

World Monetary Integration: A Novel Conceptual Framework for a Supranational Reserve Currency and International Settlement Reform

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Research Scholar

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ABSTRACT

This paper examines the structural limitations of the international monetary system and proposes alternative pathways towards global monetary integration. We consider how reliance on a dominant sovereign reserve currency can generate tensions between domestic policy objectives and international liquidity requirements, with particular attention to the Triffin dilemma, external imbalances, exchange-rate uncertainty, and the transmission of financial instability. Adopting a conceptual and institutional approach, our paper outlines two models of monetary integration. The first coordinates national currencies through currency-swap arrangements and a common currency basket. The second establishes a supranational reserve currency that progressively undertakes monetary functions currently performed by national currencies. Both models envisage stronger international monetary cooperation, supported by a global monetary authority responsible for reserve management, liquidity provision, and monetary coordination. The paper further proposes an international settlement mechanism drawing on an expanded role for Special Drawing Rights, under which collateral-backed access to international liquidity would seek to encourage adjustment in countries experiencing persistent external deficits. Our novel proposed framework aims to reduce currency-conversion costs, mitigate exchange-rate risk, and lessen dependence on any single national reserve currency. Our paper offers a conceptual framework for evaluating the institutional foundations and potential implications of a more integrated global monetary order.

Keywords: international monetary system; global monetary integration; supranational reserve currency; Triffin dilemma; Special Drawing Rights; international settlement mechanism; global monetary governance.

1. Introduction

The definition of currency and the determination of exchange rates have long been central topics

in macroeconomics. The evolution of monetary arrangements and the mechanisms that govern exchange rates have shaped the development of modern monetary economics. Despite extensive theoretical work on equilibrium exchange rates, observed market rates frequently diverge from model-based predictions. This divergence reflects the influence of large-scale capital flows, shifting expectations, institutional arrangements, and the collective confidence of market participants—factors that are difficult to capture fully within any single theoretical framework. Daily turnover in major foreign-exchange markets reaches several trillion dollars. While such volumes facilitate efficient price discovery and risk transfer, they also raise questions about the extent to which exchange-rate movements are driven by fundamentals versus portfolio adjustments, official intervention, or concentrated market activity. These observations suggest that the institutional architecture of the international monetary system itself exerts an independent influence on exchange-rate behaviour and on the distribution of liquidity across economies.

This paper explores pathways toward greater global monetary integration. It begins from the premise that currency and value are closely related, and that the formation mechanism of currency, its institutional backing, reserve composition, and governance, affects exchange-rate dynamics and economic welfare. A more integrated monetary arrangement could, in principle, reduce conversion costs, dampen exchange-rate volatility, and lessen systemic dependence on any single national currency. Realising such an arrangement, however, requires careful attention to questions of sovereignty, legitimacy, and the allocation of adjustment responsibilities. Our analysis proceeds by exploring the structural features of the present system, identifying sources of tension, and outlining two complementary models of reform. The first emphasises coordination among existing national currencies; the second contemplates the gradual introduction of a supranational reserve unit. Both models are presented as conceptual frameworks rather than detailed blueprints, and their feasibility is understood to depend on political as well as technical considerations.

2. Structural Features of the Current International Monetary System

2.1 Historical Context

The interwar experience illustrated the difficulties of operating a fragmented monetary order under stress. During the Great Depression, many central banks hesitated to pursue aggressive domestic stimulus for fear of triggering speculative attacks or depleting gold reserves. Trade barriers proliferated, and the resulting contraction in global demand reinforced the downturn. The gold standard, while providing a nominal anchor, constrained the expansion of international liquidity when the world economy was expanding rapidly after 1945. Fixed convertibility at a constant gold price could not readily accommodate the liquidity demands of postwar

reconstruction and growth.

