

Paper prepared for the panel

**A better planet for Keynes's descendants:
heterodox monetary proposals based on commodities standards**

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**Times of branching?
The BRICS currency initiative and twelve possible futures for
the international monetary system**

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In Murau, Rini and Haas (2020), we developed four scenarios for the evolution of the international monetary system by 2040. We conceived the system as a hierarchical structure with the US-Dollar at the top of the hierarchy and various other monetary jurisdictions forming a multi-layered periphery. Currently, the BRICS countries consider setting up a new international currency. A possible future is a world split into two monetary spheres, one dominated by the US Dollar, and the other organized around an innovative international credit currency (ICC). We present twelve new scenarios for the impact the current BRICS initiative might have on the currently dominating US-Dollar System. We show that these scenarios can be conceived as a recombination of the four scenarios of our 2020 article. One scenario is the failure of the BRICS initiative. Eight scenarios depict a variety of ICC, all of them conceived and implemented in a top-down approach. Three scenarios depict evolutionary bottom-up approaches; one focusses on Special Drawing Rights, another on a new class of deposit receipts, and a third one on crypto currencies. We argue that our approach confirms the versatility of scenario analysis.

Keywords: International Credit Currency, Clearing Union, Scenario Analysis, Currency Competition, Hayekian Evolution.

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1. Introduction

In recent years, weaponizing the US Dollar (USD) has given incentives to find ways to circumvent USD use. A rather anarchic, evolutionary search process is going on for evading Western sanctions of Iran, and recently Russia (McDowell 2023). A more structured approach is the discussion among BRICS countries about possible routes to go. A specific suggestion in this discussion concerns establishing an international credit currency (ICC). Western mainstream opinion dismisses this idea as non-viable. A minority opinion in Western countries hopes that a new ICC would be backed by gold and thus be a better store of value compared to established fiat currencies.

In this paper, we introduce scenarios that go beyond these two expectations. We thus build on previous work, namely on Murau, Rini and Haas (2020), Ussher et al. (2018), and Jaeger, Haas and Töpfer (2013).

Jaeger, Haas and Töpfer (2013) discuss a contribution Zhou Xiaochuan, the contemporary governor of the People's Bank of China, made in 2009 (Zhou 2009). In his contribution, Zhou voiced the opinion that it was unfortunate that during the Bretton Woods conference in 1944, Keynes' proposal of an international clearing union (ICU) was rejected in favour of the alternative proposal by White. According to Zhou, the eventual collapse of the Bretton Woods system indicates that the Keynes' approach may have been more farsighted than the road taken in Bretton Woods.

Ussher et al. (2018) argue that, contrary to widespread opinion, Keynes' ideal for international monetary governance was an ICC indexed to a basket of globally traded commodities, and that he kept this ideal until his death. This is, however, just one specific vision for better governance of the international monetary system. In the present paper, we want to mobilise the scenario approach of Murau, Rini and Haas (2020) for creating a portfolio of scenarios of how the initiative of the BRICS countries could unfold. Murau, Rini and Haas (2020) use a sequence of two bifurcations for creating four scenarios for the future of the international monetary system. In the present paper, we enhance their scheme to a more complex sequence of bifurcations that comprises five layers. We are thus able to develop twelve new scenarios.

This paper is organised as follows: In section 2, we recall the four scenarios of Murau, Rini and Haas (2020). Section 3 presents the twelve scenarios of the present paper. Section 4 concludes.

2. The 2020 Scenarios

The 2020 scenarios of Murau, Rini and Haas (2020) follow a logic of sequential bifurcations. The first bifurcation concerns the question whether a major systemic crisis of the international monetary system occurs. In both ensuing paths, a second bifurcation is about whether a logic of cooperation prevails, or not.

These sequential bifurcations provide us with four scenarios, which we are going to present briefly for the present paper. Figure 1 depicts the sequential bifurcations and the four scenarios ensuing from them.

Scenarios I and II: The Evolutionary Path

If no major systemic crisis occurs, we are on a path of continuous evolution. The key question is whether the network externalities of keeping the USD as key currency are sufficient to stabilise

the system as we know it, or whether political or geopolitical forces are sufficiently strong to bring about evolutionary change.

