

A Paradigm Shift in Monetary Systems: A Supranational “World Currency”

LIE Chun Pong (李震邦)

Research Scholar

DOI: 10.46609/IJSSER.2026.v11i08.030 URL: <https://doi.org/10.46609/IJSSER.2026.v11i08.030>

Received: 26 July 2026 / Accepted: 22 August 2026 / Published: 26 August 2026

ABSTRACT

The international monetary system remains heavily dependent on the United States dollar, which functions simultaneously as a reserve asset, a unit of account, a medium of international settlement, and a major store of value. Although dollar centrality has supported global trade and financial integration, it has also generated structural vulnerabilities, including reserve concentration, persistent global payment imbalances, exposure to United States monetary and fiscal policies, and recurrent instability in cross-border capital flows. This paper examines the theoretical and institutional foundations of a possible transition toward a supranational world currency. It reviews selected monetary theories, including Gresham’s law, the quantity theory of money, purchasing power parity, the Marshall–Lerner condition, and the Mundell–Fleming model, and evaluates their relevance to the design of an integrated monetary framework. The paper further develops a contractual interpretation of money, arguing that money functions not only as a medium of exchange but also as a socially recognized claim on future goods, services, and labor time. On this basis, the paper proposes a gradual, institutionally governed transition from competing currency blocs toward a global currency administered by an independent supranational monetary authority. The proposal is intended to reduce exchange-rate risk and transaction costs while addressing, rather than merely relocating, the governance problems associated with monetary power. The paper concludes that global monetary integration may offer important efficiency gains, but its feasibility depends on credible governance, democratic accountability, fiscal coordination, financial regulation, and mechanisms for accommodating regional economic differences.

Keywords: international monetary system; world currency; monetary integration; United States dollar; Triffin dilemma; institutional economics; contractual theory of money

Introduction

The United States occupies a central position in the contemporary international political economy. Its economic size, financial markets, technological capacity, and geopolitical influence have contributed to the international prominence of the United States dollar. The dollar is widely used in trade invoicing, cross-border finance, foreign-exchange transactions, and official reserves. Consequently, disturbances originating in United States financial markets can transmit rapidly through global banking, investment, and payment networks. Dollar centrality has generated substantial benefits. It provides a widely accepted means of settlement, facilitates international contracting, and allows firms and governments to access deep and liquid financial markets. Nevertheless, dependence on a national currency for global monetary functions also creates a structural asymmetry: the issuing country receives exceptional financing and liquidity advantages, whereas other countries remain exposed to exchange-rate movements, changes in United States interest rates, and shifts in global investor sentiment.

This problem is related to the Triffin dilemma. A national currency used as the principal international reserve asset must be supplied to the rest of the world, often through external deficits or international lending. However, persistent external deficits may eventually undermine confidence in the issuing country's fiscal and monetary position. Conversely, restricting the international supply of the reserve currency may create global liquidity shortages. The dilemma therefore reflects a tension between national policy objectives and the liquidity requirements of the international system.

This research paper argues that the international monetary system should be examined as an institutional arrangement rather than merely as a collection of exchange-rate practices. We propose a conceptual framework for a supranational world currency designed to reduce excessive dependence on any single national currency, lower exchange-rate risks, and moderate global payment imbalances. This innovative proposal is to imply that a single currency would automatically eliminate financial crises. Also, it emphasizes that monetary integration must be accompanied by effective governance, fiscal discipline, financial supervision, and mechanisms for responding to asymmetric economic shocks.

This research paper addresses three questions:

1. What structural weaknesses arise from the current dollar-centered international monetary system?
2. How can existing monetary theories inform the design of a supranational currency?
3. What institutional conditions would be necessary for global monetary integration to be feasible and legitimate?

Background of the International Monetary System

The international use of the dollar is supported by several mutually reinforcing factors. These include the size and openness of United States financial markets, the availability of dollar-denominated safe assets, the established infrastructure of international payments, the network effects associated with widespread use, and confidence in the legal and institutional environment surrounding dollar assets. Once a currency becomes widely used, market participants have an incentive to continue using it because doing so reduces search costs and facilitates interaction with other participants. Dollar centrality also lowers transaction costs for international trade and investment. Exporters, importers, banks, and governments can use a common currency for pricing and settlement, reducing the need to exchange among numerous national currencies. The same network effects, however, can make the system difficult to reform, even when participants recognize its vulnerabilities.

