



JEAN MONNET CONFERENCE
20 Years of Support for European Integration Studies:
From the Jean Monnet Action to the Jean Monnet Programme

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Charlemagne building, Brussels

Monday, 7 september 2009
16.00/17.30 hours

16.00-17.30 THE WORLD ECONOMIC DOWNTURN AND THE ROLE OF THE
EURO

Chairperson: Prof. **Tibor Palankai**, Jean Monnet Chair, Director of the European Study Center and former Rector at the Corvinus University of Budapest, Vice-President of Board of Director of the Hungarian Development Bank.

Speakers: Prof. **Blanche Soussi**, Jean Monnet Chair and the Director of the Institute of Law and Business Economics at the University of Lyon III; Member of the Panel of Economic and Monetary Experts of the European Parliament's Committee on Economic and Monetary Affairs.

Prof. **Ramón Tamames**, Jean Monnet Chair at the Autonomous University of Madrid.

Expose by Prof. Ramón Tamames

The role and commitment of the
European Union in the approach to
a new global currency

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AN INTRODUCTION

Hereby, I introduce, for our 20th Jean Monnet Anniversary, the discussion of the possibility of a future global currency, a topic in which the European Union has a lot to say, as far as the Eurozone is at present the nearest example of what a World Monetary Union could be in a not so distant future.

I have organized my paper in three parts, as follows.

- I. An open letter to Senator Obama, that I sent him in February 11, 2008, outlining for the future president, a general scope of the question; regarding the need of a global currency for the new global economy. I include the first answer by the Obama Team.
- II. After the previous letter, I have collected a few references to some events in the world monetary stage since February 2008, that, I believe, fully confirm my previous forecasts.
- III. A proposal to the European Union on the need to assume its responsibilities in the World Monetary scenario, according to the great Euro experience with the general idea to be develop regarding the topics that at presents are being delt at the current G-20 conferences.

I. AN OPEN LETTER (FEB. 2008) TO SENATOR OBAMA ON THE FUTURE GLOBAL CURRENCY

Ramón Tamames
Professor of Economic Structure
Jean Monnet Chairholder, European Union
International Member of the Club of Rome

Dear Senator Obama,

I do not know if I am actually writing to the future President of the United States, but I sincerely believe that you deserve the job, and I am sure that if you succeed in reaching the presidency, it will be highly beneficial for the citizens of the world.

It is because of those premises that I write to you, in the hope that you consider an idea which could represent a very valuable commitment in favour of international political and economic cooperation. As an alternative to confrontation and the use of force, to which you have been firmly opposed. First of all, on the occasion of the war in Iraq, from the beginning, when you plainly stated that this action was an irrational journey leading nowhere. And something similar happens now in the case of Iran, as far as –instead of using the recourse of a most dangerous preventive war— you support the possibility of engaging in dialogue with the authorities of that country, in order to avoid the dangers of further nuclear proliferation. Both attitudes imply that the US could share its important decision-making capacity, combining it with other powers, and always keeping in mind the purpose of improving the condition of the poorest in this planet in which all of us are living at present.

My proposal is that you consider the idea of contributing to the creation of a global currency for all the countries that wish to adopt it, according to certain technical conditions. A goal that might seem utopian, as far as it seems a difficult challenge, yet not impossible to reach. Indeed, History has shown us that a new currency looking for broader markets is in fact wholly reasonable, and in that sense 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 Millard Dollar.

Furthermore, the origin of the German Mark (DM) is analogous, because if in principle it was created in 1948, its precedent was the Reich Mark of Chancellor Bismarck's, who in 1871 was able to consolidate the new German Empire by establishing a currency that subsequently would become the most powerful in Europe, until the emergence of the Euro in 1998.

Moreover, when the International Monetary Fund (IMF, created by the Bretton Woods Conference of 1944), came into existence, the gold-dollar exchange standard permitted the free convertibility among the main currencies. With fixed exchange rates until 1972, when the United States dropped out of the system, thus entering into the still present situation of floating exchange rates, with its complications of successive financial crises, some of them very serious.

