

**A Robinson Crusoe Currency Conceptual Model for Analysing  
Impacts of International Fiat Currency on the Development of the  
Global South.**

The Case of Sub-Saharan Africa.

**Ghezaei Hailu Messay**

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## Abstract

In the context of an alarming inequality level among nations, and the inability of the development programs, initiatives, and assistances designed by the Bretton Woods Institutions (BWI) of the United Nations to avert the calamitous economic situations in the Global South in general and Sub-Saharan Africa (SSA) in particular, this research paper aims to examine if there is a link between using an international fiat currency (IFC) and the underdevelopment of the Global South in general and the SSA in particular.

While informed by dependency theory and historical analysis approach, the paper introduces a novel idealized conceptual model, which I called “Robinson Crusoe’s Currency Model” (RCCM). The model is a simple thought experiment used as a tool of analysis, to evaluate how a sovereign country is impacted when it uses an international fiat currency issued by another country (a group of countries). The patterns observed in the conceptual model are analyzed to test if they are linked to the theory, the policies, programs, and initiatives of the Bretton Woods Institutions (BWIs), and the economic development of SSA countries.

In contrast to the predictions of mainstream international currency literature that bases their analysis on a neoclassical Credit theory of money, the result of this paper shows that IFC issued by core countries is the most determining factor that impacts national development/economic development positively or negatively. It argues that enormous seigniorage accrued to the developed countries (core) is at the expense of the underdevelopment of the Global South (Peripheries). In contrast to the commodity theory of money, the credit theory of money upon which the current fiat currency system is established can not guarantee an equal exchange among trading countries – an issuer of an international currency can consume more than it produces, and even, theoretically, without producing.

Dedicated

*To my Mother who taught me to love, care, and reason.*

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## Abbreviation

BWI ----- Bretton Woods Institution

IFC ----- International Fiat Currency

IMF ----- International Monetary Fund

RCCM ----Robinson Crusoe's Currency Model

SSA -----Sub-Saharan Africa

UNMFC -United Nations Monetary and Financial Conference

WTO -----World Trade Organization

# 1. INTRODUCTION

The fundamental objective of investigations/studies on development/growth is to determine the factors that impact the economic and social development of societies. For centuries, ancient and modern-era writers, have reached a consensus on the significant link between a medium of exchange and the societal/economic development of nations, albeit their explanations differ depending on the theories and concepts they adopted in their analysis.

The ideas of the past writers, although mainly concerned with their own economies not with the economies of the poor countries today, is still relevant depending on the situation where they could be applied (Angrick, 2018). For mercantilists, by and large, international issues were a central concern, and they were in favor of the accumulation of precious metals to augment the power of their countries and therefore tried to increase their trade surplus. This mercantilist approach or concern has never changed to this time, especially in countries that use, for conducting external trade, international currency issued by another country.

By the mid-40s and early 1950s, when development economics was established as an academic discipline, both a recession in the industrialized economies and the emergence of newly independent countries from the breakdown of colonial empires created a demand for guidelines in the catching up process (de Janvry and Sadoulet, 2014). The mid-40s was also a time the United Nations Monetary and Financial Conference (UNMFC) was held in the town of Bretton Woods, USA. The UNMFC was, basically, a currency conference that declared the US dollar as a world currency backed by gold. Since international currency can not be sustained without a broad global governance and policy structure (Angrick, 2018), the conference recommended the establishment of the International Monetary Fund (IMF), and International Bank for Reconstruction and Development (IBRD); and agreed on the need to establish General Agreement on Agriculture and Tariffs (GATT) which later evolved into a World Trade Organization (WTO) mandated to intensify efforts economic growth, after World War II, by promoting free trade through reducing or removing trade barriers (tariffs, subsidies, and quotas). These organizations altogether have come to be known as the Bretton Woods Institutions (BWIs).