Structural vulnerabilities

A dollar-centered system exposes the global economy to policy decisions made primarily for domestic purposes. Changes in United States interest rates, liquidity conditions, fiscal policy, or financial regulation can affect capital flows and borrowing costs in other economies. Emerging markets may experience rapid inflows during periods of abundant global liquidity and destabilizing outflows when investors seek dollar liquidity or safer assets. Countries that pursue export-led growth or seek protection against external shocks may accumulate dollar assets, particularly United States Treasury securities. This arrangement permits the United States to finance external deficits more easily while reserve-accumulating countries effectively exchange goods and services for claims on dollar-denominated assets. Such flows are not necessarily caused by the reserve currency alone; they also reflect domestic saving behavior, exchange-rate policies, financial-development differences, and trade structures. Nevertheless, reserve-currency status can reinforce the pattern. So, in addressing the above issue. A redesigned international monetary system, and establish an “new world currency” could reduce vulnerabilities, and it could eliminate the underlying economic differences that generate saving, trading and investment imbalances.

Theoretical Framework

Gresham’s law and currency coexistence

Gresham’s law is commonly summarized as the proposition that “bad money drives out good” when both forms of money are accepted at a legally fixed exchange ratio. The principle is most

directly applicable when authorities impose a parity that differs from the market valuation of the currencies. It does not imply that currencies with different qualities will always behave in this way under freely determined exchange rates [1-6].

For a future world currency, the relevant question is not simply whether existing currencies such as the dollar, euro, or renminbi would disappear. A more practical approach would be to distinguish between a supranational unit used for international settlement and national currencies used for domestic transactions. During a transition period, national currencies could coexist with the world currency, provided that conversion rules, reserve arrangements, and legal tender provisions were clearly defined.

The quantity theory of money

The quantity theory of money highlights the relationship among the money supply, the velocity of circulation, the price level, and real output. In its familiar form, the relationship is expressed as:

$$MV = PY,$$

where M denotes the money supply, V velocity, P the price level, and Y real output. The identity does not by itself provide a complete theory of inflation or monetary stability, because velocity and output may change endogenously. Nevertheless, it demonstrates why a supranational monetary authority would require transparent rules governing issuance, liquidity provision, and price stability [1-7]. So, a global currency could not be credibly administered through unrestricted issuance. Its monetary framework would need to incorporate an explicit mandate, operational independence, public reporting, and safeguards against fiscal dominance. It would also need to account for differences in productivity, demographic conditions, and financial cycles among participating economies.

Purchasing power parity

Purchasing power parity proposes that exchange rates tend to reflect relative price levels over the long term. Although deviations from parity can persist because of transportation costs, tariffs, non-tradable goods, productivity differences, market segmentation, and financial factors, the theory remains relevant to the design of currency-conversion arrangements.

A transition toward a world currency would require an objective and periodically reviewed method for valuing participating currencies. A weighted basket of currencies, output, trade, and financial variables could provide a starting point. However, any formula would involve

normative choices concerning representation and distribution of influence. Technical design therefore cannot be separated from international legitimacy [1-6].

The Marshall Lerner condition

The Marshall–Lerner condition states that a depreciation improves the trade balance, under suitable conditions, when the sum of the absolute price elasticities of export and import demand exceeds one. The condition is useful for analyzing exchange-rate adjustments, but it does not provide a general explanation for all trade outcomes. Trade balances also depend on income, production capacity, supply-chain structures, commodity prices, and expectations [1-7].

Accordingly, our supranational currency can be justified focus on the assumption that it would correct trade imbalances. Our new design can eliminate the exchange-rate uncertainty and could facilitate trade, also the “new world currency” can eliminate uncertainty shock, such as currency volatility. Our monetary integration proposal would therefore require an new international institution to serve the adjustment mechanisms, including labor mobility, fiscal transfers, flexible prices and wages, regional investment, and coordinated macroeconomic policies.

