemonic power. Especially when there are other powers in the world, like the EU (even though we do not seem to appreciate it sometimes), Japan, and the other three BRIC (Brazil, Russia and India). Furthermore, in the new situation to explore, it is really definitive the already comment *transfer of economic powers* from the G-8 to the G-20, with a *more realistic than elitist horizon*.

In short, we face a clear evolution towards a more shared and less hegemonic *new world order*, for which the global currency we are defending would be very beneficial. It would avoid new financial crises which have created and still create so many and prolonged difficulties. It would also mean a maximum international incentive for market stability and the fight against inflation. And it would be possible to reduce the high *transactions costs* (Coase *dixit*) of countries with weaker currencies; which all together account for more than half of the world population.

Furthermore, much of what is sought through the aforementioned G-20 conferences would be easier to achieve with a *world reserve and emission bank*. A task that none other than the IMF could fulfil, of

¹⁸ *The Economist* dissected many of the elements of the economic symbiosis between the U.S. and China in its special issue included in the October 24th, 2009 publication.

course, with the necessary adjustments so that the Fund could design the financial policy and the supervising systems which the national central bank systems entering the global currency would have to follow; naturally subsisting the national Central Banks, as occurs today inside with the Eurosystem.

Regarding the method to be employed for the creation of the new global currency, apart from the references in the final part of this paper, in principle it is not so much complicated as many try to show: a *covenant* similar to the Maastricht Treaty (which was the *Magna Carta* for the Euro) could be attained; of course, on a global scale and including all the necessary adjustments.

Finally, we must say that the global currency would be a decisive step on the path to *perpetual peace*, i.e. the hope that Immanuel Kant coined in his famous homonymous essay dated 1795: by unifying the countries' economic policies – and currency is the highest expression of national sovereignty- the ghosts of war of so many centuries would be laid to rest.

10. ACCELERATION FOR THE WORLD CURRENCY

Just in case everything stated up until now in this paper is not enough to encourage the idea of global currency, it appears that the trends presented in this work are gaining importance day by day in an accelerated process. And if we want that all be duly understood, we have to remember that the Chinese currency, the Renminbi or Yuan, was pegged to the Dollar for eleven years (1995/2005), with a fixed exchange rate: 8.30 Yuan per Dollar.¹⁹

But on 21 July, 2005 there was the first movement for the revaluation of the Yuan, which was technically considered the first movement of *dirty flotation*. After that, the exchange rate fluctuated, but not freely as in the case of other currencies, but under the control of the Chinese Central Bank (the *People's Bank of China*). Moreover, since 2005, the Dollar is not any more the reference for the Chinese currency, as far as it was substituted by a *basket of currencies*, whose composition has never been made public.

¹⁹ Pedro Calvo, "El imperio de las divisas espera la llegada de la dinastía Yuan" (The foreign Exchange Empire awaits the arrival of the Yuan dynasty), *El Economista*, 8.VI.09. Also in Ramón Tamames, "El siglo de China. De Mao a primera potencia mundial" (The China Century. From Mao to first World power), Planeta, Barcelona, 5th edition, 2008.

Those changes taking place, the Chinese currency was successively revaluated, from July 2005 to June 2009, up to 15.8 per cent; to attain an exchange rate of 6.82 Yuan per Dollar. A revaluation pace considered too slow by the Western countries, and specially by the U.S., who is pressuring Beijing in order to revalue at least by 30 per cent. But there is an important obstacle in that way: China is in possession (November 2009) of international reserves totalling 2.273 trillion dollars, the largest in the world, followed by Japan with *only* 1.1 trillion dollars. Huge reserves that are mainly invested in U.S. Treasury Bonds, so that such big Dollar assets in the hands of China oblige Beijing to operate with great caution in its exchange rate policy. Nevertheless, the latest news are, in a realistic trend, that China is considering a new push for the revaluation of its own currency.