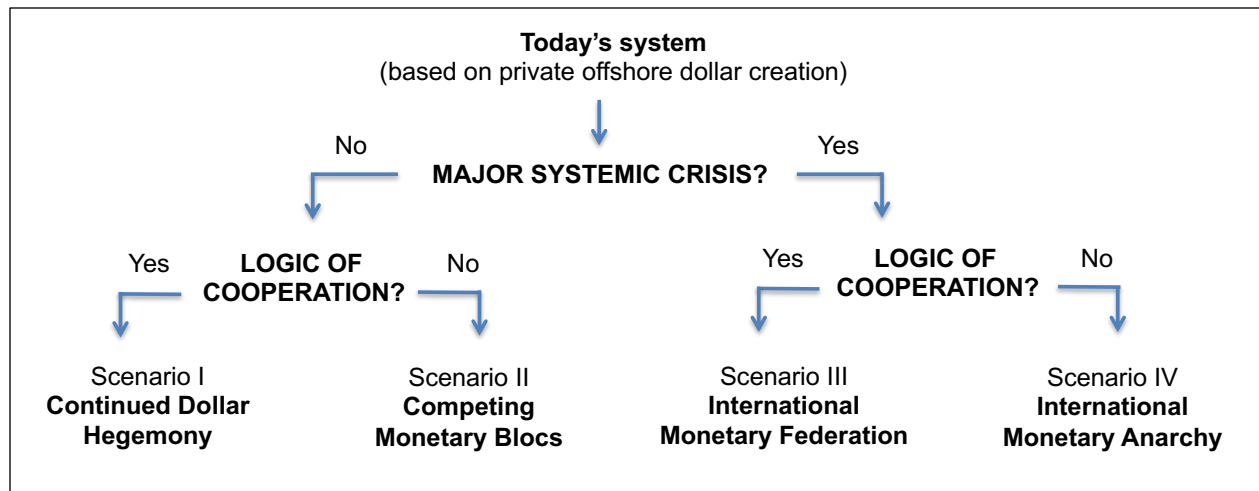


Figure 1: The bifurcation scheme of the 2020 scenarios

Scenario I: Continued Dollar Hegemony

Our first scenario is a business-as-usual scenario. The international monetary system keeps the shape of a single international hierarchy with the USD at its top, and layers of other currencies below. In figure 2, we depict the Euro and the British Pound as examples of currencies of the second layer, and the Renminbi, the Ruble and the Rupee as examples of the third layer. In the figures that visualise the four 2020 scenarios, we reproduce one of the core concepts of these scenarios, i.e. that each monetary jurisdiction comprises the three layers of central banks, commercial banks, and shadow banks. For details, we refer our readers to the original article.

We can expect this scenario if there is no system-changing financial crisis, and the US continues to back the liberal world order. As a complement, the Eurozone would remain in the gridlock of a dysfunctional monetary governance architecture, and China would not succeed in developing the deep and liquid financial markets it currently lacks.

Scenario II: Competing Monetary Blocks

Our second scenario sketches a world in which the Eurozone and China succeed in developing into serious counterweights to the US monetary hegemony. The world is now dominated by three different hierarchical structures that co-exist next to each other. In each of the blocs, the currency of the centre country stands at the top of the respective regional hierarchy and sub-ordinates peripheral monetary jurisdictions (see Figure 3). Exchange rates tend to be fixed within and flexible in between the blocs. As a result, the interconnectedness in finance and consequently trade has been sharply reduced between the blocs. This is a world of financial regionalization.

