The Single Global Currency - Common Cents for Commerce

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The Single Global Currency Association

4 February 2008
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ABSTRACT

As globalization continues, businesses are increasingly importing and exporting from countries with different currencies. To conduct that business, they must pay fees for exchanging one currency for another and they must determine the exchange rate for a particular time. If the transaction is to be conducted over time, they may purchase currency instruments to hedge against currency fluctuation. The costs of these tasks to such firms are significant. As an increasing number of international businesses understand that these expensive tasks are unnecessary for trade conducted within a monetary union, these businesses are likely to lead the effort to implement a Single Global Currency, to be managed by a Global Central Bank within a Global Monetary Union. In short, a "3-G" world. It's common cents. Much further research is needed to identify the benefits of a Single Global Currency and the steps and schedule necessary for implementation.

Field of Research: Economics (Macroeconomics, Monetary Economics, International Economics, Foreign Exchange, International Trade)

1. INTRODUCTION

For approximately 2,500 years, the world has lived with multiple currencies and we have coped with the differences in valuations of goods and services by different currencies, and with their unpredictable fluctuations. The valuation discrepancies and the fluctuations are expensive, but have been assumed to be a necessary part of living and working in an increasingly globalized, but still multicurrency, world. The only way to eliminate those fluctuations over the long term is to reduce the number of currencies to one, within a Global Monetary Union. While monetary unions have been tried many times, it was in the 20th century that their prospects for long term success were assured when central banks became an integral part of every monetary union and when member country currencies were entirely replaced by the currency of the monetary union.

Led by the example of the European Monetary Union, countries around the world are exploring the creation and expansion of monetary unions. However, the largest benefits of monetary union will come only with the establishment of a Global Monetary Union where there are zero transaction costs for foreign exchange trading within that monetary union, and zero fluctuations of values of goods and services due to currency changes.

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Regional monetary unions are a good step forward, but their members must still cope with the currency fluctuations against the currencies of other monetary unions and non-monetary union currencies.

Long dismissed as utopian, a Global Monetary Union is the inevitable conclusion of the ongoing trend toward a smaller number of currencies. The questions remaining are: how long the implementation process will take and how much additional cost, risk and loss will be borne during that process?

2. LITERATURE REVIEW


The only book in the world entirely devoted to the Single Global Currency is The Single Global Currency - Common Cents for the World, by the author of this article. (Bonpasse, 2006, 2007, 2008) The book describes the several routes to that goal, including international monetary conferences and the creation of new regional monetary unions and the expansion of existing monetary unions.

3. THE EXISTING MULTICURRENCY SYSTEM AND ITS COSTS

Every trading day, the equivalent of $3.2 trillion is exchanged on the traditional foreign exchange markets around the world. Much of that exchange is needed to enable businesses to conduct their operations for their global customers who use different currencies. This multicurrency system is costly in several ways, beginning with transaction costs.

Transaction costs are the fees charged to trade currencies, which go to pay the wages of the traders and all the corporate and informal infrastructures which support them, and the purchases and maintenance of the computers and all the associated costs of buying and selling complex securities. These costs are often invisible as they are bundled into transactions, and they must be calculated and extracted from the total costs.

In studies prepared during the run-up to the introduction of the euro, it was estimated that foreign exchange transaction costs were approximately .3 percent (.003) of the value of the currency being traded. (Jayaraman, 2004). Applying that percentage to the daily $3.2 trillion traded, the daily worldwide transactions cost would be $9.6 billion. Using a 260 trading day year, the annual cost to the world would be $2.5 trillion per year.

Since the European Commission studies were done eighteen years ago, the automation of the currency markets has continued and the percentage costs of trading have dropped. To be conservative about the current transaction costs, this article assumes that the average transaction cost is .048 percent, (.00048) of the value of the transactions, and thus one-sixth
of the .3 percent level previously determined in the 1990 European Commission study. This estimate includes the initial foreign exchange trading costs as well as all the charges and markups to customers at various levels, and it's applied only to the total for "traditional" foreign exchange transactions, and does not include the dollar volume for derivatives or over-the-counter transactions. At the .048 percent rate, the annual worldwide transaction costs for foreign exchange trading are estimated to be $399.4 billion, which are rounded to $400 billion here.