The Euro also emerged in 1998 on the basis of a monetary union which today encompasses 19 member states in Europe, and that serves as a reference for 14 additional countries through the African Financial Community Franc (AFC). In other words, in one way or another, the Euro is already circulating *de iure* or *de facto*, in 33 countries, and it is most foreseeable that by 2012 there will be some 50 member states, the same number that make up your own Nation.

And going from precedents to the possible future, the proposed global currency –which could be called the *Cosmos*, as an expression of the beauty of the universe in classic Greek—, is in fact underway. First of all, because of monetary simplification, with more than 80% of world economic transactions carried out in Dollars or Euros; and secondly, resulting from the ever increasing process of globalization. Indeed everything is becoming globalized: transactions of goods and services, capital movements, transfers by migrants, property rights, communication and information technologies, and financial services. What is impeding us then from globalizing today's existing payment means, which after all are the vehicle to all transactions in the globalized economy?

More than a few will say, of course, that a project like this will never be possible, on the basis that the US would not accept the *loss* of its almighty dollar, and therefore even its American Way of Life. However, if we look back to the recent past, this argument carries little weight, since apart from the greenback's present circumstances, together with the increasing cooperation between the Federal Reserve System and the European Central Bank, the truth is that contradicting the aforementioned argument, in 1998, in Europe, Germany agreed to support the single currency, and thus the Euro was created.

Definitively, the global currency could emerge from the understanding of a stable Dollar/Euro exchange rate, after discussion and agreement in a new international conference, analogous to that already quoted of Bretton Woods in 1944, but in a world whose population has increased threefold, and is much more complex, and more in need than ever of real integration.

A very important premise for all this is to perceive that a single global currency could be established gradually world wide, with great advantages. Among them, avoiding new monetary crises and the serious and prolonged difficulties coming from them. In addition, the global currency could mean a great push in favour of market stability and in the fight against inflation; reducing, besides, the high costs of transactions that all countries with weak currencies suffer, which all together represent more than half of the world's population.

Last but not least, we must add that a global currency would be a decisive action in the target that the philosopher Immanuel Kant aimed for in his "Essay on Perpetual Peace" in 1795: when countries agree on economic policies, the ghosts of war of so many centuries will begin to fade. Along these lines, let me remind you about two co-citizens of outstanding moral qualities and proven intellectual generosity, who may soon be your predecessors: Woodrow Wilson, who in 1918 proposed a world organization "to end all wars", and President Franklin D. Roosevelt, who, in some way, achieved that purpose through the San Francisco Conference of 1945, when the United Nations Charter was enacted.

Very soon it can be your own turn in all this history, Senator Obama, if you take that great leap forward as the future President of the United States, in favour of a more integrated and peaceful world.

Yours sincerely,

Madrid, 19.II.2008

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From: "Obama for America Correspondence Team" <info@barackobama.com>
To: <bego@castellanacien.e.telefonica.net>
Sent: Monday, February 25, 2008 2:43 PM

Subject: Thank you for your message

Dear Ramon,

Thank you for contacting Obama for America. The volume of messages we're receiving has gone up since Barack's victory in Iowa. While we cannot respond individually to over a thousand messages per day, the level of interest and thoughtfulness of the comments reflected in these communications are very gratifying. Your thoughts on our campaign and America's future are greatly appreciated.

Individual citizens like you are the foundation of this campaign. Since his February 10 announcement speech in Springfield, Illinois, Barack has spoken consistently of working together to reclaim the meaning of citizenship, restore our sense of common purpose and rally the power of millions of voices to demand long overdue change. We hope you will explore our website, www.BarackObama.com, to view that speech in its entirety and learn more about Barack, his record and his plans.

