

# On the Development of the International Monetary System

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## ABSTRACT

In this paper, three stages of the development of the international monetary system are sorted out, and the development of the three global financial systems is interpreted. The advantages and limitations of the analysis of the world economic system at that time are analyzed. Looking at the current monetary system, since the financial crisis, people have become increasingly aware of the shortcomings of the Jamaican system. It is of great practical significance to explore the future development direction of the international monetary system. In the reform process of the global monetary system, Canada will play an essential role in internationalization. Canada should constantly improve its domestic economic system, adapt to the world economy's pace, and steadily promote the internationalization of the Canadian dollar.

**Keywords:** *International monetary system, Reform of the international monetary system, Internationalization of Canadian dollar.*

## 1. INTRODUCTION

When the American financial crisis broke out in 2008, the United States alleviated the concern through quantitative easing and other means by the dollar's status as the world currency, which made the American financial crisis spread around the world and the "New Triffin problem" appeared. People gradually realize that the current monetary system, the Jamaican system, has its drawbacks that cannot be ignored. It has been challenging to adapt to productivity levels, and global economic growth requires establishing a new international monetary system. Different scholars put forward different views on the evolution and development direction of the international financial system. Zhu Fenggen discussed the internal mechanism of the development of the monetary system from three aspects of strength, liquidity and asymmetry [1]. As for the future development direction of the financial system, most researchers believe that a diversified international monetary system is a better choice and a reasonable choice at present[2]. Lu Qianjin et al. analyzed its rationality and believed that a diversified international monetary system is conducive to forming several global and regional currencies that compete with each other and eliminate excessive dependence on single money [3]. In addition, Tao Yu et al. believe that SDR provides

a way to develop the international monetary system in the future. However, there is still a long way to establish a super-sovereign global currency with a solid credit basis[4]. Zhang Falin believes that RMB's entry into SDR has improved the effectiveness and legitimacy of the international monetary system. The role of RMB as a global payment and reserve currency is more prominent. Promoting the international reserve system's diversified development is conducive to making up for the inherent defects of the current international monetary system, namely the "Triffin problem"[5]. This paper aims to clarify the development of the global economic system, analyze the characteristics of different financial systems and explore the future development direction of the current monetary system. In recent years, the voice of THE Canadian dollar in the global economic field has gradually increased, and the study of the internationalization of the Canadian dollar is increasing day by day. We should carefully consider what role the internationalization of the Canadian dollar will play in the reform of the international monetary system[6].

The construction of the international monetary system is mainly from the 19th century to the 20th century. The specific timetable is as follows

**Table 1.** International Monetary System timetable

Time	International Monetary System
From 1880 to 1914	the international gold standard system
From 1918 to 1939	the international gold standard system
From 1944 to 1973	Bretton Woods system
From 1973 to 1976	the transition to a floating exchange rate system
From 1973 to 1976	Jamaica system

## 2. EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM

In the 17th century, international trade developed widely, the national economy changed from a closed economy to an open economy, and the international monetary system was formed and constantly changed. The establishment of global currency generally has three primary factors: the type of international currency, the rules of the exchange rate system, the corresponding adjustment mechanism formulation.

In turn, it appeared in the history of the international gold standard, the Bretton woods system, Jamaica system three major global monetary systems; each design has played an essential role in a certain historical period. Still, as a result of transactions in the form of continuous innovation and improvement of transactions, each international monetary system has its inevitable historical limitations.

## 3. INTERNATIONAL GOLD STANDARD

In the 1880s, major trading countries joined the gold standard, becoming the international monetary system. Due to war and other reasons, the development of the gold standard experienced three stages: classical gold standard, bullion standard and gold exchange standard.

For the monetary authorities, G. Gopinath, J.C. Stein argue that the gold standard has inherent flaws, requiring currency to be linked to gold and strict limits on the amount of money available: Most countries have a minimum legal value for the ratio of gold to issued currency or other similar restrictions, so it is difficult for central banks to implement monetary policies to

regulate the economy[7]. The gold standard collapsed in 1929-33 when the global economic crisis made it difficult to maintain.