By the time UNMFC was held and development economics emerged as a distinct field of study, there were two opposing intellectual streams at play. On the one hand, those that are skeptical about

orthodox trade theory and its view of the international structure as being mutually beneficial; and on the other hand, those literature dominated by the concept of comparative advantage trade theory. The former (political economists), following the experience of the US and UK which had successfully industrialized under protection through tariff and import ban policies, supported the government's intervention in an economy. These authors include, among others, P.N. Rosenstein-Rodan, Ragnar Nurkse, Albert O. Hirschman, Gunnar Myrdal, and those prominent dependency theorists. The writers in this group explained underdevelopment issues are systemic and multifaceted, they all agree that poor countries' low level of capital accumulation, when saving is too low to the level it can not induce local industrial investment, is generated by the global economic structure. They didn't, however, expound on the role of the international fiat currency on the development of poor countries. Under the latter, free trade is beneficial to all nations - rich and poor - because it assumes that affluent countries have a comparative advantage in manufacturing while impoverished countries have an edge in primary products (Dutt, et al.,2005). It is this latter group's approach to development that is consistent with UNMFC and the BWIs' mandate in managing the international economic order and is considered a mainstream intellectual support structure of a widely shared belief system that secures public acceptance of the credit theory (Schlichter, 2014, P.231). Regardless, few people advocated for hundred-percent gold money (e.g., Murray N. Rothbard).

The current IFC system is based on the 'credit theory of money as opposed to the 'commodity money', which existed for thousands of years before the Bretton Woods Conference emerged to internationalize one country's currency to be used by other sovereign nations. It is no coincidence that throughout the ages and through all cultures around the world, people almost always came to use precious metals as their preferred medium of exchange. Precious metals, particularly gold, and silver, possess the qualities that are ideal for a medium of exchange - durability, portability, recognizability, divisibility, homogeneity, and scarcity. While most of the criterion could be achieved by using any other material, scarcity, as Schlichter puts it, is a vital and necessary condition for money to be considered real money. The fact that nobody could create these precious metals at will made them eligible to be universally accepted across cultures and civilizations that were far apart from each other and with even no trade ties between them. The "very rigidity of their supply, relative to the inherently flexible supply of goods for which money was being exchanged,

ensured that exchange relationships were not further complicated by a volatile money supply” (Schlichter, D. 2014, P. 29).

The dominant literature in this era is, more or less, extensions of credit theory money, and mainly focuses on how economic growth is related to certain determinants of development, for example, the role of financial development (e.g., Bordo, et al., 2010), the role of market reform/liberalization (e.g., Sacks and Warner, 1995; Alesina, et al., 2000), the role of institutions on the development and so forth. Even those critical of the crude imposition of policies upon poor countries do not entertain the idea of international fiat currency in their analysis. Proponents of the credit theory of money think that a currency of a given country can be used as a currency to facilitate international trade depending on its position in the hierarchy of currencies, which, for the most part, is acquired by market/economic competition (Strange, 1971; Cohen, 2015), as opposed to the hierarchy of ‘marketability of commodities’, which is elaborated by Carl Menger that a commodity which is used by more people as a medium of exchange happens to be at the top of the hierarchy because money is not a creation of states (Menger, 2009 [1892]). What is stated in Gresham’s law that ‘bad money replaces good money’ is reversed, in Cohen’s analysis, as if ‘good money’ has replaced “bad money’, implying that fiat international money is good money (Cohen, 2015, P.9). While most of these writers indicate, in passing, that politics plays a role in setting and managing international currencies, they also give the impression that market forces transcend politics (Strange, 1971b; Cohen, 2015, P. 11). However, some believe that money is political, and it is shaped by political events (Ferguson, 2001; Kirshner 1995). For example, Kirshner provides a generalized state-centric framework in his book *Currency and Coercion: The Political Economy of International Monetary Power*, detailing, in a more prudent way, the benefits gained by a country that issues an international currency with a focus on its coercive power on other countries that desperately need its currency for international trade.