If you're writing because you want change, we need you to help us fight for it. Please sign up here to volunteer:
<http://my.barackobama.com/acvolunteer>
And you can get started from home right now. We've built a set of easy-to-use web tools that empower you to get further involved right now. Click My.BarackObama.com, where you can find events near you, connect with neighbors who support Barack, create your own blog, and do much, much more.

And if you're not sure you want to get involved, and are writing to express a concern or disagreement, we appreciate that as well. The open discussion we want to facilitate cannot take place without hearing from people expressing a wide range of views.

Thank you again for writing.

Sincerely,

The Correspondence Team Obama for America

Here are some more useful links to help you get started:

Learn more about Barack's policy positions:

<http://my.barackobama.com/acissues>

See Barack in person or attend a campaign event: view the Events section toward the bottom of the front page www.BarackObama.com.

Invite Senator Obama or Michelle to an event:

<http://invite.barackobama.com>

Donate: <http://my.barackobama.com/acdonate>

Buy Obama Gear: <http://my.barackobama.com/acstore>

II. SOME LATER EVENTS IN THE INTERNATIONAL MONETARY FIELD (2008/2009)

After presenting my letter to Mr. Barack Obama as the first/part of my *exposé*, I believe it would be interesting to make an assessment of the latest trends in the monetary world stage.

The Yuan: from pegging to revaluation

First of all we shall refer to the Chinese currency: for eleven years (1994/2005), the Renminbi or Yuan, had an extremely low variation margin to the American Dollar (8,27 to 8,30), to which it was pegged¹. But on the 21st of July, 2005, a first phase of revaluation came, and the Yuan went up to 2.1%, up to 8.11 units per dollar, on a way to what is technically known as *dirty flotation*: revaluation of the Yuan was going to be permitted, but not freely – as with the currencies in most western countries –, but with limitations and under the direction of the Chinese Central Bank (The Peoples Bank of China, PBC).

Besides the already commented way out off the Yuan/Dollar pegging, the monetary standard of the Chinese currency would no longer be only the *greenback*. In the following times after the revaluation principal the Yuan was pegged to a basket of currencies. Thus, from July 2005 to June 2009, the Chinese currency has been revaluated 15.8%, reaching 6.82 against the dollar; a rate of revaluation considered too slow by western countries.

Let us remark, by the way, that by June, 2009, China's international reserves reached 1.95 billion dollars, the largest in the world, followed only by Japan with 1.01 billion. These reserves have been invested in great part in U. S. *Treasuries*, so that China has 740,000 million dollars in US Treasury bonds in its Central Bank; once again, above Japan which has 635,000 million.

We shall remark also that bargaining position of the People's Republic will be stronger, in 2010, the year in which the International Monetary Fund (IMF) will readjust member States quotas, and will reconsider the basket of currencies making up the so-called *Special Drawing Rights* (SDR), i.e., the composition of this basket-semi-currency, created by the IMF in 1969 as an alternative to national currencies, is updated every five years. That happened last time in -2005 –with the following composition of the SDR: the Dollar, 44%; the Euro, 34%, and the Japanese Yen and the Pound Sterling, 11% each. In the foreseen occasion of 2010, China could demand the right to be in the basket with its Yuan. Just in case, the Governor of the PBC, Zhou Xiaochuan, has already defended that the SDRs should have more weight in the world economy, so as not to depend so much on the fluctuation of the dollar.

Further Chinese measures, in line with its national currency: towards a global currency have been implemented, with trading partners, to enlarge the use of the Yuan. In that sense Zhou backs the creation of a “super-sovereign reserve currency” managed by the International Monetary Fund that would challenge the dollar's power². Something rather logical, since much of China's national wealth, about 70% of its two trillion USD in foreign reserves, is kept in dollars.

To reduce its exposure to U.S. economic policy, Beijing is forging currency swaps with Asian and Latin American nations, contracts that provide their central banks with the Yuan to use in trade with China or even, in the future as a Reserve currency. More ambitiously, Zhou thinks

¹Pedro Calvo, “El imperio de las divisas espera la llegada de la dinastía Yuan”(The Currency Empire Awaits the Yuan Dynasty”), *T*, 8.VI.09.