In any case, we shall remark that the bargaining position of the People's Republic on the international monetary scenario will be stronger in the next future. More specifically, the IMF will readjust the member state quotas in 2010; and, at the same time, it will update the composition of the *Special Drawing Rights* (SDR), as is done every five years, the last time, occurring in 2005, with the following percentages: U.S. Dollar, 44 per cent; Euro, 34 per cent; and Yen and Pound Sterling, 11 per cent each.²⁰

In other words, on the abovementioned double occasion of 2010, China could demand the right of the Renminbi to be in the SDR basket, and also ask a significant quota inside the organization, considering its GDP and growing foreign trade. According to what the governor of the Central Bank of China, Zhou Xiaochuan, said recently: "the Renminbi must have more weight in the world economy, so as not to depend entirely on the fluctuation of the Dollar". As a base for this aspiration, he criticized the great advantages that the U.S. and its citizens enjoy, when they borrow and trade in their own currency; while other big economies, like China, must worry about the currency swings or U.S. policy shifts.

Furthermore, Zhou advocated a greater use of the SDR, and even spoke about the creation, later on, of a *super-reserve currency*, which would result from a currency basket including Dollar, Euro, Yuan and Yen; a currency "that would be more stable than the Dollar, as it would be disconnected from the economic conditions and sovereign

²⁰ Ramón Tamames, "The role and commitments of the European Union in the future approach to a new global currency", lecture delivered at the European Commission, Brussels on September 7th, 2009, within the Convention held to celebrate the 20th Anniversary of the Jean Monnet Programme. Available on request by email to info@castellanacien.com.

interests of a single country"²¹ and it would also be controlled by the IMF, so limiting the Dollar's power.²²

In the very same direction, various Chinese newspapers favour a change in their country's perspective regarding western values. More specifically, that is the case of Wang Xiaodong, the author of *Unhappy China*, a book that has sold over a million legally printed copies, with an incalculable number of illegal copies²³. In that work, Wang criticizes the People's Republic policy, when he states the need of adopting a more self-centered policy, in the military and the diplomatic aspect: "Chinese policies are always attempting to please the West. But don't think this is so necessary".

11. U.S. UNCERTAINTIES

In the context we have analyzed, the official stance of the U.S. on monetary policy is focused on "preserving a strong Dollar in order to avoid a retraction of the Chinese investment in U.S. debt"²⁴. In this regard, the Secretary of the Treasury, Timothy Geithner, stated in July, 2009 –a bit prematurely– that the global recession seemed to be losing strength and that the U.S. financial system was recovering.

And not too long after that, in a speech delivered at the University of Beijing, Geithner guaranteed the wish of the American Administration to reduce public deficit, in spite of the initiatives approved to overcome the crisis. And later on he proclaimed that "Chinese funds are safe"; among the laughter of Chinese students, a clear sign of skepticism, and also of criticism towards the Beijing policy, because for many "it is absurd for a country like the People's Republic, still a developing nation in many aspects, to invest in foreign public debt and postpone the improvement of the standard of living for its own citizens".

The aforementioned comments by Timothy Geithner contrast with what he said in January 2009, shortly after being named Secretary of

²¹ Steve LeVine and Dexter Roberts, "China's doubts about the dollar", *BusinessWeek*, June 8th, 2009.

²² Without awaiting the creation of the global currency and in order to reduce the risk of the U.S. economic policy, Beijing is contracting currency swaps with Asian and Iberoamerican nations. Through contracts that supply the central banks of aforementioned nations with Yuans, to be used in their commercial relations with China; or that even, in the near future, they could be used as a reserve currency for exchanges with other countries.

²³ Wang Xiaodong, Song Qiang, Song Xiaojun, Huang Jisu y Liu Yang, *Unhappy China*, Jiang Su Renmin Publishing House, Beijing, March 2009.

²⁴ "Geithner apuesta por un dólar fuerte en su visita a China" (Geithner bets on a strong dollar in his visit to China), *Expansión*, 1 April, 2009.

the Treasury, when he was still not very experienced in his new position. It happened during a lecture in New York, when he stated that he was “open to the governor of the Chinese Central Bank’s idea of moving forward to a greater use of SDR’s or a new super-currency”; the fall of the Dollar in the stock market was immediate.²⁵

In short, Geithner subsequently changed his point of view, as was ironically commented: “after consulting the handbook on how to be a good Secretary of the Treasury”, making it clear that *the U.S. opts for a strong Dollar*.