The $400 billion estimate here is intended to be conservative, and more research is welcomed to better determine the actual cost of worldwide foreign exchange transactions. Each international corporation might determine its own costs imposed by the multicurrency system.

4. THE MULTICURRENCY SYSTEM AND INTERNATIONAL CORPORATIONS

International corporations make investments and sell products and services around the world and must constantly be on the alert for currency risk. They have to price their products and services in the currencies of their customers and always be alert that the exchange rates will not eliminate their profits. In addition to paying a percentage on all their foreign exchange transactions, international corporations have to cope with the fluctuations of foreign exchange values, in two areas: reporting and worldwide allocation of resources.

EADS, the aircraft manufacturer of the Airbus has estimated that for every cent gain by the euro against the dollar, EADS loses 100 million euros in profits. The company was especially concerned about the period since February 2007 when the euro cost $1.35 through November when it had risen 11 cents to $1.46. That meant a cut in profits of €1.1 billion. Does this make cents?

It's estimated that Nissan Motor gains about $440 million in profits for each 1 percent drop in value of the yen against the US dollar. For Toyota, the gain would be about $1.2 billion. (Sapsford and Shirouzu, 2006). The reverse would also be true, but do these possible shifts make cents? Why should the fortunes of these companies be so subject to the whims of currency values over which the corporations have no control?

Honda stated in its 2004 Annual Report that it "generates a substantial portion of its revenues in currencies other than the Yen. Honda's results of operations would be adversely affected by an appreciation of the Yen against other currencies, in particular the US dollar." (Honda, 2004)

The problem is not so much profits and losses as it is uncertainty and risk--each an anathema to corporations. In a standard text, Corporate Risk- Strategies and Management, currency risk is featured in seven of its thirty chapters. (Brown and Chew, 1999). All international corporations have people and departments to manage the foreign exchange risk, and these departments are expensive to operate.

Richard Cooper noted that one of the widest fluctuations in currency values, the 70 percent increase of the yen to the US dollar between 1995 and 1998, may have thrown many otherwise healthy firms into bankruptcy. Further, he surmises that the prolonged nature of the late 1990s--2000s recession in Japan was partly caused by Japanese firms investing in other currency areas in order to hedge against losses in yen due to currency fluctuations. (Cooper, 2000).

Many international corporations do more on the foreign exchange markets than hedge to control currency risk. One article noted, "Currency speculation has always had a vast
influence on systems of flexible exchange rates. A large variety of empirical, experimental, computational, and theoretical investigations deal with this topic. But what determines the speculative decision of a firm? Why do non-financial firms speculate [in the currency markets]? How do they deal with exchange rate uncertainty?” (Kaiser and Kube, 2005). For many banks, trading currencies for their customers represents a sizable portion of revenue. The European Commission 1990 report found that such trading represented 5 percent of European banks’ revenues. (Emerson, et al. 1992, p. 64). The Bank of America trades approximately $100 billion per day, according to Steve Nutland, Director of North American trading. Of the foreign exchange markets generally, he stated, “many people believe Forex is a necessary evil. On the institutional/hedge fund side of the business, many view it as the largest casino in the world. I like to see it that somewhere in between the two lies the truth.” (Rosenstreich, 2005, pp. 114-23). Whether a casino or necessary evil, the foreign exchange markets are an expensive and vestigial holdover from an obsolete system.

Scotiabank is a leading Canadian Bank, and does extensive business in the United States, Mexico, South America and the Caribbean. Its 2005 Annual Report financial results depended in substantial part on a critical change over which it had no control: the Canadian dollar "strengthened" in relationship to the US dollar by 8 percent, from .7586 to .8217 per US dollar. (Scotiabank, 2005). Scotiabank reported a net income of $3.184 billion (CAD), which was $292 million (CAD) greater than the year before. However, it also noted a negative effect of $145 million (CAD) due to currency translation, meaning that without the currency translation, net income would have risen by that additional amount. The oft-repeated phrase in the report is, "Before the impact of foreign currency translation...." The effect is summarized, "In the absence of hedging activity, a one percent increase(decrease) in the Canadian dollar against all the currencies in which we operate, decreases(increases) our earnings by approximately $23 million (CAD) before tax. A similar change in the Canadian dollar would decrease (increase) the foreign currency translation account in shareholders’ equity by approximately $81 million (CAD)." (Scotiabank, 2005). To illustrate, a 1 percent increase in the value of the Canadian dollar from $.87000 to $.87870 or $.88 would decrease Scotiabank's profits by $23 million (CAD) and decrease shareholders' equity by $81 million (CAD).