²Steve LeVine y Dexter Roberts, “China's doubts about the dollar”, *BusinessWeek*, 8.VI.09.

the IMF should create a new international currency —beyond the SDR—, that would be valued against a basket of existing currencies, such as the Dollar, Euro, and Yuan. In theory, that new reserve currency would be more stable than the U.S. Dollar because it would be “disconnected from economic conditions and sovereign interests of any single country” .

Yet Zhou has tapped into resentment about the huge—and unique—funding advantages America enjoys since the U.S. government and the US citizens can borrow and trade in its own currency, while other economies with dollar assets must worry about currency swings or U.S. policy shifts.

Some official position of the US Authorities

Officially, the United States proposes maintaining a *strong dollar*, to put Chinese doubts about its investments in the North American debt at ease³.

Along these lines, Secretary of the Treasury, Timothy Geithner, said in June 2009 that “the global recession seems to be losing strength” and he pointed out that the American financial system is growing healthier. A short time afterwards, in a speech, he guaranteed the American Administration’s desire to reduce public deficit, in spite of the latest initiatives approved to overcome the crisis. “Chinese funds are safe”, Geithner insisted at Beijing University, which caused laughter among the students in the audience, a clear sign of skepticism. And also some criticism against the Beijing policy; how absurd it is for a country like China, still in great part underdeveloped, to invest in public debt in a foreign country, instead of improving the standard of living for its own citizens.

Timothy Geithner’s cited words were in contrast to the brave comments he made in January of 2009, after being named Secretary of the Treasury, during a conference in New York which caused an upset to the dollar. He said then, that he was open to the idea of the governor of the People’s Bank of China, Zhou Xiaochuan, to advance toward a new super-sovereign currency in line with the SDRs of the IMF. The fall of the dollar in the markets was immediate⁴. Thus, Geithner changed his point of view afterwards and, perhaps, that is the joke, after consulting the *hand book on for how to be a good Secretary of the Treasury*, made it clear that the United States opts for a strong Dollar.

The rationale of the global currency

A reserve currency is by definition the money accepted in the whole world for international commerce and all kinds of other economic activities. Before 1931, when the United Kingdom gave up the gold standard, the British Sterling was the real global currency, since then the Dollar, with the Euro *hot on its heels*. Therefore, since 1931 to nowadays, the Dollar, by one way or the other has been the most international currency.

In fact, economists have been arguing for decades about the weakness of a system based on one lone reserve currency, and namely Nobel Prize winner, Robert Mundell, because of his theory on the *optimal monetary areas*. Later on, among many others, like Martin Wolf (“a global economy needs a global currency”), Joseph Stiglitz, also a Nobel Prize winner in Economics, said the present model based in the Dollar is *unsustainable*. And to replace it with one dominated by the Dollar and the Euro (or the Dollar, the Euro and the Yen), would be even worse. For this reason, the *Special Committee* which Stiglitz presides in the United Nations,

³ *Expansión*, “Geithner apuesta por un dólar fuerte en su visita a China”(Geithner opts for a strong dollar on his visit to China”), *Expansión*, 1.VI.09

⁴ Sandro Pozzi, “Asalto al reinado del dólar” (“Assault on the reign of the dollar”), *El País*, 21.VI.09.

proposes establishing a new version of the SDR that the IMF would manage, on the same line as the Chinese scheme.

In the same path as my above seen letter to Senator Obama, Nouriel Roubini, professor at New York University, warns that before we know it, the *greenback* will be challenged by other currencies, with the number one possibility being the *Asian basket of currencies* based on the Chinese Renminbi. Roubini says that the *Twenty-first Century will be the century of China* (the same appraisal (and title) of my book on China published in 2007) or Asia. Although, he admits that the Dollar will not lose its “*seigniorage*” so easily, and that the countries who are protesting will have no choice but to keep accumulating dollars for some time.