12. THE NEW LOGIC OF GLOBAL CURRENCY

A real reserve currency has to be, accepted for dealing in international commerce or any other kind of economic transaction. In that sense, until 1931, the Pound Sterling was the real global currency, but after the United Kingdom gave up the gold standard in 1931, the Dollar became the key reserve currency. Many years later, as we have already seen, the U.S.’s problems make the Dollar not so attractive, especially since the Euro started circulating in 2002.

In fact, some economists, among them Robert Mundell, Nobel Prize in Economy in 1999 for his theoretical work on *optimum currency areas*, have been debating for decades the weakness of a system based on a sole reserve currency like the Dollar. On their own side, Martin Wolf (“a global economy requires a global currency”) and Joseph Stiglitz (“the current model, based on the Dollar is unsustainable and to exchange it for another model based on the Dollar and the Euro would be even worse”), also belong to the Mundell’s trend. This is why the Special Committee chaired by Stiglitz in the United Nations is considering a new version of the SDR’s, controlled by the IMF; a project similar to China’s stance on the subject.

Similarly, Nouriel Roubini, professor at New York University, states that the *green back* will face even more challenges, coming from other currencies, predicting that the 21st Century will be *The Century of China* (precisely the same idea that Ramón Tamames signposted in his homonymous book two years before)²⁶. However, Roubini admits that the Dollar will not lose its *seniorage* that easily, and that the countries protesting its weakness will have to continue accumulating

²⁵ Sandro Pozzi, “Asalto al reinado del dólar” (Assault on the Dollar Kingdom), *El País*, April 21st, 2009.

²⁶ Ramón Tamames, “El siglo de China. De Mao a primera potencia mundial”. See footnote 19.

green backs for some time. All depends on how long: surely not too much.

The next question is: have we reached the moment to talk seriously about a global currency? It seems the answer is yes, as is demonstrated by the circumstances of the abandonment of a series of projects on the creation of new common currencies, of a more or less regional character. This was the case of the *Central-American Peso*, initially conceived for the Central-American Common Market.²⁷ The same thing happened with the monetary union foreseen by the *Gulf Cooperation Council*, after Kuwait and Oman left the project.²⁸ Regarding Mercosur/Mercosul (Brasil, Argentina, Uruguay, Paraguay and other associate countries), the idea of a South American Maastricht Treaty did not thrive.

Nobody at present can consider the creation of a merely regional common currency reasonable. It would be absolute nonsense, since globalization is already promoting the idea of global currency everywhere. In this sense, Hugo Chavez's *invention* of the *Sucre* as currency for the countries making up Alba (Bolivarian Alliance for the Americas) is not more than another example of his amazing proposals; most of them against the usual world trends.²⁹

13. BRIC COUNTRIES ON THE STAGE

There is new evidence: Brazil, Russia, India and China, the emerging economies that make up the BRIC³⁰ group, do not want to continue *to put all of their eggs in the Dollar basket*. Among other things, because together they represent 20 per cent of the GDP, and together they are their joint growth represents more than 50 per cent of the total increase in the world GDP. Obviously, with different trends inside the BRIC group: booming in China and Brazil, and in India, but

²⁷ Ramón Tamames, "Las relaciones de Panamá con el Mercado Común Centroamericano" (Panama's relations with the Central American Common Market), Ediciones del Ministerio de Relaciones Exteriores, Panamá, 1968.

²⁸ In February 2008, Ramón Tamames held a conference in Abu Dhabi, sponsored by the EU's Ambassadors, headlined by Manuel Piñero Souto, Spanish Ambassador on the advantages of an Monetary Union as that of Euro.

