

## THE FUTURE OF THE DOLLAR AS A WORLD RESERVE CURRENCY IN NEW INTERNATIONAL CIRCUMSTANCES

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**Abstract:** The US dollar is the world's reserve currency, and it is also the currency most often used for trade and other international transactions. Due to the current geopolitical, economic and monetary developments, it is evident that a large number of countries are looking for ways to move away from the dominance of the dollar, as the leading world currency. The risk of de-dollarization has increased recently, partly due to the current Russian-Ukrainian crisis, as well as American economic sanctions against certain countries, and partly due to the growing role of the BRICS countries in the world economy. This paper argues and proves the hypothesis that the dollar as the world's reserve currency and the international monetary system are two sides of the same coin, that a complete loss of confidence in the dollar leads to the collapse of the global monetary system and vice versa, as well as that the destruction of the monetary system would lead to the disappearance of the dollar. The paper elaborates on dollar as a reserve world currency, theories of money, the dollar as a debt, deficits and monetary equivalents, the dollar and free markets, the IMF as a world bank and the SDR as a world money, the demand for gold as an indicator of distrust in the dollar, new global players and the world reserve currency, BRICS expansion and de-dollarization, and it is finalised with concluding remarks.

**Keywords:** international monetary system, dollar, deficit, de-dollarization, free markets, BRICS

## **1. Introduction**

The relationship between the dollar as the world's reserve currency and the IMS (International Monetary System) rests on the premise - a complete loss of confidence in the dollar leads to the collapse of the IMS and vice versa, the destruction of the IMS leads to the disappearance of the dollar. "The dollar is like a peg. If that peg falls out, the whole system will fall apart, and the dollar and the system are one and the same" (Rickards, 2017:7). The more recent history of the US dollar as the world's reserve currency and guardian of value testifies to the periods of declining confidence in the dollar and the dollar panic at the end of the 70s of the last century with the abolition of the gold standard. Without the monetary intervention of the FED, the IMF and the US administration, the dollar would have had a hard time surviving the economic crisis. Rickards believes that the dollar crisis today testifies to the fact that the world economy has not reached a new normal after the financial crisis, and that old tools such as general equilibrium models cannot help us explain the situation. Indicators of the state of the IMS crisis and the dollar are internal and external, debts and deficits lead to pressures on the

dollar by many countries around the world, then, gold rush, cyber financial attacks, risks of a financial world war, loss of confidence of people and central banks in the purchasing power of the dollar (Rickards, 2017:13). The dangers are real and visible in monetary theory as (targeted) inflation and the illusion of money. Inflation is partly a monetary phenomenon that manifests itself as money printing, but it is also the result of behavior in the form of lending and spending. Inflation is a rise in prices that is influenced by the Federal Reserve System on a global level. On the other side is deflation, that is, a general decline in consumer prices and property values, which leads to liquidity traps. Deflation slows the growth of nominal GDP, and increases the real value of government and private debt and makes it more difficult to repay and represents the risk of market collapse (Rickards, 2017:18). The problem of deflation is related to the stability of the banking system and systemic risk. A special aspect of deflation is its impact on tax collection.

Deflation is a natural phenomenon in a recession. Corporations are faced with declining returns, individuals with unemployment and the sale of assets to repay debts. As

consumption declines, asset sales continue, with a direct consequence of deflation being a drop in prices. In addition to endogenous threats to the dollar such as the Fed's uncontrolled money printing and galloping inflation, there are also exogenous factors such as pressure from the BRICS countries, oil producers and developing countries to change the monetary rules of the game and abolish the American monetary hegemony and create a new monetary standard (gold, special drawing rights, network of regional reserve currencies). It is difficult to accept Rickards' thesis that the system has gotten out of control and that these are the last days of the dollar and the existing world monetary system, but it is also harder not to accept the new reality, economic and monetary, about the changed state of the world economy, new global players on the world economic stage, new technologies and different loyalties. We can agree with Walker, if people have confidence in the dollar, they will overcome any problem.

However, the signals coming from the global economic system testify that confidence in the dollar is disappearing. After the Russian invasion of Ukraine, as well as the American economic sanctions against certain countries, it is shown

how much dependence on the dollar can threaten the economies of the countries that are under attack. Therefore, many countries are looking for alternatives to the US dollar in order to reduce dependence, and some are even thinking about introducing their own currencies. China plays a significant role in the de-dollarization process. It has taken important steps to modernize and liberalize its financial system. This led to increased investment in Chinese bonds and a rise in official yuan reserves, indicating a strengthening of the yuan as a competitor to the dollar (<https://www.visualcapitalist.com/de-dollarization-countries-eeing-alternatives-to-the-u-s-dollar/>). The causes of the decline in confidence in the dollar are of a monetary nature, the dual spectrum of inflation and deflation, as well as the failure of monetary policy holders to understand the essence and seriousness of the problem. The decline in confidence in the dollar as a reserve global currency is also shown by the strengthening of virtual currencies in the digital economy, such as bitcoin, as well as the world of transactions without any currencies, the electronic market for barter transactions (Rickards, 2017:327). Therefore, non-monetary exchange or barter economy belongs to the

future. True, no regional currency is quite close to becoming the world's reserve currency, but all are relatively strong enough to carry out significant trade transactions and thus depreciate the dollar.