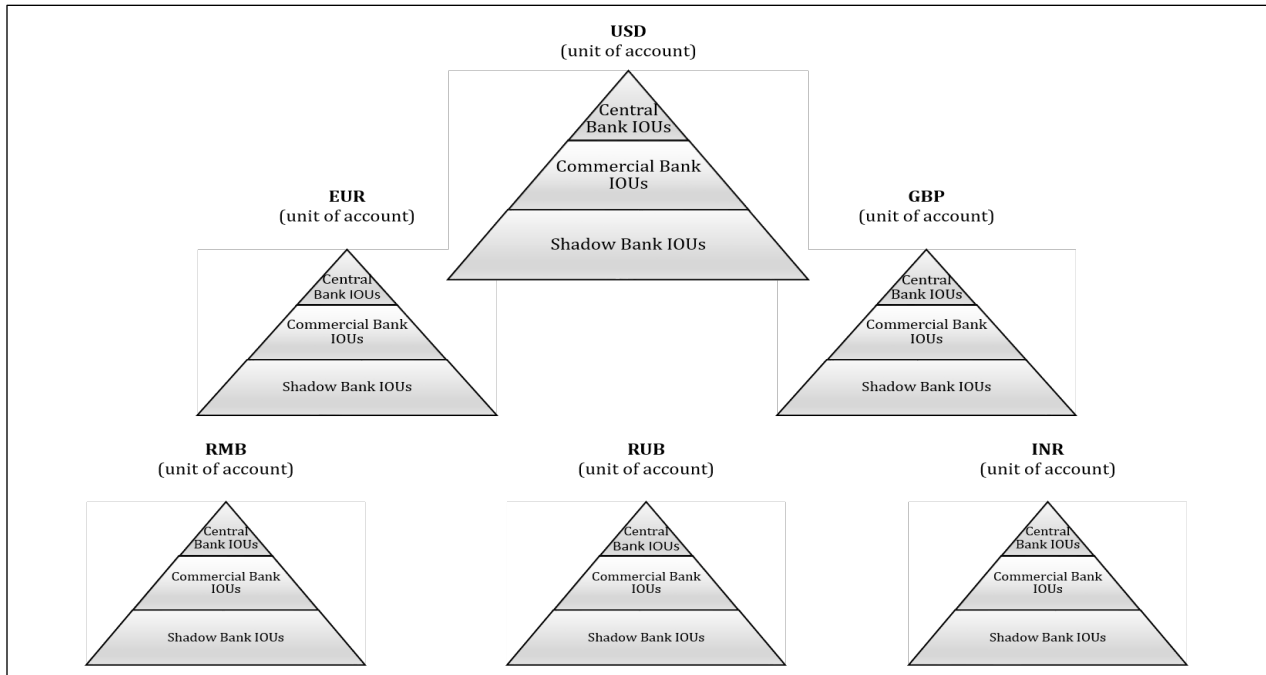


Figure 2: 2020 scenario I: Continued Dollar Hegemony

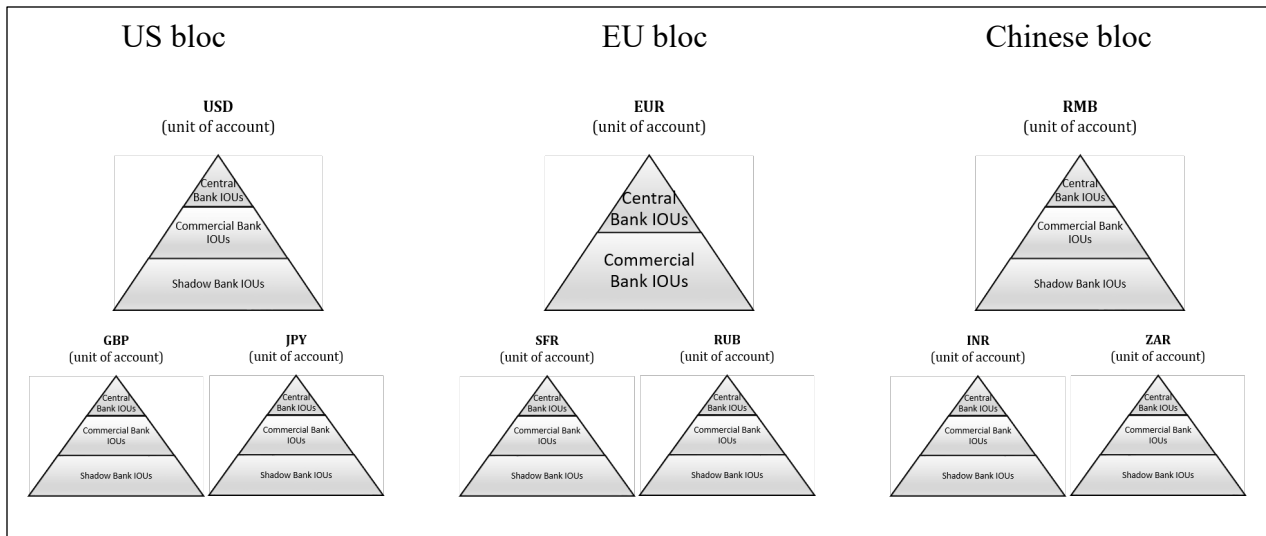


Figure 3: 2020 scenario II: Competing Monetary Blocs

Scenarios III and IV: the Disruptive Path

The disruption of a major systemic crisis of the international monetary system opens avenues for the scenarios III and IV. If this crisis shatters the system, the key question is whether international co-operation can reset the system, or not. There is plenty of ways how one could conceive a reset of the system. The third scenario is just one of them.

Scenario III

Scenario III is the outcome of an emergency after the international monetary system broke down in a cataclysmic financial crisis. In this emergency and under immense pressure from their peoples, global leaders don't have the leeway for developing a new system from scratch, while a reset of the system along the established path is severely challenged by public outrage. In their despair, they resort to a ready-made plan, i.e. Keynes' plan of an International Clearing Union that he prepared for the Bretton Woods conference, but was never implemented. His concept proved to be viable when the European Payments Union of the 1950s, which drew heavily from Keynes' ICU concept, operated successfully. Although the new ICU ensues from a desperate throw, it proves to be operational. A specific feature, which deviates from Keynes' original ICU concept, is that the EU transforms the Eurozone into a European Regional Clearing Union (RCU). Murau, Rini and Haas (2020) call this multi-layered structure International Monetary Federation.