²⁹ The *Sucre*, according to Chavez, "is a step forward to our monetary independence from the U.S. dollar dictatorship, which the Yankee Empire imposed on the world". These words were mouthed in the *Alba Summit* in Cochabamba, Bolivia, in October 2009. But the chambers of commerce and other business associations of the countries that make up Alba, consider that the *sucre* would be a useless currency: because the trade among these countries is almost nonexistent.

³⁰ Ramón Tamames and Begoña González Huerta, "Estructura Económica Internacional". See footnote 17

with many serious inequality and social structure problems; and Russia being the BRIC country in the most precarious situation.

In mid-June 2009 there was a meeting in Yekaterinburg, organized by Russia, as a formalization of the BRIC group. On the occasion, the aforementioned countries talked about how to avoid the *monopoly of the Dollar* in their mutual transactions and about substituting it, at least in part, with their own currencies; as a first step towards change in the current system's structure.

Furthermore, at the Yekaterinburg meeting, the Russian president, Dimitri Medvedev (in agreement with Vladimir Putin, of course) had an even broader vision. In the sense of considering the creation of a supranational payment system, to strengthen the world trade as a whole. In this direction, the representative of the Kremlin, in a way similar to the Chinese government, insisted that the monetary approach of the BRIC group should be carried out further developing the SDR's. But always without holding back criticisms on the Dollar, for the simple reason that, for their own convenience, nobody wants to ruin the *green back*; as was wisely highlighted by Arkadi Dvorkovich, advisor to the President of the Russian Federation.³¹

14. THE FUTURE WORLD

The speech I have been delivering had until this point an economic drive, but without giving up a series of political incursions; indispensable to sustain some of the ideas that have been presented, all in the aim that *the future is almost here*, taking shape in front of our very eyes.

In that sense, I see as valid some of the thoughts of already quoted historian Adrian Goldsworthy, author of *The fall of the Roman Empire*³², a book in which he reaches the conclusion that the Western Roman Empire expired in 476 after 1,231 years of existence of Rome (from year 756 b.J., *Ab Urbe Condita*). And not because of the establishment of Christianity as the official religion, neither because of inflation, nor the emergence of alternate powers. None of these three circumstances was strong enough to end a political construction that still inspires us today when analyzing the different political organizations throughout History.

³¹ Following what was said about the BRIC countries, China and Brazil have already reached an agreement to develop at least part of their bilateral trade with their own currencies, excluding the dollar from the transactions. In that sense, some kind of consensus that was reached during the Annual Meeting of the Bank for International Settlements in Basel in 2009. That agreement is pending ratification.

³² Spanish version in La Esfera de los Libros, Madrid, October 2009.

The true cause behind the decadence and fall of the Empire according to Goldsworthy, was the circumstance that from year 217 AD (after Caracalla's death), for two and a half centuries there was only one period of 30 years free from civil wars. Although certainly, there were some attempts at regeneration, coming from some great Emperors like Diocletian (284/305), who promoted a monetary union for the whole Empire; Constantine (306/337), who ended the persecution of Christians; and Theodosius (379/295), who before his death divided the great Empire into East and West, seeking a more efficient administration.

But the aforementioned civil wars –every military leader was looking to get the maximum status and power of Emperor—, created a global semi-anarchy, that led to a loss of trust in institutions. In that context, what would otherwise have been another single episode in the relations with the North Barbarians (the entrance in Rome by Ostrogoth King Odoacer) put an end to the power of Rome, definitively, in the year 476 AD³³.

If we invert the terms, we could say that to consolidate the globalization we need now– with all the necessary *servata distantia* – a global Rome; but democratic, instead of what happened to the Roman Republic after the authoritarian coup led by Julius Caesar, and still more since Augustus, who imposed a truly permanent military dictatorship.

Today, many centuries later, it seems as if the advances achieved by globalization, much more important than is generally recognized, could break conflicts, contrary to the path of rationality and global progress. And in an increasingly peopled and complex world, that could drive to a conflict of great magnitude.

