Into the Global Monetary System: Past Developments and Future Scenarios

by Oleksandr Sharov

Abstract

Money as an "idea", as a category of Political Economy, has played a huge role in the historical processes of Globalization. It was Monetary Globalization, namely the spread of the *cash nexus* from the Kingdom of Lydia throughout the Middle East, the Mediterranean, India and China, Europe, Africa and, finally, the Americas, that created a single Network of Economic Relations comparable to the spread of language and writing, actually making inter-human communication possible. On the other hand, Globalization itself has also affected the Nature of Money and its functions, ultimately putting on the agenda the emergence of *Global Money*. Generally speaking, Future Global Money as an element of the World Economic Order is directly dependent on where and how the process of Globalization will return in the coming years after a period – the current one – often portrayed as "*de-globalization*". And from how – peacefully or through military means – such a turn will be made. Thus, the issue of the future of the Global Monetary System is divided into two components: 1) what will be global money by its essence (actually, Global *Money*) and 2) in what specific form it will operate (Global *Currency*). In this article, after analysing those scholarlarly accounts that foster a return to form of "gold standars", we will focus on (*i*) the latest developments of money exhancges, and (*ii*) the issue of Global Money. Past and present developments are fundamental stesps in order to understand possible future scenario of the Monetary System.

Global Money: Back to Gold?

The first attempt to return to the gold standard took place almost immediately after the end of the First World War of 1914-18 in the form of General Agreements of the Genoa Conference of 1922. The second attempt was made, respectively, after the Second World War – this time, its ideologues intended to restore the limited form of the gold standard (in the form of the so-called "gold-dollar" standard): that is, only for one currency ("dollar as good as gold") and only for the official monetary authorities). This very principle was the basis of the Bretton Woods monetary system.

A well-known American economist, Charles Kindleberger (1910-2003; professor at the Massachusetts Institute of Technology with extensive prac-

tical experience in the BIS, the Fed and the State Department), compared the need to use common money with the need to choose a common language for communication between people of different nationalities. Of course, one can use the services of a translator (intermediary), but in international scale, translation (conversion) will be too burdensome (Kindleberger, 1967). In this context, Kindleberger compared the French position of returning to the gold standard to an attempt to return to the general use of Latin – which, of course, is pleasing to those who love Ancient Rome and the Middle Ages but will mean swimming against the tide of history.

So, no one had agreed on anything. For instance, just on August 15, 1971, the US President Richard Nixon had announced on TV his decision to stop exchanging dollars for gold altogether, even for central banks. The "golden window" slammed shut. And, the gold-dollar standard was actually over. Yet it should be noted that not everyone agreed with it at once, even in the United States itself. Ronald Reagan, for example, while still a presidential candidate included a clause on a return to the gold standard in his election program. In fact, after the victory Regan created a special Commission on Gold which carefully studied this issue and issued a verdict: a return to the gold standard (in any form) is not both possible and necessary.

The problem seems to have been finally solved. As a result, for two decades, talking about the remonetization of gold was almost an issue of "bad manners". No wonder Anil K. Kashyap, a professor at the University of Chicago, cited the gold standard as an 'insane idea': "I don't know any reputable economist who thinks it's a wise idea, but it has great political appeal" (Freeland, *The New York Times*, 2013). However, projects to return to gold money continue to appear from time to time and are not always due to economic reasons. In the New Millennium, the first scientifically sound idea of the gold currency was expressed at the International Conference on Stable and Just Global Monetary System (proceedings of the International Conference on Stable and Just Global Monetary System, 2002), where it was presented in several reports. Among these, in particular: *Gold Dinar, paper currency and monetary stability: an Islamic view*, by Mahmood M. Sanusi; *The Architecture of the Gold Dinar economy: an academic perspective*, by Umar Ibrahim Vadillo; and *Euro and Gold Dinar: a comparative study of currency unions*, by Muhammad Anwar. In this framework, the Malaysian Prime Minister Mahathir Mohammad (known for his criticism of the current global financial system) liked the idea, and soon (in 2006) gold dinars were put into circulation in Kelantan Province. And yet, the term "put into circulation" does not accurately reflect the functions performed by gold coins: they were kept in a bank (in a bank account or simply in storage), used to pay for "zakat" (i.e., form of religious almsgiving), or (by agreement of both parties) to pay for real estate. That is, in principle, as gold coins and ingots are used in other countries as a means of investment. If we do not pay attention to the special religious function, the "Gold Dinars" are no different

