
New Paradigm Shift in Global Monetary Systems: “World Currency”

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Abstract

This research initiative on “World Currency,” based on my original concept, began in the year of 1995 and was formally proposed as a research project during the year in 2003–2004 as part of the MSc Economics Portfolio at HKUST. This paper proposes a paradigm shift in the international monetary system through the establishment of a supranational “World Currency.” It argues that excessive dependence on the United States dollar has led to global monetary imbalances, distorted international capital flows, intensified trade asymmetries, and increased systemic financial risks associated with the Triffin dilemma. Drawing on institutional economics and established theories of money, exchange rates, and international monetary adjustment, this paper examines the limitations of existing arrangements, including fixed and floating exchange-rate regimes, foreign-exchange reserve systems, and regional currency blocs. It develops a conceptual model in which the World Currency emerges through the progressive integration of major monetary domains, represented initially by the US dollar, the euro, and an Asian currency domain. This paper further advances a contractual interpretation of money, defining currency not only as a medium of exchange but also as a socially recognized substitute for contractual obligations and “time.” This perspective seeks to connect macroeconomic monetary governance with microeconomic individual choice and institutional behavior. The proposed system would transfer currency issuance and monetary coordination to a recognized global institution, while enabling national central banks to operate within a shared framework of interest and monetary standards. Although the paper is primarily theoretical, it aims to bridge the gap between macroeconomics and microeconomics, in the general accepted medium of exchange “World Currency” in the contractual arrangement, particularly in exchanging labor “time.” We argue that global monetary integration could reduce exchange-rate uncertainty, lower transaction costs, improve the balance of international trade, and provide a more stable foundation for global economic cooperation with collective outcomes.

Keywords: International monetary system, Triffin dilemma, Supranational currency, Global financial stability, Exchange-rate risk and transaction costs, Macroeconomic-microeconomic integration, Global monetary governance, Monetary paradigm shift.

Introduction:

The United States holds a pivotal position globally, leading in politics, military affairs, technology, and economics. The influence of the US dollar and US assets is far-reaching, and the US economy has an unshakable causal relationship with the world. US financial crises often spread globally. In the current climate, as the world's superpower, the US dollar, whether tangible or intangible, enjoys high credibility in the international community. Countries worldwide prefer to use the US dollar as their credit currency or a primary tool for trade settlements. The intangible confidence the dollar provides is unbreakable. However, excessive global reliance on the US dollar has led to an imbalance in international monetary liquidity, which is why the current international monetary system needs reform.

The world needs to establish a new currency for the following reasons:

First, countries and institutions worldwide are overly reliant on US dollar assets, especially financial assets. Second, the current global monetary system is flawed. Using the US dollar as the world's reserve currency allows the US to issue more dollars without collateral to purchase assets from other countries, creating an incentive for the US to rely on borrowing. Third, the Triffin dilemma means the US often faces a conflict between trade and the use of currency issuance to purchase global resources. This imbalance results in severe trade surpluses and daily deficits, leading to a serious imbalance in the international trade balance. Fourth, the imbalance in the international balance of payments, with some countries frequently exhibiting trade surpluses and others trade deficits, forces developed countries like the US and Europe to export their financial products and other monetary assets in exchange for industrial goods from Asian countries. Meanwhile, developing countries in Asia, such as China and India, rely on exporting industrial goods like clothing and toys to purchase US financial assets such as US dollars and US Treasury bonds. This imbalance in the monetary structure and system has led to imbalances in international trade.

Imbalances in Payments across the World

Imbalances in payments across the world have led to flaws in the global monetary and financial system. These flaws result in distorted international capital flows, leading to excessive asset liquidity in some regions and triggering financial crises. Regardless of whether the economy is virtual or physical, the flaws in the global monetary system can cause industrial and financial crises. Capital globalization and the globalization of the US dollar further exacerbate these problems, resulting in severe distortions. This distortion causes a significant imbalance in the global monetary system's control over international trade, leading to uncontrolled government spending and trade, especially in the US and Europe. These countries can leverage their ability to print money and use monetary privileges to exploit gaps in opportunities in other regions. Consequently, this results in serious imbalances in government spending, trade, and international capital flows, which largely explains why financial crises stem from flaws in the global monetary system.