However, literature that question on how the very ‘agreement’ that declared the US dollar to be a world currency, in and of itself, affects the economic and societal development of the South in general and SSA in particular, is rarely raised. Some wrote about the impact of the Bretton Woods and its institutions on the economies of developing and underdeveloped countries. However, they focused on the impact of the policies, recommendations, and actions of these institutions, taking the fundamental structural settings of the IFC for granted or given. They start their analysis by

taking the status quo as a given, and the real political economic dimension of the discussion on IFC and its real impact is obscured amidst the tangles of neoliberal ideas and concepts about a “currency economy” as opposed to a “real economy”.

Money is important to the development of a nation. Money has been one of the major socio-economic debates since ancient Greek times. Many medieval scholastics to the eighteenth and both mercantilists and physiocrats one author after another employed a metaphor ‘money is a blood of a state’, ‘Money is in the body politic what blood is in the human body’ (Johnson, 1966).

Against this backdrop, the theoretical and empirical research on this subject has largely remained unfinished. Hence, this research aims at filling the gap by answering the main research question **“How does an international fiat currency issued by a country or countries affect economic development across countries?”** In addition to the main questions, **the following sub-questions** will follow with the sole objective of answering the main question.

- 1) *What necessitated the Bretton Woods System, and how has the IFC enjoyed global acceptability for the last seven decades?*
- 2) *How do the BWIs play a role in sustaining the current IFC?*
- 3) *Has SSA been affected differently from other regions of the world? And why?*

To help answer these questions a new conceptual model which I call the *Robinson Crusoe’s Currency Model* (RCCM)- is applied. RCCM is employed as a conceptual tool (Method) to help illustrate, explain, and predict the observed relationship between sovereign countries, and identify the channels through which impacts are transmitted to affect the development of countries participating in international trade using an IFC, printed in another country, as a medium of exchange.

Assuming that the current monetary system is not primarily designed to bring about development in periphery countries, it is ***hypothesized that the IFC may have negatively impacted the economic development of the South in general and SSA in particular, and given that real money is the central issue that affects all other determinants of development, using an international currency printed in another country is a first order explanatory factor (after UNMFC) of the underdevelopment of poor countries and the inequality that exists between the periphery and the core countries.***

The paper proceeds in six sections, with the first being the introduction. Section II is a literature review on money and currency. Section III presents a theoretical framework and introduces the use of the RCC conceptual model as a method. Section IV is the main body of the paper and presents the RCC conceptual model as a starting followed by other three additional models depicting actual historical scenarios. Each of the models is followed by analysis. Sections V and VI are the conclusion and discussion, respectively.

## **2. LITERATURE REVIEW**

The preliminary literature review underlines the link in academic work between the nature of money – fiat and commodity-based - and the core-periphery power relations that emanates from the power of currency that dictates economic, political, social relations, and policy-making processes. The review of the theory of money establishes how the issue of money has been near and dear to the economies of Western nations where it had been triggering debates at least since the times of Plato and Aristotle.

On the empirical side, literature differs in two critical areas: First, in their reasoning as to why developing countries in general and SSA, in particular, remained poor; and second, in their recommendation of what measures SSA should take to solve the problem. In general, this literature can be classified as those that base their analysis on neo-classical thinking (including turning classical ideas into serving neo-classical), while others are skeptical of assumptions, analysis, and recommendations of neo-classical thoughts (Rodrik, 2016).

Therefore, this review, divided into three sections, covers the general academic work on the concept of money, the Bretton Woods monetary system, and the empirical literature on core countries vis-à-vis SSA.

### **2.1 On Money and Currency**

There are, in modern times, two major contending theories of money - The Commodity Theory of Money and the Credit Theory of Money.

### 2.1.1 Commodity Theory of Money

A view that traces its root back to classical thinkers. According to this line of thinking, money evolved from barter which requires a 'double coincidence of want' for an exchange to happen. With an example of a butcher, a brewer, and a baker, Adam Smith explained exchange can not be performed if one of them does not need a commodity owned by the other. In the absence of a double coincidence of wants, barter doesn't work; that is when A wants what B has and B wants what A has. "...when a barter ceases, and money has become the common instrument of commerce, every particular commodity is more frequently exchanged for money than for any other commodity" (Smith, A., 2007 [1776], P. 29); Von, M.L., 1971 [1912], P. 29). This theory is also known as Metalist theory as most of the commodity money in later times was mainly in gold and silver, although the theory refers to all commodities that were used as money.