from the South African Krugerrands, Russian "Chervonets" or other "bullion coins". So, the Gold Dinar project of Mahathir Mohammad, as one can say in such cases, ended before beginning.

However, this is not the end of the matter, as another well-known "anti-globalist", ISIS leader Abu Bakr al-Baghdadi, has said that the "Golden Dinar" should free Muslims from the financial order, which "enslaved and ruined" them (Chulov, 2014). According to the ISIS-men themselves, if they want ordinary people to buy eggs at the bazaar for gold coins, they will be forced to do so. But real business will use real money (*ibid*).

In all cases, it is worth noting that even the optimistic "Golden Bugs" (how are called supporters of the "gold standard" since the election campaign of 1896 US President McKinley) eventually come to one and of the same conclusion: monetary gold (in coins and ingots) can still be used, but only as a means of storing value and investment; as well as precious stones, securities, and, after all, works of art. Though, such conclusions do not preclude new and new attempts for the restoration of the gold standard.

Reflecting on the new situation in connection with the war against Ukraine and the West, which was launched illegally by Russia, E. Colombatto speaks about the possibility of "creating a solid, commodity ruble, in contrast to its current fiat status. A hard ruble might be the best way to boost Russia's prestige, curb inflation, and meet Russian expectations of a stable currency, as it did in Soviet Russia when Lenin introduced the gold ruble in October 1922". But he wonders: can oil or gas replace gold as a commodity standard? Could this pave the way for other commodity-based currencies, such as the Chinese yuan? A hard ruble would probably be a partial internal success, but only if it were really hard are gold coins that individuals can keep and possibly hide. Liquid rubles – certificates (paper money) backed by oil and gas will not work because people will not trust the obligation to convert paper into gold, let alone gas or oil. As for the "gold currency" we have already paid enough attention to its "prospects". And as Colombatto rightly points out, "in truth, we can conclude that recent international tensions have probably killed all large-scale projects for the golden yuan". Just like the "gold dinar", "gold ruble", or other "gold currency" (Colombatto, 2012).

But all explanations as for absence not only the impossibility, but, most importantly, the lack of need to restore any form of gold standard seem futile. The desire of neophytes to return to the "Golden Age" is like the naivete of first love: no matter how many adults warn of its transience, the youngsters believe that it is forever... And it's great! In other words: we will not convince anyone otherwise. Thus, one can compare the role of gold in modern conditions with an old paraffin lamp, which lies somewhere in the Upper Storey in case of Global Power outages. However, there is nothing wrong with new researchers mentioning it and dreaming of a better Monetary System: over time, they will still realize that achieving this goal is not about the Past, but about the Future.

It is a pity only when politicians whose decisions the future of many people depends on spend time on adapting a "paraffin lamp" instead of adjusting electricity.

Securitization of Money, or "Strange Money"

Meanwhile, there is no indication that the modern economy has exhausted the possibilities of Credit as the main engine of economic activity, and even more so, shows a tendency to return to simple forms of trade. This means that Credit continues to be the main driving force of the entire economic process and it continues to be the basis of Modern Money. Moreover, the development and complication of credit relations lead to the emergence of new financial instruments with monetary characteristics.