The Role of the International Monetary System

However, the current international monetary system has not adapted to the times. Instead, it has become extremely loose due to its reliance on the US dollar. The current world monetary system largely inherits the principles and concepts of the Bretton Woods Agreement, namely, the US dollar's dominance of the world monetary system. Since the current world monetary system is completely dominated by major powers, so, as a result, the world economy will be further distorted, and the risks of capital liquidity will increase. Therefore, even if these countries are aware of the problems, they sometimes turn a blind eye because the international monetary system is dominated by the central interests of their major powers.

In fact, a sound and effective new unify global monetary system can significantly reduce the likelihood of financial crises. Therefore, the concept of global monetary integration lies in reforming the current global monetary system. Using a single global currency can prevent any one country from dominating, and currency unification has significant effects on reducing trade risks and transaction costs, at least by avoiding unnecessary exchange-rate losses in trade, with a obligation principle of the discipline of the world trade and balance.

This research paper aims to establish a supranational monetary system, explore the feasibility of global monetary integration, and propose a unified global currency, thereby reducing foreign exchange risks and transaction costs. The global currency transcends national sovereignty, with the power to issue currency to a recognized global bank. New World Central banks worldwide will set a common interest rate as a reference for banks, similar to a discount window, further establishing a paradigm shift toward a single global monetary system, for international trade and settlement.

Literature Review:

Although extensive empirical research examines the formation mechanisms of currencies and exchange rates internationally, no single theory offers fully convincing or consistently accurate predictions or measurements of currency, world currency, & world currency value. Most theories explain only certain conditions and often produce significant discrepancies between theoretical predictions and actual outcomes, particularly under contemporary monetary arrangements. Five influential frameworks illustrate both the insights and limitations of existing approaches.

First, *Gresham's Law* posits that "bad money drives out good": when two forms of money circulate at a fixed legal exchange rate, the currency with lower intrinsic or perceived value tends to remain in circulation, while the higher-quality currency is hoarded or exported (MacLeod, 1890; Fisher, 1911). This raises questions about whether the renminbi (RMB) and the U.S. dollar could stably coexist under a unified or tightly managed system without triggering hoarding or substitution effects. Second, the *Quantity Theory of Money*, developed in the early 20th century by Irving Fisher and later refined by A. Marshall, A. Pigou, and others (including contributions associated with Milton Friedman), explains some of the macroeconomic consequences of changes in the money supply, particularly for price levels and inflation (Fisher, 1911; Richmond Fed, 2004). However, its predictive power for exchange rates depends on additional assumptions,

such as stable velocity and purchasing power parity. Third, the **Purchasing Power Parity (PPP) Theory**, first proposed in 1918 by the Swedish economist Gustav Cassel, argues that the exchange rate between two currencies is determined by the ratio of their purchasing powers; when this ratio changes, the exchange rate should adjust accordingly (Cassel, 1918; Richmond Fed, 2004). While PPP provides a useful long-run benchmark, short-run deviations are common due to trade frictions, capital flows, and sticky prices. Fourth, the **Marshall–Lerner condition** states that, if the sum of the price elasticities of demand for a country's exports and imports exceeds one, then currency depreciation will improve the trade balance over time (Marshall, 1923; Lerner, 1944). However, this model cannot fully explain episodes such as the expectation of continuous RMB depreciation in China during the 1980s despite exports exceeding imports, because expectations, capital controls, and structural factors also matter. Although RMB appreciation currently satisfies some conditions implied by the model, it does not yield perfectly accurate predictions, though it can help explain exchange-rate behavior in some countries, especially developing economies. Fifth, the **Mundell-Fleming model** (sometimes referred to as the Fleming-Mundell model) explains how expansionary or contractionary fiscal and monetary policies affect aggregate output under floating or fixed exchange rates, given different degrees of capital mobility (Mundell, 1960, 1963; Fleming, 1962; Boughton, 2003). Its key conclusion is that both floating and fixed exchange-rate regimes have advantages and disadvantages, and the effectiveness of policy depends critically on the exchange-rate regime and capital mobility. Domestic research in this area was relatively limited in the past, although it expanded after the 1990s. However, much of this work has been fragmented and lacks a truly original theoretical framework. From the perspective of monetary structure, many studies have analyzed the impact of money supply on the macroeconomy, but these analyses are typically driven by broader macroeconomic policy questions, such as inflation, exchange-rate appreciation, or overall economic policy, rather than by a focused examination of monetary composition and global monetary rules [1–12].