The Bretton Woods system sought to combine exchange-rate stability with greater flexibility by making the U.S. dollar the principal reserve currency, itself convertible into gold at a fixed rate. That arrangement delivered several decades of relative stability, yet it also generated the tension later formalised by Robert Triffin: the country issuing the reserve currency must supply the world with liquidity by running external deficits, while at the same time maintaining confidence in the currency's value. Over time, the cumulative deficits undermined the credibility of the gold-convertibility commitment, contributing to the system's eventual breakdown in the early 1970s.

2.2 The Triffin Dilemma and Contemporary Implications

Although the formal gold-convertibility link no longer exists, the underlying logic of the Triffin dilemma continues to shape the international monetary system. The currency of a major economy serves dual roles: it is both a domestic medium of exchange and the principal vehicle for international reserves, trade invoicing, and financial contracts. Policy decisions that may be optimal from a domestic perspective, whether regarding interest rates, fiscal stance, or financial regulation, can therefore generate externalities for the rest of the world. Conversely, the global demand for safe assets denominated in that currency can influence the issuer's external balance and, under certain conditions, constrain its policy autonomy.

These tensions are not unique to any single country; they are inherent in an arrangement that concentrates reserve functions in one or a few national currencies. Persistent external imbalances, the asymmetric distribution of adjustment pressures between deficit and surplus economies, and the rapid transmission of financial shocks across borders are recurring features of such a system. Historical episodes, from the interwar period through the global financial crisis of 2007–09 and subsequent regional stresses, illustrate how concentrated reserve status can amplify the international spillovers of domestic financial difficulties.

At the same time, although the present system has delivered substantial benefits: deep and liquid markets, a widely accepted unit of account, and a proven capacity to mobilise liquidity in times of stress through central-bank swap lines and other facilities. But indeed, these systems continue to exhibit the limitations identified above. Accordingly, our novel reform proposal seeks to address these problems by weighing the potential gains in systemic resilience and equity against the risks of disrupting well-functioning market infrastructure and established conventions.

3. Two Models of Monetary Integration

This paper outlines two complementary pathways toward greater monetary integration. They

differ in the degree of sovereignty pooling required and in the speed with which a common unit might assume broader monetary functions.

3.1 Model 1: Coordinated National Currencies and a Common Basket

The first model retains national currencies while strengthening coordination among them. Key elements include expanded networks of bilateral and multilateral currency-swap arrangements, the development of a common currency basket as a reference unit for invoicing and reserve management, and closer alignment of monetary-policy frameworks within regional or plurilateral groupings. Such arrangements can reduce transaction costs, limit disorderly exchange-rate movements, and provide a collective liquidity backstop without requiring the immediate surrender of national monetary autonomy.

Historical precedents include the European Monetary System prior to the euro, various regional swap initiatives in Asia, and the progressive enlargement of the Special Drawing Right (SDR) basket. The model emphasises incremental institutional development: clearer rules for liquidity access, improved surveillance of external imbalances, and voluntary convergence of monetary-policy instruments where mutual interests align.

3.2 Model 2: Progressive Introduction of a Supranational Reserve Currency

The second model contemplates the establishment of a supranational reserve currency issued by a newly constituted or substantially reformed global monetary authority. Over time, this unit would progressively assume functions currently performed by national reserve currencies, serving as a store of value for official reserves, a vehicle for international settlements, and, eventually, a unit of account for a growing share of cross-border transactions. National currencies would continue to circulate domestically, but their international roles would diminish as the supranational unit gained acceptance.

This pathway draws intellectual inspiration from our novel proposals for an international reserve asset insulated from the domestic policy cycles of any single country. Its realisation would require credible governance arrangements, transparent rules for issuance, and settlement, with broad political support sufficient to confer legitimacy. The transition would necessarily be gradual, allowing markets and institutions to adapt while preserving the operational continuity of existing payment and settlement systems.

4. An International Settlement Mechanism Based on Expanded SDRs

Complementing the two models above, the paper proposes an international settlement mechanism that expands the role of Special Drawing Rights (or an analogous unit administered

by a Novel World Monetary Authority). Under this framework, countries experiencing persistent external deficits could obtain temporary liquidity by pledging eligible collateral—financial or real assets meeting pre-agreed quality and valuation standards—in exchange for SDR allocations or equivalent claims. The collateral requirement would create an incentive for deficit countries to pursue adjustment policies, while the availability of liquidity would help avoid abrupt and disorderly contractions in trade or financing.