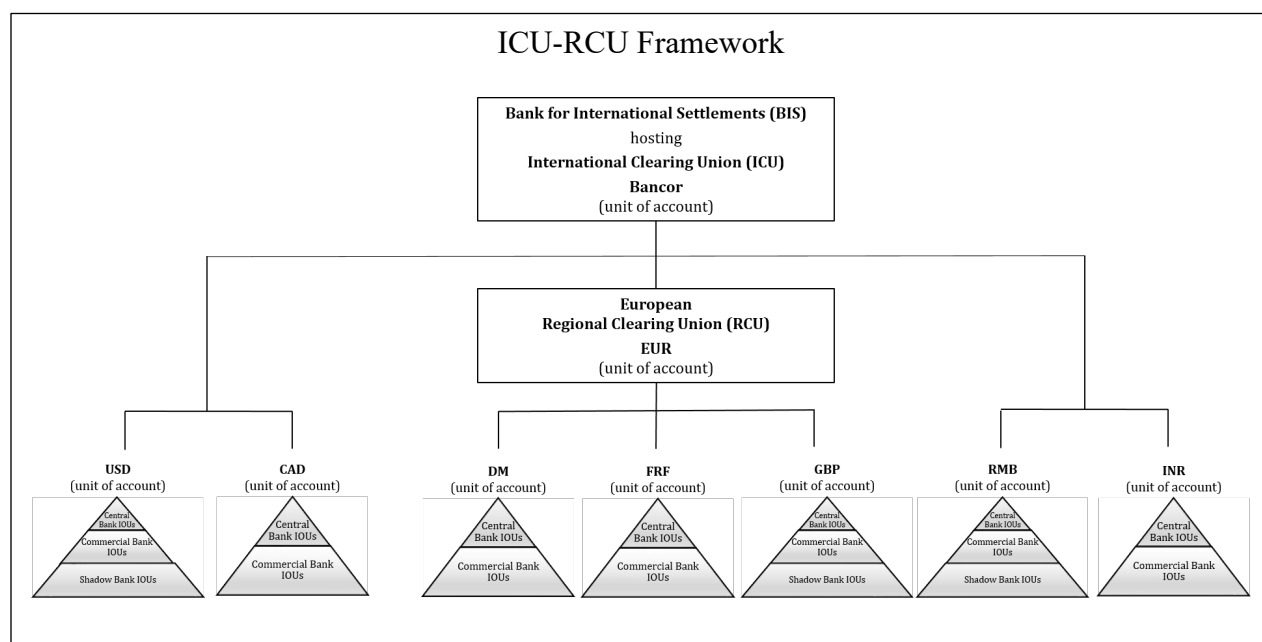


Figure 4: 2020 Scenario III: International Monetary Federation

Scenario IV

In contrast to scenario III, in scenario IV global leaders fail to reset the system. Instead, *International Monetary Anarchy* prevails. Convertibility between different units of account can no longer be taken for granted, and international trade and financial transactions largely come to a halt. Financial globalization has given way to a world of financial disintegration.

In this world, in which all states are on their own, states are forced to experiment with various schemes and tools for restarting international trade and finance. Many of these experiments fail, but some prove viable for the time being.

Among the 2020 scenarios, scenario IV was the only scenario that saw cryptocurrency raise to systemic importance (Davidson, De Filippi, and Potts 2018).