The Mundell–Fleming model

The Mundell Fleming framework examines the interaction of fiscal policy, monetary policy, capital mobility, and exchange-rate regimes in an open economy. Its central implication is that policy autonomy is constrained by the combination of a fixed exchange rate and high capital mobility. This insight is directly relevant to global monetary integration: adopting a common currency would substantially reduce national monetary autonomy. A world currency would therefore require a system of shared decision-making. Participating states would need to accept common monetary conditions while retaining sufficient fiscal and structural-policy flexibility to address local circumstances. Without credible fiscal coordination and financial-risk sharing, a common currency could intensify rather than reduce economic instability [5-6].

Money as a Contractual Institution

This research paper develops a new contractual interpretation of money. In ordinary economic analysis, money is commonly described as a medium of exchange, unit of account, and store of value. These functions can also be understood as institutional arrangements that permit individuals to exchange present goods, services, and labor for claims recognized by a wider community.

Money may therefore be interpreted as a socially validated claim on future purchasing power. When an individual receives money for labor, the transaction creates a temporal relationship:

present time and effort are exchanged for a claim that can be used to obtain goods or services later. Money does not literally replace every private contract, but it provides a standardized and transferable settlement mechanism that reduces the need for direct bilateral contracting.

Our new perspective “New World Currency” interpretation connects microeconomic behavior with macroeconomic institutions. At the microeconomic level, money facilitates specialization, exchange, saving, and intertemporal choice. At the macroeconomic level, monetary institutions determine who may issue claims, how those claims are stabilized, and how gains and losses are distributed across society. The legitimacy of a monetary system consequently depends not only on efficiency but also on property rights, accountability, distributional effects, and public confidence.

The contractual interpretation does not, by itself, establish that a world currency would be superior to national currencies. It does, however, clarify the institutional stakes. A supranational currency would create a common framework for recognizing and settling claims across borders. Its design would therefore need to address questions of representation, enforcement, access, crisis support, and the distribution of monetary authority.

Proposed Model of Global Monetary Integration

A gradual currency architecture

A realistic transition would be gradual rather than immediate. The proposed architecture could consist of four stages:

1. **Settlement stage:** Establish a supranational unit of account for official trade, development finance, and cross-border settlement while national currencies remain in circulation.
2. **Reserve stage:** Permit central banks to hold the supranational currency as a reserve asset alongside existing reserves.
3. **Regional integration stage:** Coordinate participating regional currency zones and establish common prudential, fiscal, and payment standards.
4. **Common-currency stage:** Allow economies that satisfy convergence and governance requirements to adopt the world currency for domestic transactions.

This approach would preserve flexibility and permit institutional learning. It would also reduce the risk that a premature currency union would impose uniform monetary conditions on economies with substantially different structures.

Institutional design

Our innovative proposed global unity money and new global unity monetary authority would require a clear legal mandate centered on price stability, financial stability, and the integrity of international payments. Our proposed framework combines representation based on population, economic weight, and equal state participation with transparent rules for monetary issuance and emergency liquidity assistance. It calls for independent auditing and regular publication of balance-sheet and policy information, alongside by a representative international legislative body. To safeguard fiscal discipline, it imposes strict limits on direct monetary financing of national fiscal deficits, while establishing a resolution framework for sovereign debt and cross-border banking crises. Complementing these measures is a global financial-regulatory framework that addresses capital adequacy, leverage, and systemic risk. The authority should not simply transfer monetary dominance from one powerful state to an unaccountable international institution. The central challenge is therefore governance, the institution must be independent enough to maintain stability while accountable enough to command legitimate public consent.

Innovative World Currency Formula

The initial supranational currency could be based on a transparent basket of regional currencies and macroeconomic indicators. Conceptually, our innovative proposed structure may be represented as:

$$W = \alpha U + \beta E + \gamma A,$$

where W represents the world currency, U the United States dollar domain, E the European currency domain, and A an Asian currency domain; α , β , and γ are weights determined by a publicly disclosed formula. The expression should be understood as a conceptual starting point rather than a finalized policy rule. A currency basket based solely on economic size could reproduce existing power inequalities. A balanced formula would need to consider trade, population, financial-market depth, fiscal sustainability, and the principle of equal participation. The basket would also require scheduled review to reflect changes in the global economy.