## **2. The dollar as a world reserve currency – theories of money**

"I think that this current global civilization has exceeded its limits, because it has created such a cult of money. Today and here there is no consensual position on the concept of money, its economic functions and legal nature" (Rikards 2017:212). According to Aristotle, everything must be expressed in money, because it always enables us to exchange services and makes life in the community possible. Money is value, for an individual it is part of wealth, assets less liabilities, net worth. All monetary economies are money economies. Money is a liquid asset, it is easily exchanged for other values with certainty regarding the nominal value. All obligations of a property legal nature can be reduced to money. Fulfillment of both monetary and non-monetary obligations is done by payment. Global currency, as well as national currencies, has three important functions, calculation, as a unit of measure-

ment of the value of goods and services, exchange and value custodian function. For the international role, it is important to highlight the anchor currency in the fixed exchange rate regime (Goldberg, 2011). Rickards believes that money, the dollar, is something that people "make, spend or save, as a means of exchange, a keeper of value and a unit of measure" (Rickards, 2017:213).

The essential properties of money as a commodity *sui generis* (in the political economic sense) are; portability, durability, divisibility, standardization, recognition. Monetary economies know commodity and fiduciary money. Commodity money consists of goods in the physical sense, leather, axe, wool, gold, silver. The mentioned goods had a monetary and non-monetary value. Later, commodity standards were established, using a monetary token linked to the value of a physical commodity, gold or silver as a base. Paper money is a representative of money, whose transaction costs have been significantly reduced. Fiduciary money (*fiducia*, trust) has little value (money value). It is issued by the state, central banks and depository financial institutions. The value of payment rests on the belief that people can

exchange money for goods and services. Current accounts and currency are money because they are accepted in the exchange of goods and services. The value of money, purchasing power follows price movements. Fiduciary money was preceded by the gold standard, where the national currency was defined in units of a fixed amount of gold. The government guarantees the convertibility of currency into gold at the official price, as requested.

## 2.1. Legal properties of money

In the legal sense, money as an equivalent of value and a legal means of payment requires state regulation and coercion. Monetary obligations are fulfilled in a monetary unit that is legal tender in the country of payment. Determining the currency as a legal means of payment belongs to the monetary sovereignty of the state as an important part of its sovereignty. Execution of monetary obligations is made possible by imperative norms prescribed by the state. Payment is made in money as legal tender. Therefore, in addition to the economic value of money, it is necessary for the state government to declare a certain monetary unit as a

legal tender, as well as the willingness (trust) of people to accept certain money in legal circulation.

The legal properties of money are, a movable thing, a consumable thing, the owner of a certain money can use it only once in legal transactions, a generic thing, determined by gender, banknotes are not securities. Banknotes are issued by issuing banks and, unlike securities, are legal tender. By issuing banknotes, the issuing bank does not assume any property legal obligation, nor does it receive any consideration for issuing them. Banknotes are valid until they are withdrawn from circulation and replaced by other banknotes due to changes in regulations. Securities are private legal documents whose turnover depends on the trust of customers. Unlike banknotes, which are denominated in round sums, securities can be denominated in any amount, which depends on the obligation of the issuer of the bond (Jankovec, 2013:17). With the digital economy, money, as an electronic record, becomes a sign, information, bitcoin, a new currency, attention. According to Rickards, the dollar is money, money is value. Value is the idea of metrics, the way of measuring the existence or degree of value of debt is the idea of trust consistent

behavior in terms of reciprocal or altruistic acts (Rikards, 2017:215).

Some relevant monetary theories of money are:

1. The contractual theory of money (contractualism) is a monetary theory that replaces the word money, which has intrinsic value, with the word debt. The Federal Reserve System issues the dollar, following the model of a written contract. Dollar contracts are signed by an agent (minister) on behalf of the people. A dollar bill is an obligation of the Fed, a form of debt, that bears no interest and has no maturity date. During the time of the gold standard, the dollar was a paper debt instrument backed by gold as an unparalleled solid asset. A dollar contract is assigned value both now and in the future. If the economy is functional, the dollar is useful and the implementation of the contract is satisfactory (Rickards, 2017:218). The gold standard as collateral reinforces the money contract and represents the link between real gold and paper money (notes, shares, certificates). The exchange rate between paper money and gold should be fixed and maintained. The monetary price of gold is a measure of the performance of the FED and the Ministry of Finance in the

implementation of contracts (Rickards, 2017:219).

2. Monetarism is the most influential quantitative theory of money (Irving Fisher and Milton Friedman). A variant of the quantitative theory of money is the quantitative theory of credit (Richard Duncan, creditism), the idea of money is reduced to the idea of credit, the creation and expansion of credit is the focus of monetary theory and policy.

3. State theory of money (chartalism) John Maynard Keynes, money has value, because the state can claim "that money in the form of taxes." This relationship between money and the state means that the extrinsic value of paper money is greater than its intrinsic (internal) value. values, because money is the medium through which the state manifests its power. Adopting Chartalism, Keynes called for the abolition of the gold standard. The common denominator of the aforementioned dependent" theories is the belief in paper (fiat) money, money without cover, the state dictates that it be so.