Countries running persistent surpluses could accumulate additional special drawing rights, which might later be drawn upon during periods of external need. In this sense, the mechanism combines elements of a revolving credit facility with a rules-based adjustment incentive. Our design is practical with valuation of eligible collateral, the calibration of access conditionality, the treatment of surplus and deficit positions over the medium term of drawings rights, and safeguards to ensure that liquidity provision does not merely postpone necessary adjustment.

Our novel proposed arrangement seeks to promote more balanced external accounts without abandoning the principle of comparative advantage in trade. By linking access to international liquidity more explicitly to collateral and adjustment effort, it aims to distribute the burdens of external rebalancing more symmetrically than arrangements that rely primarily on the willingness of deficit countries to contract demand.

5. Potential Benefits and Institutional Challenges

A more integrated monetary order could yield several benefits. Reduced reliance on any single national currency would lessen the transmission of domestic financial shocks through the global reserve system. Lower currency-conversion costs, transaction cost and diminished exchange-rate uncertainty would facilitate international trade and investment. A systematic international trade clearances and rules-based liquidity facility backed by collateral could encourage more orderly external balance of adjustment and reduce the incidence of sudden stops.

These potential gains, however, confront substantial institutional and political obstacles. Monetary sovereignty remains a core attribute of national statehood; any transfer of issuance authority or policy coordination must rest on clear and accepted legitimacy. The design of a global monetary authority would need to balance representation, accountability, and operational independence. Overall, our novel equal-stabilizer mechanism stabilizes the transition path itself, thereby promoting the sustainable and more efficient allocation of global resources and generating broader benefits for citizens worldwide.

6. Conclusion

This paper has examined the nowadays structural limitations of the international monetary

system and proposed a novel conceptual framework for global monetary integration “World Currency.” Our central argument is that reliance on a dominant sovereign currency creates tensions between national policy priorities and the international demand for liquidity, confidence, and stability. Considered through the lens of the Triffin dilemma, these tensions will always create the world financial crisis potential.

Our two models developed in this paper represent different degrees of pathway in monetary integration. The first envisages coordination among national currencies through currency-swap arrangements and a common currency basket, retaining national monetary institutions while strengthening cooperation. The second proposes a supranational reserve currency that would progressively assume functions currently performed by national currencies. Both approaches seek to reduce currency-conversion costs, transaction cost, exchange-rate uncertainty, and feasible pathway on a single reserve-currency issuer, they entail pathway of sustainability commitments concerning in international trade, monetary sovereignty, policy autonomy, and institutional governance as understood to be an alternative pathways as a predetermined stages towards a global world single currency.

A further contribution in our proposed international settlement mechanism, drawing on an expanded role for Special Drawing Rights or a newly established World Monetary Authority. Under this framework, collateral-backed access to international liquidity would seek to facilitate international trade settlement while encouraging countries with persistent external deficits to undertake adjustment. Its effectiveness, however, would depend on the design of collateral requirements, liquidity-access conditions, and adjustment obligations. In particular, the framework would need to reconcile incentives for external balance with the provision of adequate support during periods of financial stress, while addressing the distribution of responsibilities between deficit and surplus economies.

Ultimately, the contribution of this paper depends on framing global monetary reform as an institutional advancement. A credible supranational world currency arrangement would require legitimate and accountable governance, transparent rules for liquidity provision, and an acceptable allocation of risks and responsibilities among participating economies. Further research should formalize the proposed mechanisms, assess their effects under different economic conditions, and compare their feasibility with less extensive forms of monetary cooperation. Global monetary integration is therefore best regarded as a conditional reform agenda: its value would depend not simply on achieving monetary uniformity, but on whether it could deliver a more stable, equitable, and resilient international monetary order. Hope our paper can contribute to the world and society.

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