## 4. BRETTON WOODS SYSTEM

After The Second World War, the United Nations Monetary and Financial Conference was held in Bretton Woods to restore the international economic order. The Bretton Woods Agreement was adopted. Two international economic organizations, the International Bank for Reconstruction and Development and the International Monetary Fund, were established, forming the Bretton Woods system with the U.S. dollar as the international currency. Its essence is the gold exchange standard system centred on the U.S. dollar.

In the 1960s, Robert Triffin, an American economist, proposed the "Triffin puzzle" to explain the inherent shortcomings of the Bretton Woods system. Under the Bretton Woods system, us dollar was used as the leading international trade settlement and reserve currency, which made us dollar accumulate in other countries. As the core of the international money, the U.S. dollar should maintain the stability of its value, which requires the U.S. to be a country with a long-term surplus in its global trade balance. The Triffin problem points out the inherent defects of the single currency as an international currency. The establishment of a new international monetary system should consider the Triffin problem to avoid the situation of single currency dominance.

## 5. JAMAICAN SYSTEM

In January 1976, countries signed the Jamaica Agreement in Jamaica. In April of the same year, IMF adopted the second amendment of IMF, marking the formal formation of the Jamaica system, which has been continued to this day.

There are, however, limitations to the Jamaican system. Various exchange rate systems, countries manipulate the exchange rate to protect their interests, resulting in the outbreak of exchange rate wars, global exchange rate changes more frequently, the international financial market volatility; In essence, the situation that the US dollar plays a leading role in the international monetary system has not changed. Countries still mainly use the US dollar as the instrument for the settlement of the global economy. The fluctuations of the US dollar will have a significant impact on the economy of all countries in the world. The "non-coerciveness" of the Jamaica system brings room for adjustment of the monetary system but at the same time aggravates the instability of the world economy. In 2008, when the SUBPRIME mortgage crisis broke out in the United States, the United States adopted four rounds of quantitative easing policies to deal with the problem.

The DOLLAR depreciated sharply, and the financial crisis was transferred to the world. Countries have finally come to realize that the Jamaican system has a "new Triffin problem". The international monetary system dominated by the US dollar inevitably has a griffin problem. The financial system has high risks and is difficult to operate stably. Therefore, scholars of various countries have proposed to improve the international economic system and further discuss the future development path of the financial system.

The author believes that the feasibility is high. It is worth discussing to create a super-sovereign currency, expand the functions of Special Drawing Rights and establish a diversified international monetary system. Canada's economic achievements have greatly enhanced the status of the Canadian dollar in the international arena. It is worth pondering how the Canadian dollar will play its role in reforming the global monetary system.

## **6. DEVELOPMENT TREND AND PROBLEMS OF THE CURRENT INTERNATIONAL MONETARY SYSTEM**

The current international monetary system is currently in a short-term stable stage, which is mainly affected by the following factors

### ***6.1. from the perspective of potential adjustment factors of the international monetary system***

(1) The debt level of large economies such as the United States and Europe is rising, and the public debt is rising. Since the breakup of the Bretton Woods system, the global financial crisis, the Sino US trade war, and the COVID-19 crisis and other large scale events have accelerated the debt level of the major economies of the United States, and in the face of rising debt levels, the United States has chosen to solve the current debt problems in the form of excessive currency. In the long run, the over issuance of the US dollar will reduce its monetary credit and rapidly increase its inflation level. At the same time, China's internationalization of RMB and the rise of digital currency may cause a substantial adjustment of the international monetary system in the late 21st century.

(2) The US dollar's position as a global reserve currency has declined. In the face of the financial crisis and the related policies of COVID-19, monetary and fiscal stimulus is the main reason for the United States to face the financial crisis. The overall debt of the United States is rising rapidly. Whether the future economic growth of the United States can support the huge debts is still a potential risk. At the same time, the United States frequently uses the reserve currency status of the US dollar to impose sanctions on vulnerable

countries, which makes some countries hope to establish a more stable and binding international monetary system to replace the core status of the US dollar. Therefore, the reserve currency status of the US dollar is facing dual risks, both internal debt risk and external credit risk.