Regarding the function of money, Commodity theory maintains the classical view as identified by both Plato and Aristotle, in which money is defined by its three, a medium of exchange, a unit of account, a store of value, characteristics of function.

Similarly, Menger in his *On the Theory of Money* detailed how this rarity of the double coincidence of wants conditions the rise of commodity money. He reasonably demonstrated the existence of a hierarchy of commodities, in his words 'degrees of saleability' (Menger, 2009[1892], P. 20). A commodity with the highest degree of saleability evolves to be a media of exchange, and the 'theory of money necessarily presupposes a theory of the saleableness of goods' (Ibid., P.21). Commodities such as gold and silver, due to their highest place in the hierarch of saleability, 'both in time and space, become generally acceptable media of exchange' (Ibid., P. 34).

For Menger, the driving force of men is an individual interest to exchange goods for other goods that are more saleable. With growing awareness of their individual interests commodity money is identified by 'individual efforts of the members of a society, who have little by little worked their way to a discrimination of the different degrees of saleableness in commodities' (Ibid, P.38). In view of commodity theory of money, money's origin is social, and not a 'state institution' that is edified by legislation or state law. However, a state by statute regulates their weight, purity and identifiability, ratios, and ensuring their circulation, in general, are 'functions of state administration' and these functions do not amount to mean that money is first created by the state.

### 2.1.2 Credit Theory of Money

Proponents of this theory claim that credit theory (they also call it Chartalist) has its roots in classical thinking. The credit theory is better described by Alfred Mitchell Innes in his 1913 *What is Money* and in *The Credit Theory of Money* of 1914. Before that Henry Dunning introduced this line of thinking in his *The Theory of Credit*. Credit theory in its general form is described by George Friedrich Knapp in his 1924 *The Theory of Money*, – so is the name “Chartalist” or credit theory since they supplement each other.

Their understanding of the origin of money is quite different from that of commodity theory. Credit theorists tend to deny that markets and exchanges pre-date money. In his *What is Money*, Innes citing ‘evidence’ revealed by ‘modern’ research in commercial history and numismatics and discoveries in Babylonia to reject the commodity theory of money. His opposition to commodity theory’s conception of barter, medium of exchange-measure of value- and money are based on these ‘modern’ discoveries that he suggest unknown to classical economists, including Adam Smith, Homer, and Aristotle (Innes, 1913).

Proponents of the credit theory of the current era continue to echo Innes’ idea and question the Metalists’ conception that early societies went from a barter economy to money; instead, they believe that money appears, according to ‘recent anthropological studies’, to have arisen to ‘keep track of pre-existing credit relationships’; and argue that recent anthropological studies by “Graeber 2011, Martin, 2013 and Douglas 2016”, question the idea of a barter predates money (de Bruin, et al., 2020). Wray L. Randall also claims that the traditional belief of the evolution of money is ‘historically and logically flawed’ arguing that ‘money was not injected into a well-functioning barter economy; instead, money and the market developed together (Wray, 1993). Citing Heinsohn and Stiger, Stephanie Bell states that he believes that barter pre-dates money ‘are held with conviction despite little evidence that barter economies ever existed’ (Bell, 2001).

Coins and notes, according to this theory, are merely tokens of something more abstract: Money is a social construction and not a real physical goods. The “abstract concept in question is a credit relationship; which is a promise from someone to grant (or repay) a favor (product or service) to the holder of the token” (Innes, 1914; see also Ingham, 2004). To function as money, two further features are crucial: (i) the promise is sufficiently credible, that is, the issuer is ‘creditworthy’; and

(ii) the credit is transferable, that is, also others will accept it as payment for trade (de bruin, et al., 2020).