5. THE COST OF LOW ASSET VALUES DUE TO CURRENCY RISK

When calculating the value of an asset, an investor or owner must determine the likelihood of getting a real return on that investment; and such return will be adversely affected in inverse proportion to currency risk.

When the value of an asset is artificially low, compared to similar assets in other situations or places, the difference in value can be said to be a cost or opportunity cost. That is, owners of such undervalued assets are losing the opportunity to use that asset for other purposes that might be available if valuation were not artificially deflated by currency risk.

The IMF Global Financial Stability Report estimates that the total value of the world's financial assets in 2005 was $144 trillion. (IMF, 2006). If all currency risk were lowered to the same level as the developed world, it's estimated here that an additional $36 trillion would be added. Hence that amount could be called a cost of the existing multicurrency foreign exchange system.

6. A SINGLE GLOBAL CURRENCY
Moving the world to a Single Global Currency, managed by a Global Central Bank within a Global Monetary Union will eliminate these costs and risks. As former U.S. Federal Reserve Chair, Paul Volcker, has said, "A global economy requires a global currency." While the precise design of the structure of the union and central bank await negotiations among the stakeholders at future international monetary conferences, it seems likely that the Global Central Bank will be similar to the European Central Bank and the central banks of other monetary unions.

The easiest savings to understand with a Global Central Bank will come from the elimination of transaction costs. Willem Buiter, a supporter of the euro, wrote that "The transaction cost saving advantages of a common currency are familiar.... The usefulness to me of a medium of exchange is increasing in the number of other economic agents likely to accept it in exchange for goods, services and securities. By eliminating the need for the exchange of one currency for another, monetary union saves real resources." (Buiter, 1999).

The other benefits, such as the increases in asset values in countries where currency risk was high, will occur slowly and throughout the implementation period of the Single Global Currency.

7. HOW TO GET THERE FROM HERE

The Economist magazine predicted in 1988 the implementation in 2018 of a global currency, which it called the "Phoenix". (Economist, 1988). That date is now only 10 years away. Richard Cooper's 1984 proposal for a common currency among the industrialized democracies anticipated implementation by 2009, only one year away. What takes time is the work required for the establishment of the goal and the date for implementation. By comparison, actual implementation will take little time. Once the euro was given its current name in 1995, it only took four more years to introduce the currency to the banks and financial institutions of the European Monetary Union, and three more years for cash to be introduced to the citizens in EMU countries.

The 21st century began with 159 currencies among 189 U.N. members. By 2005, the number of currencies had declined to 147. (Single Global Currency Assn. 2007). At that rate of 12 every five years, the journey to 1 will take 62 years until 2067, the 200th anniversary of the 1867 Paris International Monetary Conference. By 2008, although the number of U.N. members has increased to 192, the number of currencies has declined to 141 with the adoption of the euro by Slovenia and then Cyprus and Malta. If the political decisions were made by just a few major countries to proceed with the project, the implementation could be accomplished in less than five years. Bryan Taylor wrote in 1998, "Once the transition to a single currency for Europe and the United States was made, the transition to a single currency for the entire world could come with a speed that might surprise many. The world might easily move from having almost 200 currencies today to having one within a decade, and twenty-five years from now, historians would wonder why it took so long to eliminate the Babel of currencies which existed in the twentieth century." (Taylor, 1998).

Paul De Grauwe and Jacques Melitz wrote of the shift of view during the runup to the euro, "However, at some point monetary union began to be seen as something inevitable, as something that was written in the stars. At that point, professional opinion largely rallied in its favor. There can be no doubt that the mere existence of European Monetary Union has changed economists' outlook about monetary union." (DeGrauwe and Melitz, 2005, page 2).