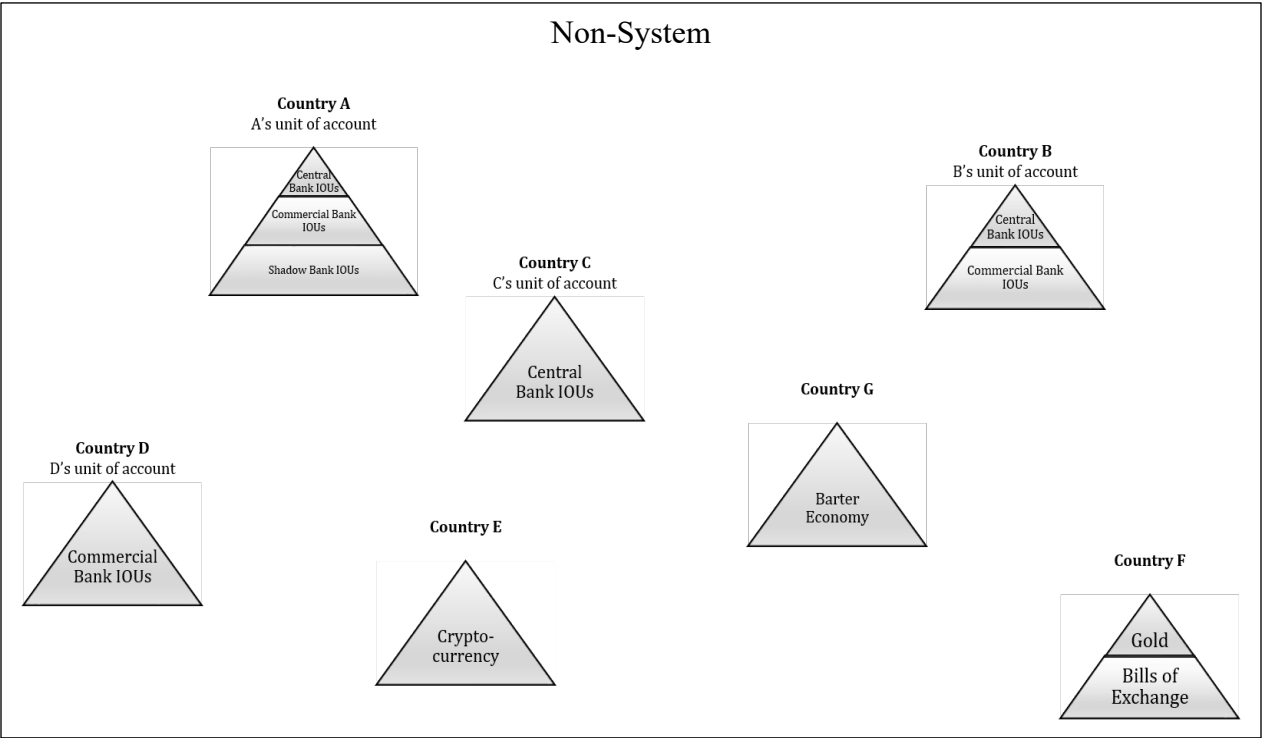


Figure 5: 2020 scenario IV: International Monetary Anarchy

3. New Scenarios for the International Monetary System

For our new scenarios for the International Monetary System, we once again apply the method of sequential bifurcations. We interpret the ensuing scenarios as recombination of our 2020 scenarios.

The first bifurcation

The first bifurcation concerns the question whether the current BRICS initiative, or any other initiative, will have a decisive impact on the international monetary system. If not, we are left with the 2020 business-as-usual scenario I of *Continued Dollar Hegemony*. In order to create a comprehensive new set of scenarios, we call this our new scenario N1. If, however, an initiative does succeed, we enter the world of our second scenario from 2020, i.e. *Competing Monetary Blocs*. What sets our new scenarios apart from our 2020 scenario II is that in the 2020 scenario II, the global monetary system is made up of three regional monetary blocs, whereas in the present paper, a success of the BRICS initiative results in two monetary spheres: the USD is not contested in North America and in the EU, whereas in the rest of the world, the USD is still in use, but no longer the key currency. Figure 6 shows the first bifurcation.

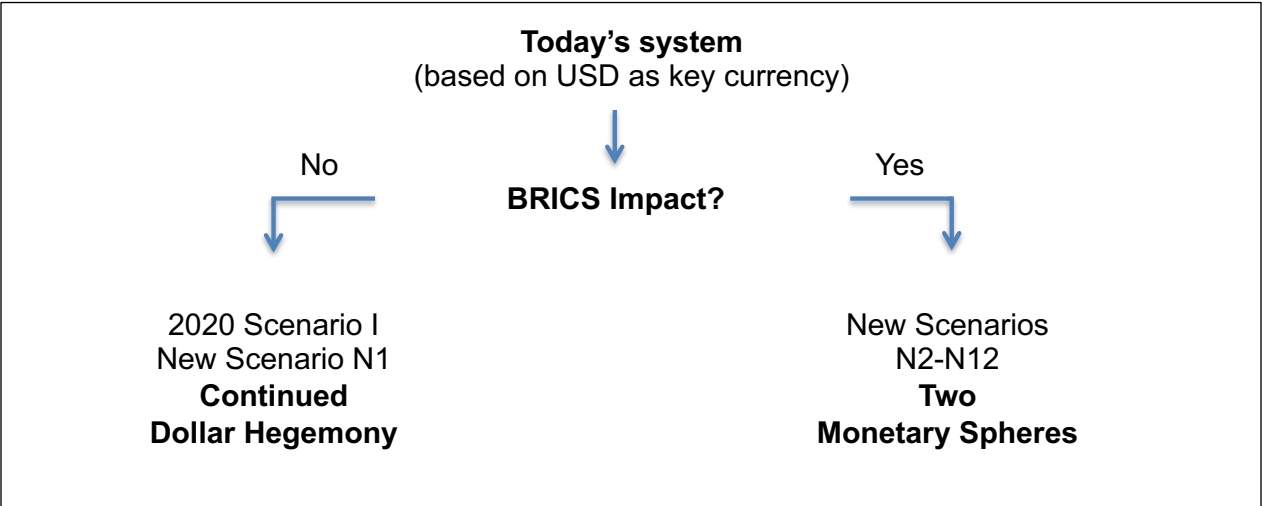


Figure 6: First bifurcation—BRICS impact

The second bifurcation

The second bifurcation is about the question whether the BRICS initiative, or any other initiative, can implement a top-down approach, or not. A top-down approach would mean that the leaders of the initiative identify and implement a specific approach. The left branch of our second bifurcation recombines features of our 2020 scenarios II and III. A top-down approach is not the only conceivable future. As alternative, we suggest a bottom-up scenario of *Hayekian Currency Competition*. This scenario combines features of our 2020 scenarios II and IV.