Credit theorists claim that the state plays a central role in the development and establishment of money. Knapp's fundamental insight is that he suggested that money is anything that a state declares to be accepted at public pay offices. (Knapp, 1924, P. iii). Similarly, Bell (2001) claims the value of money is not derived from the content of its precious metal (its backing) but from its acceptability by the state as a payment in settling taxes and other liabilities. Money, whatever material it is made from, is not viewed as a commodity, thus Chartalist's view, contrary to that of the Metalists, is not concerned with the medium of exchange function of money, instead, the theory is preoccupied with money's function as a unit of account and a means of payment.

The Credit/Chartalist theory can be best described by Innes as a theory that a sale and purchase is the exchange of a commodity for credit, and from which "sub-theory springs that suggest money doesn't depend on the value of any metal or metals, but on the right which the creditor acquires to "payment" through an accepted tender which satisfies both the creditor and the debtor" (Innes, 1914).

There is a striking difference in position between Metalists and Credit theorists, primarily as a result of their 'different conceptions of the scope and method of economics' (Ingham, 1996, P. 511). The different roots these theories take about how money functions and how it should be created led them, of course, to different conclusions on the question of how to manage money.

Whatever the name these differences bear, 'metalists' versus 'non-metalists' during the sixteenth and seventeenth centuries; 'Currency' versus 'Banking' schools or more generally 'materialists' versus 'nominalists' in the mid of the nineteenth century; and the battle 'monetarists' versus 'Keynesians' in the middle of the twentieth century, the fundamental thread of difference has, through centuries, been their approach to the money economy, 'real' analysis versus 'monetary' analysis. Schumpeter described 'real' analysis as:

*Real Analysis proceeds from the principle that all the essential phenomena of economic life are capable of being described in terms of goods and services, of decisions about them, and relations between them. Money enters the picture only in the modest role of a technical device that has been adopted in order to facilitate transactions. This device can no doubt get out of order, and if it does it will indeed*

*produce phenomena that are specifically attributable to its modus operandi. But so long as it functions normally, it does not affect the economic process, which behaves in the same way as it would in a barter economy: this is essentially what the concept of Neutral Money implies.*

Schumpeter (1994[1954], P.264)

Money has been very contentious issue throughout history, and ‘few aspects of modern economic discussions have their roots so deeply in the past as the theory of money. ...but some of our ideas concerning it may almost be called commonplaces since the beginning of the Modern times’ (Monroe, 2001, P. 5)

Money has been a concern of ancient philosophers too, in that classical thinking about money goes way back to the times of Plato and Aristotle. The first reference to the issue of money can be found in Plato’s Republic in which he notes the necessity for money ‘as a token of exchange (Plato, Republic, 371b), and in Laws, his brief measure indicates that money ‘reduces the inequalities and incommensurability of goods to equality and common measure’ (Plato, bk. Xi, P 489), by which money is identified as a medium of exchange. Regarding currency, Plato notes in his Laws that he requires citizens to use an artificial (non-gold or silver) currency in their day-to-day dealing. If citizens have to go to foreign countries, they may be able to acquire foreign currency while they are required to change the foreign currency, they obtained in foreign lands back to the local currency (Plato Laws, bk, V)

Aristotle, on the contrary, recognizes that all exchanges including local should be mediated by something that has value in itself, defining exchanges such as ‘giving wine’ and ‘accepting grain’ as natural exchanges that are not forms of ‘money-making’ aiming only for ‘self-sufficiency’, However, ‘... [F]or as the assistance of foreigners became greater in importing what they were in need of and exporting what was in surplus, the use of money was necessarily devised....which was itself one of the useful things and could be used flexibly to suit the need of life, such as iron and silver ...’ (Aristotle’s Politics 1257a30-40).

It is Aristotle, however, who described the second and third functions of money, money as a unit of account with a view that exchange must, in some way be ‘comparable’, and money as a store of value by defining money as ‘serviceable’ in ‘future exchange’ (Politics, 1255b-1258a).