Methodology & Research Design

This research study adopts a qualitative, conceptual research design to examine the feasibility and potential implications of establishing a supranational global currency. Rather than testing a predetermined hypothesis through primary statistical data, this study develops a theoretical framework by critically analysing existing monetary systems, established economic theories, and institutional arrangements. The methodology is appropriate because the proposed “World Currency” represents a prospective institutional innovation that does not yet exist and therefore cannot be evaluated through conventional historical or experimental methods.

In addition, this research study is guided by an institutional-economic perspective. It also considers money not only as a medium of exchange, a unit of account, and a store of value, but also as a globally socially recognized contractual instrument through which economic actors exchange resources, labour, and time. This approach connects macroeconomic issues, with microeconomic issues, such as individual choice, contractual exchange, and incentives.

Analytical Framework

Our analysis proceeds through four interconnected dimensions. First, it examines the structure and limitations of the existing international monetary system, including the dominant role of the US dollar, reserve-currency arrangements, international capital flows, and global payment imbalances. Second, it compares alternative monetary and exchange-rate arrangements, including regional currency blocs. Third, this study reviews selected theories that explain how money operates and is valued, and how the domain of payments adjusts. These include Gresham's Law, the Quantity Theory of Money, Purchasing Power Parity, the Marshall-Lerner condition, and the Mundell-Fleming model. These theories are used as analytical interpretations rather than as complete explanations of the proposed system. Their assumptions, explanatory strengths, and limitations are considered in relation to global monetary integration. Fourth, our research study develops a novel conceptual model of a World Currency based on the progressive integration of three major monetary domains: World Currency = American Currency Domain (US Dollar) + European Currency Domain (Euro) + Asian Currency Domain (Asian Yuan).

Discussion & Proposed Novelty:

This research begins with the current global monetary system and analyzes the shortcomings of existing systems, including fixed and floating exchange rates, foreign exchange reserve systems, and regional currencies. Through this institutional analysis, it examines the feasibility of establishing new rules and achieving monetary integration. The paper's innovations are: First, it summarizes and classifies prior research on monetary systems, systematically linking conclusions to develop a new theory of currency and a new world monetary system. Second, by establishing multidimensional economic circles and various regional monetary mechanisms, such as alliances among major currency zones (Euro, US Dollar, Asian Dollar), it establishes a large-scale economic circle and a major currency zone, ultimately unifying the currencies of various countries, that is, unifying the Euro, US Dollar, and Asian Dollar into a world currency.

Our new paradigmatic "World Currency" Proposed Novelty is as follows:

$$\text{World Currency} = \text{US Currency Domain} + \text{European Currency Domain} + \text{Asian Currency Domain}$$

The newly constructed world monetary system can be applied to markets worldwide, creating a new world currency and improving global economic and social well-being. Our proposed system can be deployed across in the domain of global markets to establish a complementary international currency, as a result to reduce transaction costs and exchange-rate uncertainty, and channel surplus liquidity into productive investment, thereby enhancing global economic stability, equity, and social well-being, with individual advantage.

Therefore, our novel world-currency basket formula can be represented as:

$$W_t = \sum_{i=1}^n D w_i C_{i,t}$$

where:

- W_t is the value of the World Currency;
- $C_{i,t}$ is the value of currency i ;
- Dw_i is the domain weight assigned to currency i ;

Theoretical Model Interpretation

This paper establishes a paradigm shift in the monetary system. We argue that, in institutional economics, the concept of money can be defined by two arguments: first, contractual substitution; and second, future-time contractual substitution. Both contractual monetary theories, including A and B, are inseparable from the paradigm shift toward institutions based on contracts. Theory A argues that institutional economics, particularly capitalism, contains contractual substitution factors, implying that, within capitalism, institutional economics includes the contractual substitution value of future time.