The BRIC countries and the monetary stage

Brazil, Russia, India and China, the great emerging economies in the BRIC group, do not want to put all their eggs in the Dollar basket. They represent close to 20% of the world’s GDP and they handle 42% of the world reserves in Dollars. In that context, in the middle of June 2009, while meeting in Yekaterinburg (Russia), they spoke about how to avoid the dollar in their transactions, using instead their own currencies, in what could be the first step in a change in the structure of the reserve system.

But inside the BRIC, the Russian President Dmitry Medvedev (in agreement with Putin, of course), has a broader vision. He thinks that the creation of a system of *supranational* payments would reinforce the whole system. The Kremlin, as well as the Chinese government, insists that it would approach debate cautiously, without ruffling any feathers. “No one wants to ruin the dollar”, remarked Arkady Dvorkovich, economic advisor to President Medvedev.

In line with the aforementioned position of the BRIC, China and Brazil came to the beginning of a deal for bilateral commerce in their own currencies, excluding the dollar in their transactions: the first agreement of this type, in which two countries move away from the dollar to set up commerce between them.⁵ This consensus was achieved during the annual meeting of the Bank for International Settlements in Basel, Switzerland, and it will be ratified in the near future in the meeting between leaders of both countries: Luíz Inácio Lula da Silva and Hu Jintao.

Some Chinese and IMF points of view

China's sovereign wealth fund, the China Investment Corp., has been roundly criticized for losses (on paper, at least) of \$4 billion on investments in New York financial houses Blackstone Group (BX) and Morgan Stanley (MS). And many fear Beijing may ultimately take a far bigger bath on the \$1.4 trillion-plus in U.S. securities it holds.

In that same sense, a few Chinese newspapers, advocate a turn away from Western values. In that respect Wang Xiaodong may be one of the most vociferous proponents. He recently co-authored *China Is Not Happy*, a book that has sold more than half a million legal copies, (with an untold number of pirated versions in circulation). In it, Wang criticizes the U.S., saying it has damaged itself by focusing too much on its financial sector while sending manufacturing offshore. China, he says, needs to adopt a more assertive economic, diplomatic, and military

⁵ *The Economist*, “China and Brazil will abandon the dollar to trade in favor of their currency”, *The Economist*, 30.VI.09.

stance. "China's policies are always based on trying to please the West. We don't think this is necessary".

Finally, we must point out that while more important changes are coming, the International Monetary Fund (IMF) has begun to act as a sort of central World Bank. On the 28th of August, 2009, it distributed 250,000 million dollars among central banks, with the purpose of strengthening its currency reserves and increase cash in the economy⁶. These resources will increase cash flow in the world economy complementing the currency reserves of the members of the IMF, said spokeswoman Caroline Atkinson. She remembered, besides, that the organization made effective the agreement reached by world leaders in the G-20 Summit which was held in London in April, 2009. The measure fits into the 1.1 billion dollar assistance programme to revitalize the world economy and commerce.

⁶ *Expansión*, "El FMI reparte 174.000 millones entre los bancos centrales", ("The IMF distributes 174,000 million among central banks") 29.VIII.09.

III. A PROPOSAL TO THE EUROPEAN UNION: HOW TO ASSUME THE EURO ITS RESPONSABILITIES IN THE WORLD MONETARY SCENARIO

The open letter I wrote to Senator Obama in February 2008, not yet at the peak of his campaign for the Presidency of the USA, was an assessment of the world monetary situation at that moment. The later process of the global economic crisis has confirmed, I believe, my forecasts, and the second part of this paper is a corroboration of it.

What I think, to finish my paper, is that the European Union could settle on a special working party to discuss the topics I have analyzed in my *exposé* here at Jean Monnet Action. Among other reasons, because the EU has certain responsibilities regarding the future global currency (by the way, I propose for it the name of *Cosmos* for it) that must be assumed with the corresponding commitments.

Thank you very much for your kind attention, and I shall be delighted if there are any questions to be answered.

Ramón TAMAMES