### ***6.2. from the current stability of the international currency***

(1) Inertia advantage makes international transactions still revolve around the US dollar. Although the use of euro, Canadian dollar, Japanese yen and RMB in international trade has been increasing, for a long time, the US dollar has occupied an absolute main share in the whole trading system, and the upstream and downstream settlement of many enterprises is mainly in US dollars. Therefore, considering the preferences and convenience of most enterprises, compared with adopting a new currency settlement method, The whole trade industry still takes us dollar as the main settlement currency. Driven by this inertia, the reserve currency status of the US dollar remains stable.

(2) The overall structure of the US dollar has advantages. The size of the U.S. bond market is large enough and the bond liquidity is strong, so it has a strong attraction to foreign investors. Secondly, the Central Bank of the United States is independent and has established a strong credit guarantee system. Third, the US dollar has occupied a major position in the entire international trading system and has the advantage of free exchange. Compared with the US dollar, there are fewer highly rated bonds in Euro government bonds, and the reserves of Euro government bonds of global central banks are also very limited. This restricts the central bank from providing necessary liquidity guarantee to domestic enterprises and banks. The main problem of RMB is that the control of capital account makes RMB exchange very cumbersome and strict, and the cross-border use is very complex, which makes foreign investors worry about the change of RMB use rules in the international environment.

(3) The low interest rate policy ensures the dominance of the US dollar. In the current economic situation, most economies implement the low interest rate policy, and even some countries use the zero interest rate policy, which greatly weakens the strength of their domestic currency. Investors prefer to invest in currencies with high interest rates and stability, so this trend strengthens the liquidity of the US dollar and weakens the possibility of monetary development in other countries.

(4) The development of digital currency is still in the initial stage of development. The use of digital currency has attracted people's attention in recent years. The advantage of digital currency is to reduce cross-border

transaction costs. However, in the short term, the application of digital currency is still in a small-scale pilot application and cannot compete with the US dollar. Taking China's digital currency as an example, the digital currency itself is still limited by RMB control, and the lack of free exchange itself limits the application of RMB. At the same time, the application of digital currency involves the identification of bilateral currency exchange between the two countries, which creates barriers to the practical application of digital currency. Therefore, digital currency still needs a longer development time.

### ***6.3. establish a diversified international monetary system***

The establishment of a super sovereign currency, the expansion of the function of special drawing rights and the establishment of a diversified international monetary system are worth discussing. With the continuous development of the international monetary system, the central country, mainly the United States, enjoys the advantage of low-cost financing, but may increase its asset liability ratio and further cause financial risks. Moreover, the low cost of financing may lead to asset bubbles in central countries and further increase the financial risks of central countries. This is a double-edged sword for the central countries of the international monetary system. Therefore, the existing dollar led international reserve system has disadvantages for both central and peripheral countries. Promoting a diversified international monetary system is conducive to increasing the reserve income of peripheral countries and reducing the macro financial risk of central countries. At the same time, Canada's economic achievements have greatly improved the position of the Canadian dollar on the international stage. It is worth further thinking about how the Canadian dollar will play a role in the reform of the global monetary system.

## **7. CONCLUSION**

The current international monetary system is dominated by the US dollar, followed by the euro, yen and RMB. A multi-currency system with three currencies standing among three pillars will be the optimal path for the future international monetary system [8]. Canada has become an important role that cannot be ignored in the world economic environment. It will be the general trend to promote the further internationalization of the Canadian dollar in the international arena. First of all, The Canadian economy is developing well, reducing risks in the world capital market and maintaining the stability of world commodity prices. Secondly, in recent years, Canada's international status and international credit have gradually improved, providing credit guarantees for the

deepening internationalization of the Canadian dollar. Enhancing Canada's international recognition will encourage more countries to use the Canadian dollar as a settlement instrument in global economic trade.

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