Our research emphasizes that money inherently involves a contractual exchange of labor conditions, that is, exchanging money for time. For example, we can hire laborers to complete tasks, such as housework. This is a contractual substitution of money for “time”. This paper argues that money, in essence, carries a temporal meaning. We attempt to summarize monetary theory as a paradigm. Therefore, we have established two frameworks: A) First-form institutional economics, and B) Second-form institutional economics, which is the current economic system where money serves as the medium of exchange. We usually call this capitalism, which includes property rights, i.e., private property rights, but in general, it is all about money as the medium of exchange. So, when we talk about institutional choice in institutional economics, generally speaking, the deeper meaning of institutional choice should be that money serves as a medium of exchange and money is a substitute for contracts of selection of “time.” Or you can say that a practical institutional choice in a capitalist system is a substitution of widely accepted contracts, that is, money as a substitute for widely accepted contracts arrangement.

Therefore, the paradigm shift in monetary systems discussed in this article offers a clearer explanation of modern capitalist economics: we consider money a widely accepted contract and a medium of exchange with “time” selection. This involves not only institutional choices but also individual choices. This article attempts to merge macroeconomics and microeconomics by viewing money as a contract. We use a monetary contract system to examine capitalism and economics; this is not a gamble but a more precise method for explaining economic principles and clarifying what capitalism is. The essence of money includes contract substitution, especially

the use of money to buy “time”. Money is not only a widely accepted medium of exchange but also a widely accepted substitute for contracts. At a deeper level, the paradigm shift in the system we advocate in this article involves changing the entire ecological order through a macro-micro approach. This change aims to produce the greatest effect with the least amount of alteration and to maximize overall utility between the individual and society. Our new suggestion for the “World Currency” within the new world monetary system encompasses both macro and microeconomics and can overcome the Triffin dilemma.

In essence, the contract establishes a clear system of private property rights under capitalism, encouraging people to create wealth and promote social progress. Capitalism uses money as the primary standard for calculating motivation, with money as the basis for motivation. However, capitalism assumes individual self-interest, not altruism. On a moral level, capitalism is based on law, without imposing any moral constraints. The institutional economics mentioned above has various shortcomings, and both present and future societies need new models and systems to increase human well-being under the latest institutional framework. Therefore, the world currency we are discussing will actually be a more efficient development and will improve human transaction patterns, leading to better overall human well-being.

Subsequently, the institutional economics and systemism we are discussing ultimately boil down to this: regardless of the institutional system human society chooses, the masses' choice of institutional system ultimately comes down to individual choices. And these choices lead them from one institutional system to another, or you could say a monetary system worldwide contractual arrangement, particularly “time selection” to their optimal choice, where this research paper innovatively emphasizes that it serves as a “Time” element of the new “World Currency” of the internationally accepted contractual arrangement. Therefore, our approach of converting the “Time” element selection into “money” in this new world-acceptancy contractual arrangement attempts to connect and combine macroeconomics with microeconomics, and microeconomics with macroeconomics, to provide a normative explanation of contractual money in contractual arrangements that include a “Time” element selection. This new “World Currency” can make world trade more balanced and is an effective tool to solve the Triffin dilemma all at once. Conclusively, I must add one point to this article: the global monetary integration we are discussing has originality, and the global currency we are talking about is not exclusive; in fact, it is compatible and promotes integration. It is a new monetary system and a new monetary institution created for the well-being of all humanity, namely the “World Currency”.

In conclusion:

The “World Currency” we are discussing does not stifle human initiative. Instead, the new “World Currency” will leverage the incentives of the world. Moreover, within our new interpretative framework “System 1” is part of the new institutional economics. The new monetary paradigm shift we are mentioning does not contradict any existing economic theoretic laws. On the contrary, it serves as a channel and a reliable bridge, as the connector, linking macroeconomics to microeconomics with the individual's choice of selection, and eventually

bringing it back into macroeconomics. This innovative channel, “World Money,” connects macroeconomics and microeconomics, making the “World Money” contractual arrangement accepted, connected, and linked to both the macro- and microeconomic worlds. This brings into a new economic system in which the elements in terms of roles and institutions are what our research paper innovatively calls “World Currency,” or what our research calls a new kind of medium of exchange. In fact, the new “World Currency” we are advocating in this article is a paradigm shift in institutional economics, as the “World Currency” includes the element of the “Time” of the contractual arrangement, which you can call a Z-system paradigm shift of currency, since our reserved of the new “World Currency” may include the “Time” element of the collective domain. It is indeed a reliable and essential bridge between macro to micro, and micro to macro. Therefore, the “World Currency” we advocate is a new institutional paradigm shift in institutional economics based on global monetary integration. Hope this new “World Currency” will contribute to the world and the humanities.

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