Both Plato and Aristotle are concerned about the ethics or mechanism of acquiring money and wealth. Aristotle points to the two ways of arts of acquiring wealth - One which is acquired with an instrument that has a limit; and two, where instruments are employed to acquire a limit less wealth and property (Politics, 1256b 30-40).

Like the Greeks, the Romans were also interested in currency issues, especially ethics, barter, and the value of the medium of exchange. One of the main contributions, according to Monro, is that what is implied in Aristotle's discussion is more elaborated by the Jurist Paulus who emphasized the existence of barter in primitive times, describes that 'since occasions, where two persons can just satisfy each other's desires, are rarely met, the material was chosen to serve as a general medium of exchange. This point about the coincidence of wants is only implied in Aristotle'. Another writer to be mentioned here is Elder Pliny, a Roman. who admitted the 'durability of gold makes it peculiarly suitable for monetary use, whatever else may be said against it' (Monroe, 2001, P.10).

Regarding the function of money, following Aristotle's discussion, the 'Schoolmen' were able to develop an impressive theory of money. Similar to later and modern writers, they gave more emphasis to money's function as a measure of value. However, this is not regarded as a separate function or a function with prime importance more than the function of money as the medium of exchange, 'since the exchange is the real end sought in the use of money, and it is only as it serves this purpose that a measure of value is useful...St. Thomas, for example, ...declares that exchange is the real purpose. (Ibid, P. 15).

Another idea, in the thirteenth century, about the issue of barter, in addition to what is mentioned by Jurist Paulus above, of the possibility 'that the man whose surplus you desire may have no need of yours' is an idea by Nicholas Oresme, that appears to be the origin of comparative advantage of exchange not only among men but also places: Exchange arose from the fact that after God had divided the earth and its goods among the sons of Adam, men and places often found themselves with a surplus or lack of some commodity. Barter was therefore resorted to' (quoted in Ibid., 2001, P. 16).

Similarly, after about three centuries, the same concern is raised by Agricola, in his discussion about barter and the money economy. In explaining why money is superior to barter, one of the points he outlined is a concern that was raised by Jurist Paulus about the possibility of the non-

existence of ‘double coincidence’. The reasons for his preference for money economy are: (i) Money is more adapted to the equalizing of values, (ii) It is generally cheaper to transport, and (iii) Many people may not need our wares, although we need theirs (Cited in *ibid.*, P. 32).

In the 17<sup>th</sup> century, there was debate about what role the prince should play regarding valuing money. Some support the idea that all aspects of money should depend on the will of the prince, while others argued for the prince to give gold/silver coins their due value. But Nicholas Barbon (1640-1698) advocated for fiat money, and his idea did not get support at the time. He, however, was in favor of the use of gold and silver in trade (*Ibid.*, P. 1956).

The idea of fiat money, however, continued. The discussion on fiat money made its way gradually. After three-quarter of a century, in the 18<sup>th</sup> century, Adam Smith entertained the idea of a partial backing by commenting that a prince should enact that a certain proportion of his taxes be paid in paper money solely by the sovereign right and will of the prince (Adam Smith, 2007[1776], P. 255).

When Smith made the above statement, however, the gold standard had already been in place since 1717 when Isaac Newton, the then ‘Master of the Mint, tied sterling to a set certain quantity of gold (Nash, 2002). Until the 1870s, some other countries in the industrial world, just like the UK, were using a gold standard system for a long period, while others were operating a silver standard of some approach of bimetallism (McKinnon, 1993). The first gold standard, at the international level, however, came into force in the 1870s (Flandreau, 1996). The first and the second gold standards failed due to the First ‘world’ war and in the 1930s before the Second ‘world’ war. The ‘gold standard’ backed by the US dollar failed to be effective and was officially abandoned in the 1970s. It is only the fiat-based Bretton Wood monetary system that has shown robustness for the last five decades.

## **2.2 On the Bretton Woods Conference and Sub-Saharan Africa**

### **2.2.1 The Bretton Woods**

With the development of social, economic, and political interactions, institutions have been evolving from the simplest to the most complex ones, at both national and international levels.