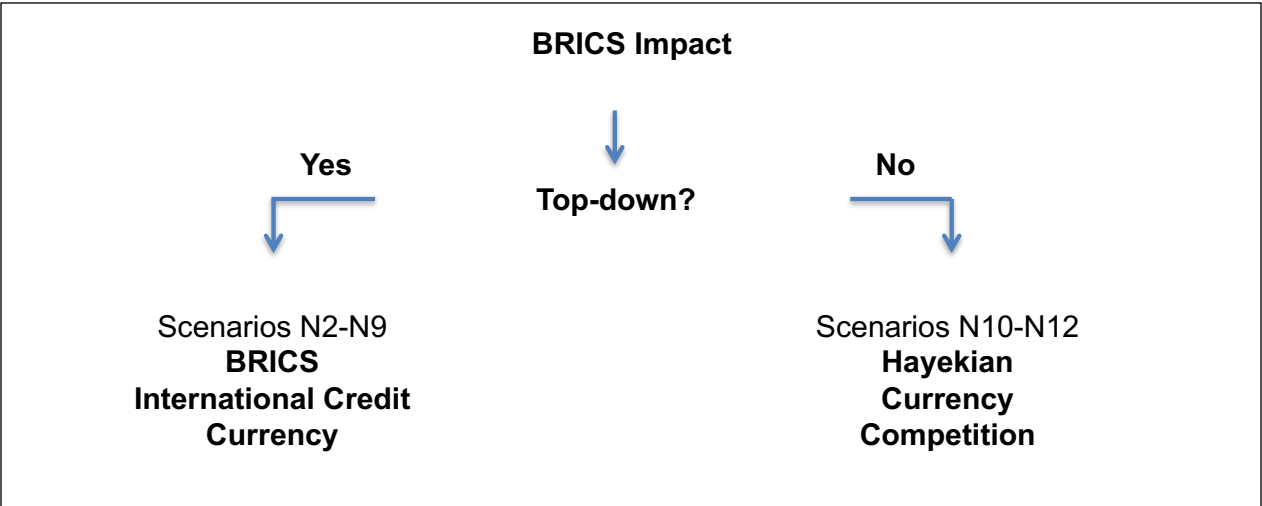


Figure 7: Second bifurcation—top-down vs. bottom-up

The Top-Down Branch

The third bifurcation

Concerning the top-down branch, we focus on the question of how a new ICC would look. Our third bifurcation concerns the question whether the leaders of the initiative follow a comprehensive, systemic approach. If so, they would not just establish an ICC, but complement it with institutions and rule sets for making it sustainable in the long-term. In particular, this comprises measures for keeping macro-economic imbalances in check, both within and between states. As this was a key concern of Keynes when he conceived his ICU, we suggest an ICU as our new scenario N2 for a comprehensive approach. In contrast to our 2020 scenario III, the N2 ICU does exclude North America and the EU. It thus combines features of our 2020 scenarios II and III.

The alternate branch of our third bifurcation shows a “pure” ICC that is not complemented by institutions and rule sets that are comparable to an ICU. In order to set such an ICC apart, we call it a *lean ICC*. Nevertheless, a plethora of institutional arrangements are conceivable for such a lean ICC.