Potential Benefits

A supranational currency could produce several benefits:

- (i) Lower exchange-rate uncertainty for international trade and investment.
- (ii) Reduced dependence on the monetary policy of any single national issuer.
- (iii) Lower foreign-exchange transaction costs.
- (iv) Greater diversification of global reserve assets.
- (v) More predictable international settlement arrangements.

- (vi) Stronger incentives for macroeconomic and financial-policy coordination.
- (vii) The bridge of the microeconomics and macroeconomics.

Our innovative proposal is therefore best understood as an institutional reform agenda with currency unification, which aim to prevent crises. Financial crises arise from multiple interacting causes, including leverage, asset-price bubbles, weak regulation, fiscal stress, political uncertainty, and external shocks. A new currency could reduce some exchange-rate and reserve vulnerabilities, but it would not eliminate these sources of instability without complementary reforms.

Contribution:

The central contribution of this paper is to place monetary integration within a broader institutional framework. Money is not merely a neutral technical instrument. It is a social institution that determines how economic claims are created, transferred, valued, and enforced. The international monetary system consequently allocates both economic advantages and political authority.

A world currency could solve the dimension of the Triffin dilemma by replacing a national reserve currency with a supranational asset with a set of international trade as base rule of the regulation. The global system would still need to supply sufficient liquidity while maintaining confidence in the issuing institution. The key issue would shift from the domestic constraints of one country to the governance and credibility of a collective authority.

Our innovative proposal of the “new world currency” can serve as an adjustment tool when economies face different inflation rates, productivity trends, employment conditions, or financial shocks. Removing that tool requires substitutes. Fiscal transfers, labor mobility, regional development programs, automatic stabilizers, and coordinated financial supervision would be necessary to prevent the common currency from amplifying divergence.

The political economy of the proposal is equally significant. States may resist integration because monetary authority is closely connected to sovereignty, national security, and fiscal capacity. The adoption of a world currency would therefore require negotiated institutional change, not merely economic optimization. Trust, legal enforceability, transparency, and equitable representation would be as important as the technical design of the currency basket.

Conclusion

The dollar-centered international monetary system has supported global commerce but also created vulnerabilities associated with reserve concentration, external imbalances, policy

spillovers, and volatile capital movements. These problems justify continued examination of alternative monetary arrangements, so, an establish a single world currency would automatically produce stability and solve the Triffin dilemma. This research paper has proposed a gradual model of global monetary integration based on a supranational unit of account, diversified reserve architecture, regional coordination, and eventual adoption by qualified economies. We also proposed to developed a contractual interpretation of money, according to which money functions as a socially recognized and transferable claim on future goods, services, and labor time. This interpretation highlights the importance of governance, legitimacy, and distribution in monetary reform. A world currency would be feasible only if supported by credible institutions. These would include an independent but democratically accountable monetary authority, transparent issuance rules, fiscal coordination, financial regulation, crisis-resolution mechanisms, and safeguards for regional economic diversity. The proposed new world currency paradigm shift should therefore be understood not as the simple replacement of the dollar, euro, or renminbi, but as a transformation in the institutional organization of international monetary relations. We believed, Global monetary integration can ultimately improve efficiency and reduce certain forms of financial fragmentation. Its success, however, would depend on whether the new system could combine monetary stability with international legitimacy, economic flexibility, and equitable participation. Hope our research can contribute to the world and society.

References

- [1] Cassel, G. (1918). Abnormal deviations in international exchanges.
- [2] Fisher, I. (1911). The purchasing power of money.
- [3] Fleming, J. M. (1962). Domestic financial policies under fixed and under floating exchange rates.
- [4] Gresham, T. (original formulation associated with sixteenth-century monetary analysis). Gresham's law.
- [5] Marshall, A. (1923). Money, credit and commerce.
- [6] Mundell, R. A. (1963). Capital mobility and stabilization policy under fixed and flexible exchange rates.
- [7] Triffin, R. (1960). Gold and the dollar crisis: The future of convertibility.