### **3. Dollar as debt, deficits and cash equivalents**

In the American monetary system, in which the largest debtors are the Ministry of Finance (Treasury) and then the Federal Reserve, treasury bills play an important role, although they are not classic money, they are the most liquid in company balance sheets and figure as cash equivalents. Unlike Federal Reserve notes, which can be printed indefinitely and remain outstanding, Treasury bills are subject to bond market discipline, bear interest, and have a maturity date. If the Treasury guarantees to pay the remaining debts, the market gladly accepts treasury bills with favorable interest rates (Rickards, 2017:221). In the history of government debt instruments, it was shown that the bond market was between a state of security and panic, especially the European markets were vulnerable until 2012, until the ECB's guarantee came, that it would buy all government debt instruments and thus preserve the euro as a political project. In recent years, the purchase of government securities with money issued by the Federal Reserve accounts for a large percentage of new debt instruments issued by the Treasury, thus loosening monetary conditions and monetizing

debt by reducing the value of the dollar (Rickards, 2017:222). Debt is also a political category, in itself it is neither positive nor negative, everything depends on the economic results of investment, it hurts if it serves to finance the deficit and additional borrowing. Debt levels are not automatically too high or too low, what matters to creditors is the trend of those levels in relation to sustainability.

There are three conditions for the debt to be useful for financing state spending, greater benefit than costs, state spending serves to realize exclusively public projects that the private sector cannot realize on its own, and the overall level of debt is sustainable (Rickards, 2017:224). The question of the sustainability of the debt level is also relevant, so the Federal Reserve can monetize every amount of debt that the Treasury issues until the point of collapse of confidence in the dollar (Rickards, 2017:227). The gold standard was a way of limiting the discretion of monetary policy, if it was loose it had to be tightened with a new inflow of gold. During the period of the strong dollar standard, it maintained its purchasing power as measured by price indices and served as an anchor for countries looking for a monetary reference point. Today

there is no reference point, no gold standard, no dollar standard, no Taylor rule. As the bearer of the global dollar contract between the American people and creditors, the Federal Reserve must safeguard the trust of its noteholders. The world monetary system consists of the trinity, debt, deficits and the dollar, this hub must be handled carefully.

In the American system of government finances, monetary policy (FED) and fiscal policy, taxes and consumption (White House and Congress) operate. The skill of monetary policy is to increase inflation without increasing borrowing costs, and to ensure the sustainability of the primary deficit and, if necessary, quantitative easing. The Federal Reserve uses a stick and carrot technique. The stick is an inflationary shock to scare consumers and induce them to spend before the price jump, the carrot represents a negative real interest rate to encourage borrowing money to buy risky assets (stocks and bonds). At stake are unemployment rates, target inflation rates, borrowing costs and quantitative easing. The Federal Reserve is faced with the illusion of money, uncontrolled emission does not lead to real growth, but leads to the illusion of growth due to the increase in

nominal prices and nominal GDP growth. According to Stein, the policy of low interest rates can realistically lead to an increase in the prices of risky assets, shares and real estate. Namely, the invisible risk network increases systemic risk and leads to crises. According to Stein, the Federal Reserve should stop the policy of quantitative easing and thus prevent the accumulation of hidden risks in financial institutions (Rickards, 2017:243).

The instruments of the Federal Reserve in bank control are not negligible and ineffective, reserves for losses, dividend policy, stress tests, acquisitions, capital adequacy, market discipline. The Federal Reserve, caught between the role of the owner of the money contract and the savior of the national debt, must succeed or fail in both roles, he believes (Rickards, 2017:244).

#### **4. The dollar and free markets**

The concept of market includes prehistoric commodity exchange, medieval market, modern capital markets, up to modern digital markets. Markets are more than just places where buyers and sellers, speculators, dealers and bankers meet to sell goods and services. The digital economy has affirmed the place as an

abstract location, a digital space, and the encounter is reduced to a passing contact. Modern markets involve the exchange of information about the prices of goods and services. Information about returns on sales and returns on investment have more value than the transactions they refer to (the wealth of the modern Internet company Blomberg) because they are the fuel for increasing sales and investment. Central banks control the value of money and thus indirectly influence every market, trying to dominate and subjugate it to their own will. Today, the priority problems of central banking are deflation and low nominal growth.

Since 2008, instead of being a place for creating wealth, the markets have become a place for expropriating (extracting) wealth (Rikards, 2017:96). The money injected into financial flows, then withdrawn in the recent banking and financial crisis in the USA, and that by monetary policy measures, further accelerated the disintegration. Joseph Stiglitz points out that inflation is not so much an evil as when financial markets become fragile, the losses are enormous (Stiglitz, 2013:327). According to A. Smith, free markets are the antithesis of central planning, because no planner can manage a system of ordered components.

Hayek focused on information, namely that no individual, commission or computer program" will possess all the information in order to construct an economic system. Knowledge is not concentrated in one mind, it is in parts of often incompetent and contradictory knowledge (Hajek, 1945).

Therefore, central planning is undesirable, suboptimal and theoretically cognitively impossible. An argument in support of this position is the theory of computational complexity in the digital economy in recent times, which testifies to the diversity and adaptability of human actions that exceed the power of human or machine optimization. Financial bubbles appear in the financial and real estate markets that harm the economy and the rich bankers and brokers. Printing money without cover is the most visible malignancy, the second type is the export of inflation from the US through the exchange rate mechanism. The trade partners of the US, in order to protect themselves from the import of inflation, must increase their own money supply to defend against the flood of dollars in the form of surpluses or investments. Deflation, which is becoming a natural monetary condition, was imported by the US from China by

importing cheap goods, produced by a large labor force with an undervalued currency (yuan). The Federal Reserve successfully lowered interest rates in response to deflation. However, as a result, low interest rates created bubbles in real estate prices. The real sector felt the ugly consequences of the real estate bottom in the fact that construction jobs disappeared and the unemployment rate increased, which further fueled deflation. Monetary policy at the global level is in a clinch, between inflation and deflation. Deflation is endogenous derived from the productivity of emerging markets, demographic changes and lowering the level of financial indebtedness, i.e. optimizing the balance sheet by reducing leverage (Rikards, 2017:105). Inflation is exogenous, it arises from the interest rate policy of the central bank through the emission of money.