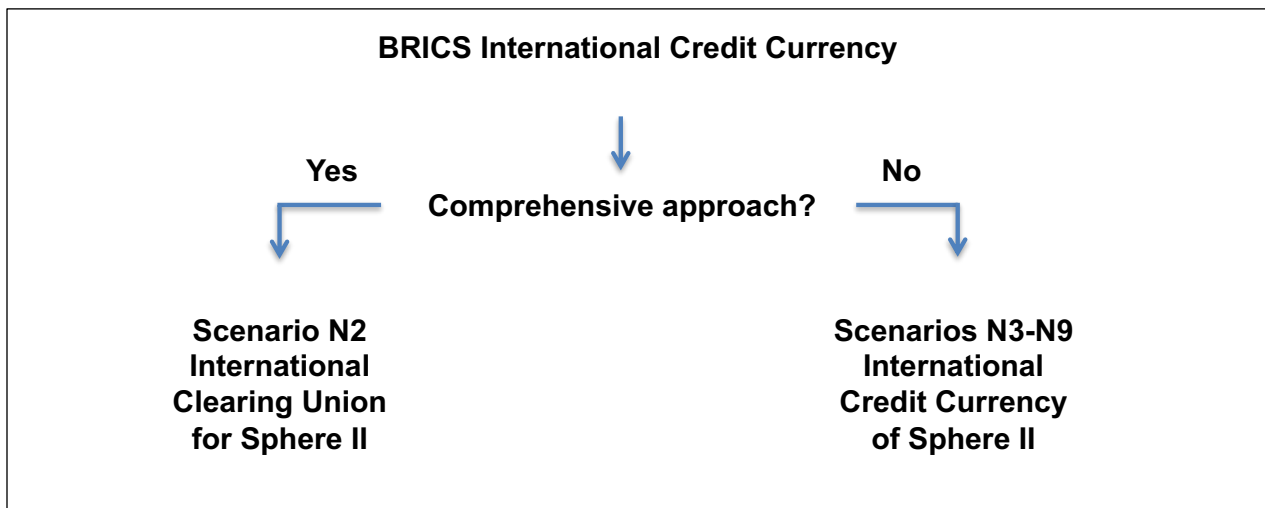


Figure 8: Third bifurcation: Comprehension of approach

The fourth bifurcation

The fourth bifurcation is devoted to the question of how lean this lean ICC actually is. The leanest alternative would be to set it up as international fiat currency. This is our new scenario N3. An international fiat currency raises some intriguing conceptual questions. Even if it is issued by an international central bank (ICB), it is not the currency of a specific state. One does not need to be a chartalist for identifying the issue that such an ICC will not be empowered by the ability or necessity to pay taxes with it. This raises the question of how sustainable such a super-lean ICC would be.

The history of economic thought provides many suggestions how to make currencies in general, and international currencies in particular, sustainable. Various schemes for indexing and backing currencies have been proposed. This is what our fifth bifurcation is concerned with.

The fifth bifurcation

Backing a currency by a specific asset means that the currency and the asset are basically exchangeable. This means that a holder of this currency could redeem a specified amount of the linked asset from the issuer of the currency upon presentation of the currency; the classical examples are currencies backed by gold, silver, or US dollars, for example the Argentine peso in the 1990s.

Indexing a currency is a short form for a scheme that makes one unit of a currency match the value of a specific index. This would be accomplished by open market operations of the ICB which issues the ICC. Such a scheme is also known as a targeting scheme, meaning that a currency “targets” a specific index.

In this paper, our scenarios N4 to N9 suggest three specific backing and three specific indexing schemes. For more details about backing and indexing cf. de Largentaye and Ussher (2023).

i) Three Backing Schemes

Scenario N4 addresses suggestions to back an ICC by gold. In some respect, it is re-establishing the gold standard, but differs to it as a gold-backed ICC would be an international currency and not the currency of a specific state.

Scenario N5 uses primary commodity inventories for backing an ICC, whereas N6 backs an ICC by equities as suggested by Pringle (2012).

ii) Three Indexing Schemes

Our new scenarios N7-N9 are set apart by the specific index which they target. In scenario N7, the ICC targets an index of primary commodities, in N8 a specific price index as suggested by Coats (1994), and in N9 an ecological index.

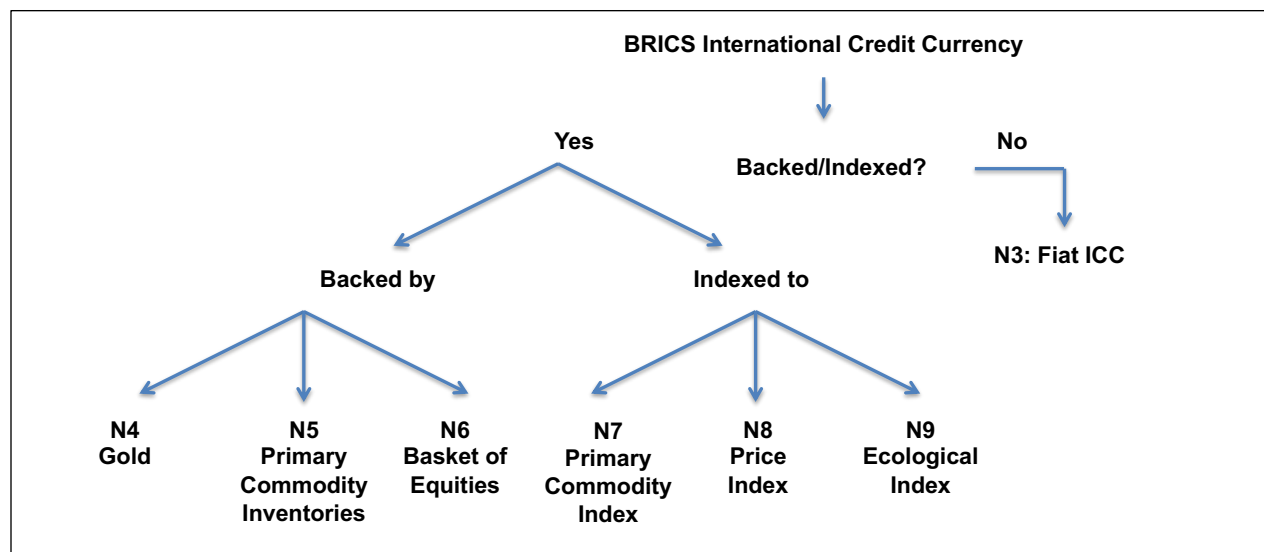


Figure 9: Bifurcation layers four and five—Fiat ICC, backing and indexing schemes