Actually, it is possible to see both the increase of quantity in the financial sector and, at the same time, a qualitative increase in its value within the overall economic system. Important is also the *Securitization of Money* by expanding the performance of certain monetary functions (especially payment and accumulation) to "*moneyness*" securities. For instance, Compound Derivatives have been created to reduce the Riskiness of Market operations in conditions of uncertainty and high Price Volatility. However, not all experts were convinced of this role of Derivatives. In particular, Susan Strange argued that the Derivatives boom had, in fact, made the system as a whole more volatile and prone to Crisis. So, when such a Crisis began in 2008, another British expert, Nigel Dodd (a professor at the London School of Economics), called the toxic assets that detonated the "explosion" of the crisis the "Strange Money". Dodd did not mention financial derivatives directly but drew attention to the connection between the financial and monetary systems – which S. Strange constantly emphasized – and the fact that, in his opinion, *banks create not so much money as risks* (Dodd, 2011).

Surprisingly, some researchers are paying attention to Stocks and Bonds, ignoring Financial Derivatives, which, in our opinion, are still more suitable for this category. At the same time, derivative financial instruments are a form of "*quasi-money*", which leads to the conclusion that "monetary policy has lost some influence on national liquidity conditions". However, central banks have superior information and «a broader and far more meaningful overview than individual investors and, central banks can still exercise strong leadership on financial markets» (Haiss and Sammer, 2010).

This potential is also confirmed by the development of operations with financial derivatives by the central banks themselves. Thus,

> for monetary transmission in emerging markets, the impact of derivatives on the money channel is ambiguous because of the impact of the higher speed of tran-

> smission offset by the greater possibility of unstable financial inflow independent of the central bank monetary stance. (…) In addition, central bank could become active in incorporating signals from the derivative markets into monetary management to reinforce consistency between monetary policy and market expectations (Morales, 2001).

Financial innovation impact on the market structure and behavior of the central banker, and the process of developing financial markets goes hand in hand with the process of changing monetary theory and policy. The existence of a certain influence of financial derivatives on monetary policy is unconditional, however, by and large, the question is whether to recognize derivatives as de facto new money. According to D. Brian and M. Rafferty, derivatives are, in essence, "*behind the scenes*" money, which ensures that different forms of assets (and money) are not commensurate by government decree (for example, a fixed exchange rate), and with the help of competing forces. That is, derivatives merge the categories of capital and money: they provide additional liquidity to the capital markets by making all assets look like money, and on the other hand, they represent money itself as capital. Thus, the result is the elimination of the difference between the sphere of production of goods (the so-called "*real economy*") and the monetary economy (Bryan and Rafferty, 2007). This view could, in fact, arise if one would treat *derivatives as a counterbalance to the mass of commodities that play the role of their underlying assets*. However, there is no real balancing of the number of derivatives and the volume of at least the corresponding underlying assets (even taking into account the speed of circulation of financial instruments).

In general, when considering this issue, it is necessary to start from the existence of two definitions of "*monetary base*": functional and instrumental. The "functional" definition is based on the fact that the Monetary Base consists of those assets the function of which allows to provide mandatory or excessive provisions in the central bank; that is, those that can be used to make financial transactions – Cash and Demand Deposits. Instead, the "instrumental" definition describes the monetary base in the form of specific financial instruments – Banknotes and Treasury bills, Cheques, Postal/Savings contributions, and so on.

The issue of the relationship between derivatives and the money supply was once the subject of a special study by a group of experts from the Bank for International Settlements (*Hannoun Report*), which pointed out the increasing use of derivatives can services, either by transforming non-monetary financial assets that carry price risk into closer substitutes for traditional (risk-free) money, or a combination of both. Summing up, the researchers argue that

> the existence of derivatives provides some opportunities which tend to reduce the demand for cash balances. At the same time, the growing use of these instruments

> may increase money demand, making it difficult to assess the net impact. However, neither theoretical reasoning nor available empirical evidence strongly support the view that any single combination of the impacts analysed above should lead to a significant change in the demand for narrowly defined money (Bank for International Settlements, 1994).