Faced with this contingency, the definite organization of a world government as we commented previously would be the only solution to confront the present challenges, that are growing with the technological advances and the most sophisticated weapons, which could only be controlled by a World Government System. Following this idea, and returning to Rome, the Empire could have lasted –as the Japanese Empire did, certainly with smaller territory and with an isolationist policy that lasted for centuries—, seeking a new, more stable, political framework. But the aforementioned civil wars for power got in its way, leaving the old republican democracy to be a nostalgic feeling shared by only a few.

³³ Adrian Goldsworthy, "Rome: the Supreme Empire, Today and Always". Spanish version in La Esfera, Madrid, 2009.

Moreover, after 217 AD, Rome lost many of its cultural attractions, while Athens and Alexandria grew in significance as cultural metropolises in the Empire. Furthermore, it lacked a moral basis, like the one introduced by Marcus Aurelius in his *Meditations*, a great *Manifesto* that unfortunately was not widely known, and that perhaps could have constituted a collective behavioral pattern of great value. That, by the way, almost 2,000 years later, is one of the bedside books of China's Prime Minister Wen Jiabao.

Another case of comparison: the North barbarians *immigrants* to the Roman Empire were peaceful at the beginning, and more and more violent afterwards. Because Rome did not deal with them with the necessary wisdom. Something similar to what is happening today—in other terms—in the EU, where a common immigration policy still has not yet been reached. Not to regulate the access of the ancient Barbarians from the North (nowadays settled in stable countries like Germany and the Nordic countries), but for people coming from the Southern Mediterranean banks (like the Sub-Saharan and Maghreb areas) and other origins. A phenomenon that also is alive on the U.S. border with Mexico, or the Russian frontier on the Caucasus, or even in the Indian limits with Bangladesh. And a problem that, far from decreasing, will increase due to the *population bomb* that is still in performance in many developing countries.

The aforementioned division of the Roman Empire between East and West was not a solution. It was more than less, a cession from the Latin-speaking community (West) to the Greek-speaking peoples (East). And very soon, the Eastern Empire—after the decline of the Western—acquired its own dynamics, with a more active spirit, that culminated with Justinian, who tried in vain to reconstruct the old Empire around the Mediterranean.

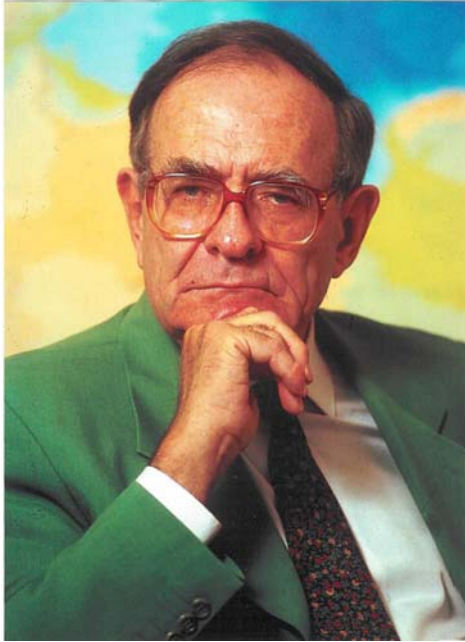
Today, the idea that the World could be governed better with a certain number of Empires (the U.S., China, Russia...) and their respective areas of influence, is totally illogical. At present there are 192 countries in the world, each with its own institutions. And the best hypothesis facing that reality is that a World Government, with the current technology could perform in due form, to solve the great common problems, and respecting, of course, the integration systems freely established among the different States.

Summing up, in this lecture we have tried to scan the future—as if it were possible—enthusiastically. In the idea that creating a progressive integration and growing solidarity on a planetary scale, is something more and more necessary, unless we want to enter into true chaos. Something that could slow down the old demographic problems, and tackle with environmental challenges, the latent wars, and

the food shortages. All of it in the general framework of solidarity and prosperity, looking the Planet Earth as a *hospitable habitat for all*.

Thank much for your attention.

Ramón Tamames



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**VERY ABBREVIATE
CURRICULUM VITÆ OF
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