The FED's zero interest rate policy is transferring \$400 billion worth of wealth from American citizens to big banks, and it has also hurt lending to small and medium-sized businesses. Financial institutions prefer derivatives strategy, use swaps and options to achieve planned returns. Derivatives are off-balance sheet, they do not require as much capital as loans do. Too low interest rates lead to

inflation and a negative real interest rate, which harms capital formation and leads to poor returns on shares (dividends). If potential growth is overestimated, monetary policy is rigid, stocks fall, and the economy enters recession. Deflation strengthens the dollar, then weakens the dollar value of gold and other goods. The modern market is asymmetric, information is asymmetric and imperfect. The problem of the modern economy is the risk of uncertainty, regime uncertainty caused by budget changes, tax policy, health and environmental regulations. Investors are faced with the dilemma of investing or waiting. Rickards notes that free markets are a matter of efficiency, they are imperfect, but they are a better alternative, because free market information is more reliable. Capital hopes for the return of real markets. If the usefulness of the market disappears, the real economy and the dollar will slowly disappear (Rickards, 2017:118).

## **5. The IMF as the central bank of the world and the SDR as the world's money**

The motto of globalization, which is here to stay, is, the world is one. The central bank of the world corresponds to the world as an optimal currency zone. Some thinkers beli-

eve that globalization has been a tailwind for the American economy. They see technology as the culprit for the state of the American economy. Stiglic thinks that the global rules of the game are rigged in favor of America and other developed countries of the world (Stiglic, 2021:87). The IMF is a key institution of the world monetary system, founded at the Bretton Woods Conference in 1944. Since its establishment, the IMF had the mission of taking care of the fixed exchange rate of the gold standard, being a creditor, taking care of fluctuating exchange rates, being an advisor to developing economies (wrong advice), then it became the secretariat and an extended arm of the G20, to become the global creditor of last resort the central bank of the world (Rickards, 2017:247). There are three pillars from which the IMF monitors the world monetary system, clusters, spillovers and financial transmission (the key role of banks as hedge funds, and the deregulation of the banking sector). The role of the IMF as the central bank of the world is manifested in the concern for the world monetary system due to the mass printing of money in 2008 in the USA and its financial institutions, and in the issuance of SDR as world money. The debt crisis indi-

cates the need for more direct regulation of banks and new sources of liquidity, the need for one central bank and one world currency. If we test the IMF based on the purpose and function of a central bank to use leverage, give loans and create money, we see that this global monetary institution meets the requirements of a world central bank and operates through national central banks. The IMF has a highly sophisticated asset and liability management program, financing is through quotas and credit arrangements. Its financial activities are predominantly off-balance sheet. The IMF uses leverage to maintain an international monetary system in which public debt has replaced private debt (Rickards, 2017:260). It is interesting that the IMF has become the last creditor and the last port of salvation. At the G20 summit in 2009, funds were agreed upon, the credit capacity of the IMF in the amount of 750 billion dollars, the largest amounts were provided by the EU, Japan, BRICS members, and the most disputed commitment was the USA. SDR are non-dollar money whose exchange value is calculated partly in relation to the dollar and partly to a basket of currencies (euro, yen and British pound). The IMF used additional funds to save the eurozone mem-

bers, Ireland, Portugal, Greece and Cyprus. SDR as the world settlement transaction money are perceived as invisible inflationary money. SPVs are money because they have three characteristics of money, a store of value, a unit of account and a medium of exchange. This money serves to settle the balance of payments, to form oil prices, for the financial accounts of the largest global companies (Toyota, Shell, Exom Mobil,...). However, from the very beginning SDRs were the world's fiat money, created out of nothing. without basis, they are not convertible into some other asset such as gold. The fact that the value of the SDR is calculated against a basket of reserve currencies does not mean that they are backed by those hard reserve currencies. Namely, their accounting value is expressed in transactions (the total value of the SDR is 300 billion dollars). However, although SDRs are a powerful instrument for creating liquidity, the dollar is still the world's leading reserve currency. The SDR market is microscopic compared to the dollar-denominated US government bond market, which is large enough to absorb the influx of investment from the surpluses of China, Korea, Taiwan. The IMF has the ambition to create SPVs as world money, as *Ekonomski signali* 80

well as SDR bond markets. However, in addition to economic and financial power, the choice of world currency also depends on political power and political will to create one central bank, one monetary system and one money.

## **6. Demand for gold as an indicator of distrust in the dollar**

Albert Gallatin, American Minister of Finance (1801-1814), expressed the undisputed opinion that regarding gold and silver as universal currency, there is a consensus of states and peoples different in language, religion, culture and habits that is at least 4000 years old (Rickards, 2017:277). Therefore, gold is the universal world money that does not need collateral, because trust in it is unquestionable. Gold in Mendeleev's system is an element with atomic number 79, pure gold is of the same composition and quality, always and everywhere.

Gold has an intrinsic (internal) value, it does not carry the risk of maturity, settlement or settlement, or term. The property of the gold owner is no one's liability. If gold is a numerator or unit of account as part of the standard definition of money, it means that dollars and

other currencies are viewed as fluctuating assets (their prices jump, not gold). The problem of gold is not in insufficient quantity, but in price, which means that quantity is not an obstacle for the gold standard.