The Bottom-Up Branch

The bottom-up branch of our second bifurcation shows a rather different world compared to the top-down branch. Our respective new scenarios N10 to N12 combine features of the 2020 scenarios II and IV and depict a world of *Hayekian Currency Competition*. In these two scenarios, it is not the leaders of the initiative that conceive and implement a singular new ICC top-down, but the actions of various actors that experiment with a diversity of approaches. The set of actors comprises both public and private ones.

Scenarios N10-N12 differ in the main tool used for challenging the USD as global key currency. The main tool of N10 are special drawing rights (SDR). The main tool of N11 is a new class of deposit receipt securities. The main tool of N12 are crypto currencies.

The SDR-centred Scenario N10

Zhou (2009) suggested an evolutionary process of social learning. As a practical measure, the first steps would see a strengthening of the role of SDR. Zhou mentioned creating SDR-denominated financial assets, which would probably need guidance by and support of governments but would mainly be accomplished by private actors. This avenue would not need to start with an agreement among IMF members, which would seem to be out of reach, anyway, for the foreseeable future. It is conceivable that SDR-denominated financial assets could develop into an alternative for the USD for trade and finance in some regions.

The ERA Scenario N11

Scenario N11 concerns the evolution of the Earth Reserve Assurance (ERA), a concept developed by Potvin (2023). ERA is designed to be implemented slowly through existing currencies, and in this manner it also accommodates the current global shift towards diversification of Money-in-Trade. This multi-currency system does not give rise to a distinct currency unit, as it has no requirement for a central reference unit. Rather it is a novel type of commodity reserve system in which the valuation methodology is based on each currency zone's own capacity for the production of primary commodities.

The Crypto currency Scenario N12

In scenario N12, both public and private actors create a variety of alternative currencies that compete with and complement each other in the ecosystem of international trade and finance. Again, as in the 2020 scenario IV, scenario N12 opens avenues for experimenting with crypto currencies. Some of them are central bank crypto currencies, many of them are private crypto currencies. In an evolutionary dynamics, the outcome of which is unknowable, many of these crypto currencies will fail, but some will prevail.

Some of these crypto currencies will be linked to commodities, or ecological indexes.

In the short to medium term, the main use of these crypto currencies is facilitating international trade while avoiding the respective use of USD.

In the longer term, the open question is whether deep markets with all the financial engineering as established for the USD and the Euro will develop, or not. If so, the route is open for relegating the USD into a minor role in the sphere then dominated by crypto currencies.

If leaders of involved countries find that support for multilateral trade should be further improved, they might even go for a combination of scenarios N12 and N2 and implement an ICU in the longer term.

4. Conclusion

In this paper, we demonstrate the versatility of scenario analysis for identifying alternate futures of the international monetary system. This is not a forecasting exercise, but an exercise for mapping the landscape of possibilities.

Our paper builds on and recombines the four scenarios put forward by Murau, Rini and Haas (2020). Like in that paper, we use a sequence of bifurcations for creating scenarios. With five layers of bifurcations, we derive twelve new scenarios.

The present paper is devoted to the question of whether the BRICS, or any other initiative, will succeed in establishing an international credit currency (ICC). Our new scenario N1 depicts the case that this attempt fails, and the USD prevails as the global key currency. This scenario is identical to the 2020 scenario I of *Continued Dollar Hegemony*.

If the attempt, however, succeeds, it results in two monetary spheres. The USD is not contested as key currency in North America and the EU. In the rest of the world, the USD is still in use, but no longer the key currency.

The monetary sphere, in which the USD is no longer the key currency, looks rather differently, depending on whether the establishment of an ICC will be accomplished in a top-down approach, or whether an ecosystem of alternate currencies will develop in a bottom-up driven evolutionary dynamics.

Our new scenarios N2-N9 sketch specific outcomes of a top-down approach. N2 shows a full-fledged International Clearing Union for Sphere II, whereas N3-N9 show a variety of lean ICCs, depending on whether an ICC is a genuine fiat currency, or is whether it is indexed or backed.

In contrast, scenarios N10-N12 depict evolutionary bottom-up approaches, in which N10 focusses on Special Drawing Rights, N11 on ERA, which is based on a region's capacity for the production of primary commodities, and N12 on crypto currencies.

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