Since the 19th century, states have created numerous international organizations designed to enable interstate cooperation- starting from a single institution in 1815 to twenty-one in 1990, nearly a hundred in 1950, and over 300 in 2000 (Pevehouse, et. al., 2004). Many organizations were created and vanished during the last two centuries. Amongst all the international organizations that are created by states/nations, the Bretton Woods UNMFC is still the most commemorated event. When explaining how a series of meetings and conferences before and after the conference are easily forgotten, James Harold said that "...By contrast, the UNMFC, held in July 1944 at Bretton Woods, New Hampshire, is still instantly recognizable as a view of the world." (James, Harold, 2012).

The policymakers of the West in general and of the United States and the United Kingdom, just one year before 'world' war II officially ended on May 8, 1945, organized a United Nations Monetary and Financial Commission Conference at a resort in Bretton Woods, New Hampshire. Delegates from 44 allied nations participated to officiate the new monetary system based on the gold-backed US dollar. Among the 44 only 4 African countries were represented in the conference, namely, Ethiopia, Egypt, South Africa, and Liberia – and only Ethiopia was a fully independent nation. Egypt obtained its full independence in 1952, South Africa was under the white apartheid regime, and Liberia was just a country created by the USA with all its affairs controlled by the USA. The same is also true with India which obtained its full independence in 1948 and its delegation was led by a British-born economist Sir Abraham Jeremy Raisman. While acknowledging that the Bretton Woods is viewed, by many critics in general, as an 'Anglo-American negotiation', Erik Helleiner argues that the South/the poor countries development issues 'were discussed during the negotiations that led up to the 1944 Bretton Woods Agreement' (Helleiner, 2014, P. 2).

Its proponents urged the world that such an arrangement, which made the US dollar to be a gold-backed world currency, would bring about prosperity, an efficient international economy, and peace. During his announcement of the result of the Bretton Woods Conference in a nationwide radio broadcast, Henry Morgenthau, Secretary of Treasury, explained that they 'have come to recognize that the wisest and most effective way to protect our national interests is through international cooperation' (quoted in Eckes, Jr., 1975, p. x).

Recognizing that these objectives can only be achieved "within the framework of international agreements, the delegates at the Bretton Woods, recommended for the establishment of the

International Monetary Fund and the International Bank for Reconstruction and Development” (Ibid.). On the contrary, however, other writers recognize that the agreement on the use of gold-backed US dollar was a natural phenomenon that evolved within and emerged out of a market economy, not as a consequence of military and political superiority. Benjamin Cohen, for example, considers that the dominance of the dollar, as an international currency, is a product of the natural progress of the market economy (Cohen, 2015, P.9).

Many works of literature with a liberal flavor appreciate the economic development that followed the Bretton Woods Conference. The Bretton Woods conference brought growth across the core countries – the US, Europe, and Japan, although it is usually reported as a world/international trade. Two decades after the Bretton Woods, international trade among the major trading countries grew at about ‘7% per year at a faster rate than the growth in world output’ and in total ‘world trade grew by \$120 Billion’ (Cooper, 1968, p. 3, 60).

Even with such tremendous progress, the Bretton Woods major arrangement, backing a dollar with gold, ended in 1971, the period when a major crisis started in poor countries. Although the insufficiency of gold reserve and inflation is, allegedly, a reason for the end of gold convertibility, it is observed that the United States had adopted several policies to prevent the conversion of dollars during the period between 1960 to 1967, and in 1968 a ‘two-tiered gold market arrangement’ was in place to ‘demonetizing gold at the margin and hence creating a de facto dollar standard’...and... ‘The Bretton Woods system collapsed between 1968 and 1971 in the face of U.S. monetary expansion that exacerbated worldwide inflation. The United States “broke the implicit rules of the dollar standard by not maintaining price stability” (Bordo, 1995). That could not be other than printing dollars and suggests that the US had already a plan to eventually avoid its commitment to redeem a paper dollar with gold.