Gold did not cause the Great Recession, as some economists claimed, but rather the adoption of the gold-exchange standard that preceded the crisis. The crisis was caused by the discretionary policies of central

banks (Rickards, 2017:288). Gold neither prevents nor causes financial panics. The panics are the result of the liquidity scramble of excessive credit expansion and the loss of confidence in the dollar and other currencies. Since 2002, central bankers have been intensively supplied with gold as a reserve asset, there is a noticeable craze for gold, which significantly affects the future of every currency, especially the dollar.

**Figure 1:** Top 10 countries of buyers and sellers of gold 1999-2021.

Top 10 Buyers and Sellers of Gold in the Official Sector from end-1999 to end-2021

	million troy ounces	percent of all buying/selling	change in gold share in official reserves
<b>Largest buyers</b>			
Russia	60.7	28%	-10%
China	49.9	23%	1%
Türkiye	17.4	8%	31%
India	12.7	6%	-2%
Kazakhstan	11.1	5%	42%
Uzbekistan	10.0	5%	21%
Saudi Arabia	5.8	3%	-3%
Thailand	5.4	2%	4%
Poland	4.1	2%	5%
Mexico	3.7	2%	3%
<b>Largest sellers:</b>			
Switzerland	-49.8	34%	-34%
France	-18.9	13%	17%
IMF	-13.0	9%	---
Netherlands	-11.9	8%	7%
United Kingdom	-10.6	7%	-4%
ECB	-7.8	5%	19%
Spain	-7.8	5%	5%
Portugal	-7.2	5%	29%
Austria	-4.1	3%	28%
Germany	-3.5	2%	32%
<b>Memo items:</b>			
Euro Area	-56.4	38%	21%

Source: IMF, International Financial Statistics.

*Source: International Monetary Fund,,IMF, Working Paper No. 2023/014, Arslanalp, Serkan and Eichengreen, Barry and Simpson-Bell, Chima, Gold as International Reserves: A Barbarous Relic No More?. Available at <https://www.imf.org/en/Publications/WP/Issues/2023/01/27/Gold-as-International-Reserves-A-Barbarous-Relic-No-More-528089>*

The direction of movement of gold purchases is shifting from the West to the East. China intensively buys gold through a network of agents around the world, then from mines in China, South Africa and Australia. Chinese citizens are passionate lovers of gold, in which wealth is stored. The biggest buyers of gold are Russia, China, Turkey and India, while the biggest sellers were Switzerland, France, the Netherlands and Great Britain (Figure 1).

In monetary theory, there are also ideas about the return of the gold standard, of course if there is political will and non-inflationary discipline and if wealth is created on the basis of innovation, entrepreneurship and dedicated work. Against the introduction of the gold standard are speculators, those who want to get rich from debt by means of inflation, market manipulation and insider information. A possible scenario, the Gold Standard of the 21st century would be global, covering the leading economic countries and their currencies. In the new constellation of economic and political power, if the US dollar backed by gold, given its large reserves, remained the world's reserve currency, it would eliminate other relevant currencies and lead to deflation (Rickards, 2017:305).

A new candidate for global money is the SDR, which would be backed by gold and convertible into gold and the currencies of the participating countries. This world money would be tied to a certain weight of gold, as well as to the dollar, yen, pound, yuan, which would be defined as a certain SDR and a certain weight of gold. Member States would have an open capital account for conversion. SDR would also be the accounting unit. The largest companies would report economic indicators in the SDR, along with the bond market denominated in the SDRs would be issued by states, global corporations, regional banks, and buyers would be state, pension and other funds with the mediation of the world's largest banks under the supervision of the IMF as the world's central bank (Rickards, 2017:307). At the same time, it is necessary to find benchmarks for determining the appropriate fixed exchange rates by which currencies are converted. There is also the issue of the value of the SDR measured by the weight of gold and fractional reserves in order for the new monetary system to function. Today, a non-deflationary price of gold is sought in the world monetary system that rests on gold.

It is necessary to define the issues of the quantity of gold SDR, the money supply as a reference point for determining the adequate price of gold. According to Rickards, in the new international monetary system, the discretionary policy of national banks would be preserved while preserving the fixed price of gold. In this scenario, the IMF should step in by increasing the supply in the event of a liquidity crisis, with the consultation of the majority of members. The rule of thumb on converting SDRs and national currencies into gold would be an axiom. According to Richards, the new monetary standard would solve the problem of the weakening of the dollar, the unsustainable debt burden and the gold rush (Richards, 2017:311).

Of course, we are talking about a possible, if not certain, scenario of a new international monetary system that would satisfy both the West and the East, the world's leading economies. For the establishment of a new global monetary system, global peace, willingness to agree and consensus are necessary. There is no doubt that the new international monetary system is largely the result of economics, but also of political will, power and agreement. However, we should not forget that the world is ruled by modern

weapons, information and digital money of the most powerful countries. In this environment, the global economic and political world order is established.

## **7. New global players and world money**

On the world stage, there was a new overcomposition of power and the creation of economic, political and military alliances of states, with a gradual but permanent loss of American hegemony and the dollar as the world's reserve currency.