At about the same time, a group of American scholars also studied the effects of derivatives on the regulatory function of central banks and concluded that "derivatives have no negative impact on central-bank control over monetary aggregates. Nonetheless, to the extent that derivatives act to complete markets and provide information through more explicit prices, they may make it more difficult for a central bank to surprise the public" (Hentschel and Smith, 1996).

They assumed that if commercial banks regularly used derivative markets to hedge their risks on interest rates, foreign exchange rates and commodity prices, then the desired level of excess reserves in the banking system would be lower than it could be without the derivatives market. Thus, with the increase in the use of derivatives, voluntary excess reserves will decrease, and in turn will provide banks with more opportunity for credit issuance – i.e. will increase the Money Multiplier. But the purpose of central banks, under such conditions, is to ensure that commercial banks' access to derivative transactions reduces the volatility of the Monetary Multiplier (since the Central Bank's ability to conduct its own Monetary Policy is limited mainly by the volatility of the multiplier, not its level). Such a reduction would increase effective control over the money supply by the central bank. In other words, the experts' conclusions were evasive, but generally reassuring (as we also see in the case of cryptocurrencies), which was reflected in the IMF statistics, which suggested including financial derivatives in the broader definition of money (M3), but did not recommend doing so, believing that "their high degree of price variability precludes the inclusion of most types of financial derivatives in broad money" (IMF, 2000). However, later on the International Monetary Fund seems to have made up its mind and is already clearly insisting that "financial derivatives… are excluded from broad money" (IMF, 2016). However, according to O. Bierg, money is never just money because it is characterized by a certain ontological uncertainty, and any monetary system is characterized by the interaction and transformation of various forms of money. So, in modern conditions, financial markets act as repositories for the circulation of Post-Credit Money issued by certain international banks (Bjerg, 2014).

Finally, it should be noted that cryptoassets are also increasingly being treated as a kind of virtual securities and from this point of view, the option of securitized money takes on a new form.

Big Data Money and the Futures of Money

By the time we are writing, the World Monetary System continues to change with unprecedented pace. As Benjamin S. Cohen noted, there are fewer and fewer monetary imaginary landscapes accurately represented by the outdated myth of One Nation/One Money. Today, monetary geography is better understood in functionality than in material terms – that is, in currency spaces based on flows (flow-based) rather than tied to a specific place (Cohen, 1998). This suggests that the Monetary system of Post-Modern Globalization may be based on a completely different principle than Monetary Sovereignty. That is, it may not only not grow into "Super-Sovereignty", but be based on the Network principle in general, when the concept of Sovereign State completely disappears and is replaced by *Self-sovereign identity* (SSI) – i.e. digital identifiers that are managed in a decentralized way. This technology allows users to independently manage their digital IDs, regardless of third-party vendors for storage and centralized data management. It opens up completely new opportunities for the transfer of Property Rights in the broadest sense. In other words, these are *new opportunities for members of the Network Structure to create and transfer Money without any intermediaries*.

It turns out that a New Society of the Blockchain Technology is a Society without information asymmetry and confidence. Thus, the Developers of Bitcoin believed that the presence of an intermediary in the e-commerce system is not only economically inefficient due to significant transaction costs, but also unnecessary, because the problem of fraud is still not solved. Therefore, it was concluded that an Electronic Payment system is needed, used to be based not on trust in the Issuer of Money and the Monetary Regulator, but on clear cryptographic proof of the authenticity of transactions. Blockchain experts argue that large amounts of Data are very difficult to structure on their own and, even more so, to operate on, but there are companies that know how to do it and thus, monopolize Information; there are also Governments that collect and consolidate Information about different actors, undermining all the foundations of Confidentiality and Monopolies. We can say that *the use of cryptocurrencies has been an attempt to circumvent the current and fundamental shortcomings of State institutions and Financial Markets (Monopoly), which looks like an Open Opposition to these Institutions.*