There are several routes to the Single Global Currency, including the enlargement of existing monetary unions and the creation of new unions. The European Monetary Union's
expansion is well-known, but also expanding will be the East Caribbean Monetary Union.
Planning new monetary unions are the West African Monetary Zone (2009, the Gulf
Cooperation Council (2010), the East African Community (2012), and the South Africa
Development Community in 2018. the

Small countries can "ize", as in dollarize or euroize, their currencies by adopting a more
stable currency as their own. Ecuador and El Salvador took this step in 2000 and 2001,
respectively. A Single Global Currency Institute can be established to fully research the
issues, including a comprehensive study of the costs and benefits of a Single Global
Currency. International conferences can be convened to begin planning and among the
identified early tasks could be a worldwide nomination and voting process to determine the
name of the Single Global Currency. That process would contribute popular support to the
Single Global Currency.

At the business level, corporations can research for themselves the extent to which they
would benefit from a Single Global Currency. For the very few corporations who derive
substantial revenue from the existing system, such research would include planning for the
transitioning of some of its work to other fields. Corporations can contribute to the Single
Global Currency Association and/or form their own association in support of that goal,
following the example of European corporations and their associations which supported the
planning for the euro and its implementation.

Guidliemo Carchedi explained the lobbying efforts for the euro in some detail in his book,
For Another Europe, "Perhaps the most influential of all these groups is the European
Roundtable of Industrialists (ERT), which was founded in 1983 by Umberto Agnelli of Fiat,
Wisse Dekker of Philips and Pehr Gyllenhammer of Volvo. The ERT has dramatically
increased contacts among European corporations. Its members are forty-five 'captains of
industry', that is, the Chief Executive Officers of the most important European oligopolies,
also called transnational corporations, which in 1997 had a combined turnover of ECU
5501m and three million employees world-wide. The ERT has some ten working groups
covering major areas of interest (e.g. competition, education)...

However, the main work preparing the ground for the EMU was not done by the ERT, but
rather by (one of its off-springs) the Association for the Monetary Union of Europe (AMUE).
The AMUE was founded in 1987 by five transnational corporations, each of which was also
represented in the ERT. The AMUE enjoys the same privileged access to high decision-
making bodies as the ERT and its co-operation with European oligopolies and the EU is
close. The Commission not only provides financial support to the AMUE but also frequently
consults it on monetary questions. The AMUE also has close contacts with the European
Central Bank." (Carchedi, 2001).

The ERT and AMUE model could be useful for international corporations as they join
together in support of the Single Global Currency. If corporations were to contribute as little
as $100,000 annually for the next 16 years, until 2024, to the Single Global Currency Assn.,
and if the association's use of that $1.7 million accelerates the implementation date of the
Single Global Currency by only one year, the world will save approximately $400 billion and
promote the increase of world wealth by many $trillion. For the sake of mathematical
simplicity, the benefit from the acceleration by one year could be set conservatively at $1.7
trillion, for a return on the investment of 100 million%. Such a return on such a "investment"
is staggering.

For the campaign for the Single Global Currency, worldwide business and trade
organizations, such as the International Chamber of Commerce, will need to be mobilized.
The publication of research articles in business association and academic publications will
help generate momentum for the 3-G world. In 1996, the American Chamber of Commerce in Belgium published in its *AmCham* magazine, "The Case for a Single Global Currency" by Brian Warburton. (Warburton, 1996). Even for corporations whose self-interest would appear to be damaged by a common currency, there is often a silver lining. At a recent annual meeting of the Directors of HSBC Malta, the Maltese subsidiary of the international HSBC bank, CEO Shaun Wallis was asked about the effect of the upcoming implementation of the euro, and he replied, "Yes, we will have lower foreign exchange profits, that's true. But the introduction of the common currency will create more trading opportunities. It will provide stability because 60% of Malta's trade is done within European Union borders." (Carabott, 2006). Finally, corporations do not all have to be "international" in order to support the implementation of a Single Global Currency. In Ecuador in 2000, the Chamber of Commerce supported the dollarization in order to achieve financial stability and not necessarily because of its perspective on globalized trade.

8. CONCLUSION

Implementing the Single Global Currency will bring considerable benefit to almost everyone in the world and business can play a substantial role in moving the world in that inevitable direction. The years 2024, 2034 or even 2044 are not so far away that businesses, universities and governments cannot begin researching, planning and organizing now. It's common cents for commerce, and the people of the world.

9. REFERENCES


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