### **7.1. China and the international monetary system**

China is a powerful global mutant that conquers new technologies, geopolitics and economy and strengthens the military sector. According to some wishful thinking of Western economists (Krugman), China is vulnerable, ethnically and culturally complex, prone to slip from the path of sudden accelerated economic growth. The wise Lao Tzu defined the Chinese historical path in the Book of Paths and Virtues with the words things grow and grow, but each thing returns to its root. With the reformer, Deng Xiaoping, the capitalist economic philosophy of growth in priority over stability was defined. In China, the market and

the state function under the leadership of the Chinese Communist Party. Thanks to fantastic growth rates, since 1980 China's total economic output is now equal to half of the US economy and is called the Chinese miracle. It is a direct process of expansion of work and productivity (Krugman). China owes its growth to, among other things, increased labor force participation and productivity, demography and education, while capital and technology are the main drivers of productivity (Rickards, 2017:124). According to Xiao Geng, China has been lucky in the last 25 years. The reason for this is three institutional moments: under the rule of the Communist Party, China preserved political and social stability, the fundamental economic opening of China to the world, China used the leading international capital market in Hong Kong (Geng, 2015:12).

If we look at the structure of the GDP of the USA and China (it consists of autonomous consumption, investments, state consumption and net export), we notice that in the USA consumption makes up 71 percent of GDP, while in China its share is 35 percent. Investments make up 13 percent of the US GDP, while in China they make up 48 percent of the total amount (Ric-

kards, 2017:128). Investments are a healthy way of economic development because they are doubly profitable, provided that the trap of wrong and failed investments financed by unrealistic borrowing is avoided. China's strained healthy economic growth is accompanied by a dense network of state communist officials and private company managers who enrich themselves as an elite and parasitic class. Profits are extracted from expensive infrastructure investments, while growth in the services and consumption sectors is insufficient. IMF research shows that investment in China is about 10 percent of GDP higher than necessary, and that it is to the detriment of household income and consumption (Rickards, 2017:142). China's banking sector has a stable balance sheet. China's financial reserves in the amount of over three trillion dollars provide, in case of need, the rescue of the banking sector, then recapitalization of banks, mitigation of losses and additional borrowing at the state level.

In the modern economy, the financial sector is important for financing and risk sharing. The financial sector is facing the problems of a high degree of non-payment of loans, speculation and the effect of bubbles on the stock markets. Direct finan-

cing refers to financing through stock exchanges, and indirect financing through banks and other financial intermediaries (Jifu Lin, 2016:189). However, in China there is a parallel invisible shadow banking system with bad assets and hidden liabilities as a serious threat to a healthy official banking system. This hidden, potentially malignant sector consists of local government liabilities, investment fund products and wealth management funds (they are outside formal channels and regulatory control). China's high rate of savings in real estate and structural financial instruments is motivated, among other things, by the lack of an adequate network, social insurance, health care, disability and pensions. China is very susceptible to capital outflow, citizens and businessmen use various techniques and scams to withdraw money. This phenomenon testifies to distrust in the system and pronounced income inequalities, a high disparity between the richest and the average in urban areas. There are numerous paradoxes in the modern economy, and even China cannot avoid that trap, especially when it comes to the fate of the dollar as the world's reserve currency. With the collapse of the dollar, China loses the most, because it is the world's largest owner of

debt securities denominated in the US dollar (Rickards, 2017:255). However, the truth is that China will be happy to exchange dollars for SPV as world money, as this is how it diversifies its reserves. China has the problem of inflation and efforts to absorb US dollar printing and to maintain the stability of the yuan. Modern China wants additional votes in the IMF as a hidden world bank, as well as to ensure the purchase of gold to prevent a sudden spike in prices.

## 7.2. Germany in the European Union and the world monetary system

The official motto of the European Union is "United in diversity", and there is also the principle of subsidiarity. The European Union is a political, peace, and then trade and economic project, just like the common currency – the euro. New Europe owes its intellectuals, professionals and politicians, leftists and rightists (Churchill, Adenauer, Mitterrand, Schumann, Monet, De Gasperi) who believed that economic and monetary integration would lead to political integration and pacification of Europe. At the center of the monetary union is the ECB, which issues the euro and, if necessary, trades on foreign exchan-

ge markets and takes care of price stability in the eurozone. The ECB takes care of the foreign exchange reserves of the national banks of the Eurozone and manages the payment platform between these banks (TARGET2). The euro is the most recognizable and visible symbol of Europe, a regional currency and the basis for transactions, held, exchanged, earned, and saved by hundreds of millions of people. The euro project is part of a wider global monetary system that went through the Bretton Woods, Washington Consensus, and Beijing Consensus phases without establishing the rules of the game. The Washington Consensus (1980 and 1983) created a strong dollar policy through a combination of higher interest rates, lower taxes and deregulation. Countries commit to fiscal discipline, elimination of bad subsidies, lower tax rates, positive real interest rates, openness to foreign investments, deregulation and protection of property rights (Rickards, 2017:157).

The Beijing Consensus testifies to the success of Asian economies and is so flexible that it lacks a grounded doctrine (Joshua Cooper Ramo). A new economic geopolitical paradigm is at work. The pillars of the Beijing Consensus are gradual reforms,

innovation, export-led growth, state capitalism and authoritarianism. China's reading of the Beijing Consensus is, protection of domestic industry, growth on exports and huge accumulation of reserves. The Berlin Consensus (2012) is specific to EU and Eurozone institutions after the economic and financial crisis. It is the German model of economic growth (savings and trade and innovation) which, with the mediation of Brussels and the ECB, imposed itself on the periphery of the EU.