One of the motives for the introduction of such a Means of Payment as Bitcoin is direct, anonymous trade, in which the Parties have every opportunity to directly settle via the Internet all the basic components of the agreement in the shortest possible time. Thus, theoretically, Bitcoin settlements will have maximum Liquidity. However, a high-ranking Bundesbank official (K.-D. Thiele) argues that "virtual currencies, meanwhile, which are transferred much like goods, are a fabrication. That is not to consign them straight to the category of 'fraud'. Yet they have no intrinsic value, just an exchange value. You can't

consume or use them, only exchange them" (Thiele, 2017). But the actual Consumer Value of Money (which determines their Value) is their Suitability for Exchange (the ability to be a Monopoly Commodity Equivalent). That is, their Exchange Value is their Consumer Value, which is a hidden "Golden veil" in the functioning of Commodity Money but is clearly visible in the system of Credit Money. Thus, the lack of *Intrinsic Value* can hardly be considered a serious argument against converting virtual Digital Money into Real and even Global Money. Another thing is that their existing modern forms have real shortcomings that hinder this process. These shortcomings have been repeatedly pointed out by experts: the principle of its Issue (its creation), which is not related to the real needs of the Economy; speculative Exchange Rate volatility; uncertainty of the Issuer, and hence lack of responsibility for the issued funds; dependence on the availability of electronic information network (in particular, the Internet), etc.

Paradoxically, the new form of Money does not seem to be based on trust in the Issuer (as Credit or Fiat Money do), but on *distrust* of traditional Issuers such as Governments and Central banks. In other words, it is based on "*Negative Trust*", a kind of illogical, unfounded belief that because, according to "crypto-optimists", the official Monetary Authority has lost all trust, *any* alternative to official Money is better and more reliable.

The main problem with the Future of Money is that Money itself is becoming *technology*. This is the technology of payments, as well as a Store of Value. Money provides a less reliable payment system than new technologies. But Digital Currencies also have many disadvantages due to the way the Financial System is regulated. However, these problems do not arise due to the imperfection of technology, but due to the System of Regulation and restrictions on Monetary Technology. It is as if we have reached the "end of history" as soon as we talk about developing ways to create Money and put it into Circulation. Because few Governments tend to imagine Monetary Systems different from the current ones, Monetary Issues are quickly reduced to pragmatic realism, in which the existing order is given the right to determine the conditions of its own support, and politicians are willing to reduce themselves to simple administrators working for assistance to the system under these conditions (Bjerg, 2014). A Special Report by the European Chapter of the Club of Rome (a non-governmental organization affiliated with the well-known Club of Rome), points to the existence of certain problems that fall out of the Mainstream economy (a kind of collective *blind spot*), which include: *i*) the hegemony of the idea of a single central currency; *ii*) a monopoly on the national currency created by banks' debt – i.e. Credit Money, and *iii*) the existence of central banks as Performer of the Monetary Monopoly. These three "*blind spots*" explain why there is such a strong and lasting resistance to revising the paradigm of a single, monopolistically created currency (Lietaer, Arnsperger and Goerner, 2012). However, over time, the above-mentioned shortcomings can be eliminated in new modifications of the Digital Currency, and Network Actors will

significantly displace the Traditional Actors of the Global Economy – that is, the State and even Multinational Corporations and Banks. And then the time will come for Global Digital Money.

Concluding, the probability of these Options – in our opinion – will be determined by the course of Economic Globalization: a significant setback (due to, for example, Natural or Social Catastrophe on a Global Scale), in principle, may lead to the need to return to Commodity Money (gold). But if we remain optimistic about the possibility of Apocalyptic Developments, we must recognize the inevitability of Credit Money (considering their qualitative development). Instead, we intend to emphasize the relativity of such "No Alternative" situation, given the Medium-Term (within one to three decades) nature of such a *Monetary status quo*. Outside this period (and with the slowdown in Globalization) there will be irreversible processes of Digitalization of the Monetary Area, which will change the Essence of Money, leading to a new form of Money: *Information Money*.

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