The postulates of the Berlin consensus read:

- 1) export through innovations and technologies,
- 2) low rates of profit tax,
- 3) low inflation,
- 4) investing in productive infrastructure,
- 5) mitbestimmung,
- 6) globally competitive unit labor costs and labor mobility,
- 7) positive business climate (Rickards, 2017:159).

Germany controls the ECB in terms of price stability and inflation growth, so it is logical that unemployment on the periphery of the EU is increasing. The goal is price stability, a solid euro, fiscal responsibility, and consensus on important issues. The positive business cli-

mate has opened up space for the penetration of Chinese capital into Europe. China's penetration into the EU gives China a chance to get rid of its huge assets denominated in the US dollar, denominated in the euro. A strong and stable euro attracts Chinese capital because it reduces foreign exchange risk. American companies are also investing in the Eurozone, and more recently in Serbia. The Berlin consensus is supported by German technology, young energy and Chinese capital. It is interesting to emphasize that during the crisis, the euro was more stable compared to the dollar, and it also increased its share in global reserves from the moment of issue. Federal Reserve policy has been a cheap dollar and a strong euro in dollar terms. In the crisis of Greek government bonds and Irish banks, the euro has shown stability and persistence, because its stability and strength is linked to ECB policy and global capital movements.

Capital flows from the FED to the euro in the form of central bank swaps with the ECB and from China in the form of reserve allocations and direct investment have ensured solid ground for the euro. Therefore, the euro is additionally supported by the central banks of the USA and

China. Also, the population of the periphery of the EU strongly supports the euro and does not want to leave the eurozone and the EU, despite the crisis and weaknesses that the European common project is going through. The future of the euro as a political project and regional currency is not in doubt, due to the very fact that the EU is the largest economic power in the world, with Germany as the largest Union power that directly controls the ECB and the euro and dominates trade and finance. Some American Nobel laureates, such as Stiglitz and Krugman, and Eurosceptics have predicted the imminent death of the euro and the collapse of the European Union. Others like Rickards are optimistic and see a secure future for the euro as a significant regional currency if there is more Europe, uniform fiscal policy, bank regulation, bank deposit insurance and labor mobility within the eurozone. The certainty of the euro lies in the safe and large markets of liquid Eurobonds and in the existing gold reserves of the eurozone member countries, which gives it a chance to replace the dollar as the world's reserve currency in the foreseeable future (Rickards, 2017:178).

### 7.3. BRICS expansion and de-dollarization

Sixty-five percent of the global economy is made up of the European Union, the USA, China and Japan. The BRICS countries consist of Brazil, Russia, India, China and the Republic of South Africa and are committed to the search for new models in the process of reshaping the global economy (Declaration of the countries of the BRICS group, March 2013). All BRICS countries have problems, they differ economically, socially and politically, but they also have enormous potential in a world where economics has become political for economic growth and social development. BRICS countries with over forty percent of the world's population, twenty percent of global output and forty percent of the world's foreign exchange reserves, have problematized the dollar as the world's reserve currency and the existing monetary system. The G20 members, together with the BRICS countries, have become the de facto governing board of the international monetary system (Rickards, 2017: 181). South Africa (Johannesburg) hosted the 15th BRICS summit, which was reflected in the period from 22-24. August 2023. At the summit, 43 countries expressed interest in joining BRICS, and 23 coun-

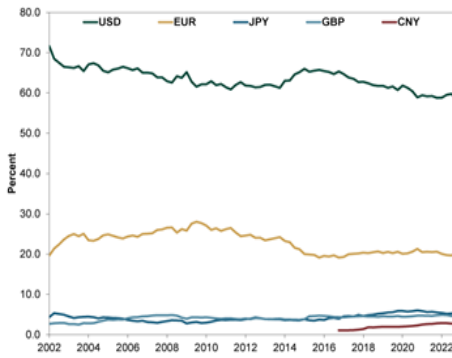
tries requested formal membership (Egypt, Algeria, Argentina, Bahrain, Bangladesh, Belarus, Bolivia, Cuba, Ethiopia, Honduras, Indonesia, Iran, Kazakhstan, Kuwait, Morocco, Nigeria, Palestine, Saudi Arabia, Senegal, Thailand, UAE, Venezuela and Vietnam). The members of the summit could not agree on the individual requirements of each country for membership, and due to the lack of consensus, they invited only six countries, namely Argentina, Egypt, Ethiopia, Iran, the United Arab Emirates and Saudi Arabia, to join. Their membership will start from January 2024.

One of the topics of the summit was related to the future of the US dollar. The task of BRICS is to create a new world (monetary) order, which relies on local currencies far from transactions in US dollars, and there is a real trend of members of the BRICS group to make some decisions in order to reduce the share of dollars in global transactions and to thus causing serious damage to the most powerful currency in the world (<https://www.ifimes.org/ba/istrazivanja/svijet-2023-brics-samit-de-dolari-zacije/5197>).

However, the US dollar is still the dominant global currency and the leading currency both in trade and in leading financial institutions, the dollar dominates global stock mar-

kets, commodity markets, bank deposits, financing development projects and borrowing. In the new situation, China and India are using three local currencies, the yuan, the rupee and the ruble, in their trade with Russia in order to somewhat reduce their dependence on the US dollar. If we look at China as the largest exporting country, which has a large trade surplus with the world, the yuan cannot compete with the dollar, because it is not available on global markets. According to SWIFT data, the yuan accounts for less than 2.5% of global transactions, while the dollar's share is 40% and the euro's 36% (<https://www.ifimes.org/ba/istrazivanja/svijet-2023-brics-samit-de-dollarizacije/> 5197).

**Figure 2:** Smaller share of USD in global reserves



*Source: IMF, as of 5/10/2023. Percent of allocated reserves in dollars, euros, yen, pounds and yuan, 2002 – 2022.*

According to available data from the fourth quarter of 2022 (Figure 2), the dollar accounted for 54.1% of all global foreign exchange reserves. The second most popular foreign exchange reserve is the euro, with 18.9%. The Japanese yen is third with 5.1%. The dollar's share of global reserves has fallen from 71.5% over the past 20 years. According to the Bank for International Settlements (BIS), as the global reserve currency, the dollar is used in over 80% of the world's foreign exchange transactions and more than 50% of global trade despite America accounting for 10% of global trade. It is evident that the dollar is dominant in relation to the competition

The intention of BRICS is to reduce the international role of the dollar and the hegemony of the USA to be the leader in the world. BRICS itself faces numerous challenges of creating some common "BRICS currency", there are doubts within the group itself, especially between India and China, two great economic and historical rivals. India as a BRICS member has the strongest relations with the US, is strategically hostile towards China, with other parties Russia needs allies and partners now more than ever as it faces Western economic sanctions It is evident that de-dollarization is not a process that

can be carried out quickly, due to the deep connection of world economies with the dollar that has been created for decades. In the changed distribution of economic power and the new geopolitical configuration of the world, the discussion about the stability of the system and the monetary economy of the world is no longer possible without the presence of not only the USA, but also new global players from the BRICS countries.

## **8. Concluding remarks**

The global economic crisis showed the complexity, risk, uncertainty and criticality of the global financial system. There is no one way and one outcome of one accepted and acceptable scenario of the emergence of MMS and one reserve world currency. The US dollar, the British pound and the Japanese yen together make up seventy percent of the globally allocated reserves and sixty five percent of the SDR currency basket. However, the Central Banks of the USA, Britain and Japan prefer not real growth but inflation and nominal growth in order to pay off their debts. That experiment leading to the reduction and expropriation of wealth is the subject of serious criticism by the BRICS countries and the legitimate aspiration for its destruction and the establishment of a fairer global monetary system. However, the

US dollar is still the dominant global currency and the leading currency both in trade and in leading financial institutions, the dollar dominates global stock markets, commodity markets, bank deposits, financing development projects as well as borrowing. The task of BRICS is to create a new world (monetary) order, which relies on local currencies far from transactions in US dollars, and there is a real trend of the members of the BRICS group to make some decisions, in order to reduce the share of the dollar in global transactions, thus causing serious damage to the most powerful currency. The new international monetary system will be created on the destruction of the old dollar system. The essence of the problem in the existing global financial system is not money but debt, the creation of money as a function of debt repayment. In the American financial crisis, the losses were not borne by the banks and bondholders, but the losses were passed on to the public through the federal finances. Private debts have been replaced by public debt. The restoration of trust implies a new international monetary system. Rickards believes that the dollar will disappear in three ways, the SPV world currency, the gold standard, or unrest, which is the result of a financial war or systemic collapse. The impossibility of predicting economic events (black swan phe-

nomenon), the increase in uncertainty and complexity make participants in economic life, especially investors, cautious. There is a probability, indications that by reading the seven signals that warn of the trajectory of the modern economy, a collapse can be prevented. These are the price of gold, the hunt for gold by central banks, IMF reforms, legal regulations, the collapse of the system, the end of quantitative easing and the Chinese collapse (Rikards, 2017:384). The most optimal and reliable method to preserve and increase wealth (portfolio) is investments in gold, land, art, alternative funds and cash. Such a portfolio must be actively managed and thus increase wealth.

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## **BUDUĆNOST DOLARA KAO SVETSKE REZERVNE VALUTE U NOVIM MEĐUNARODNIM OKOLNOSTIMA**

**Sažetak:** Američki dolar je svetska rezervna valuta, a takođe je i valuta koja se najčešće koristi za trgovinske i druge međunarodne transakcije. Zbog aktuelnih geopolitičkih, ekonomskih i monetarnih kretanja, evidentno je da veliki broj zemalja traži načine da se udalji od dominacije dolara, kao vodeće svetske valute. Rizik od de-dolarizacije porastao je u poslednje vreme, delimično zbog trenutne rusko-ukrajinske krize, kao i američkih ekonomskih sankcija protiv određenih zemalja, a delom zbog sve veće uloge zemalja BRICS-a u svetskoj ekonomiji. Ovaj rad tvrdi i dokazuje hipotezu da su dolar kao svetska rezervna valuta i međunarodni monetarni sistem dve strane istog novčića, da potpuni gubitak poverenja u dolar dovodi do kolapsa globalnog monetarnog sistema i obrnuto, kao i da bi uništenje monetarnog sistema dovelo do nestanka dolara. Rad obrazlaže dolar kao rezervnu svet-sku valutu, teorije o novcu, dolar kao dug, deficite i monetarne ekvivalente, dolar i slobodna tržišta, MMF kao svetsku banku i SDR kao svetski novac, potražnja za zlatom kao pokazatelj nepoverenja u dolar, nove globalne igrače i svetsku rezervnu valutu, proširenje BRICS-a i de-dolarizaciju, a finalizovan je zaključnim primedbama.

**Ključne reči:** Međunarodni Monetarni Sistem, dolar, deficit, de-dolarizacija, slobodna tržišta, BRICS