In 1971, just after the collapse of the dollar-gold convertibility, the Bretton Woods Institutions ‘conditionality’ became its dominant modus-operandi to exert pressure on financially distressed LDC in general, and SSA countries in particular. Now with a tool of ‘conditionality’, IMF and the WB are empowered to dictate the domestic policies of borrower nations. This became necessary since many nations needed IMF intervention as their balance of payment soared.

Similarly, the other crucial Bretton Woods institution is International Trade Organization (ITO) which sets out rules on international trade matters. The ITO transformed into WTO which is

founded in 1995. WTO is viewed as an establishment of 'global neoliberalism' due to its binding enforceable articles of agreement, signed by all its member states, on trade and investment (Gill, 1999). Critics claim that its establishment is not compatible with the mission of the United Nations Center on Trade and Development (UNCTAD). Bello, for example, argues that "the main drives behind the founding of the WTO were the twin needs to manage OECD trade rivalries more efficiently while containing the threat posed by the South to the prevailing global economic order" (Bello, 2000). The IFC instituted as a medium of international exchange is then works in tandem with an implementation of liberal policies that can sustain it.

### **2.2.2 Africa/SSA, Bretton Woods Institutions, and Core Nations**

During the Bretton Woods Conference, most nations in the Global South including SSA were under colonization, whereas the colonizers happened to be the core nations that negotiated, designed, and founded the Britton Woods System. Randall W. Stone notes that international organizations or institutions work within the system of states, and they must fulfill, through formal and informal procedures, the interests of their member states (Stone, 2011. P. 1-2).

Bretton Woods system and its institutions' association with Global South 'predated political independence'. According to Adebayo Adebegi, the first economic surveys and/or development plans and strategies of African countries and those SSA were prepared by the World Bank – in the case of Nigeria, '7 years before it became independent'. In Asia, the Bank 'established consortia', for India and Pakistan, while the Bank was concentrated on sectoral and project loans in SSA. The Bank's involvement in even deciding which sectors of the economy were given priority for external funding shows that the Bank was involved in dictating the trajectory of the African economy early well ahead of the independence of SSA countries; and 'even as early as the 1960s, the basis of the Bank was becoming increasingly apparent' (Adebegi, 1995, P. 60-61).

For the most part, the economy of the Global South is therefore 'path-determined' or, at least, conditioned to be in such a way that it remains dependent due to the actions of both the BWIs (Ibid). Since the economic dominance through the strength of the Bretton Woods system is based on the fragmentation and weakness of nations, the colonizers didn't let their colonies without a string. The Nkrumah, the first prime minister of Ghana under the British Governor General and the

first president of the fully independent Ghana noted, in his 'Neo Colonialism', that a representative of the United Nations Economic Commission for Africa, in 1962, speaking of West Africa's Balkanisation, pointed out: 'Few other regions of the world show such a multitude of fairly small states both as far as production and population go'. Since much of West Africa was under the French colony, one would expect this area to be one nation after independence. On the contrary, 'Loi-Cadre of 1955 established the frontiers that divide the former French federation into 19 artificial separate territories'. The same applies to the British colonies too. In the East African British colony, 'the British opted to divide them' into three, during the start of the decolonization period, and created countries by the name, Tanzania, Kenya, and Uganda. Nigeria is divided into four regions loosely linked on a federal basis but with adequate power left to the regions to cripple overall central economic planning (Nkrumah, 1966, PP. 3-20).

On the other hand, European colonizing countries, arrange a meeting among themselves, to sign an agreement on the establishment of the European Economic Community (EEC). This agreement was signed in 1957 and known as 'The Treaty of Rome'. According to Raimundo, the initial document already contained the need for the Community's 'association' with African countries. Out of the six founding member countries five had still colonies in Africa - Belgium, France, Italy, Netherlands, and West Germany (Raimondo, 2020, P. 2).

Regarding the 'association' with the colonies, the Rome Treaty had three crucial elements: trade, financial aid, and formal/diplomatic relations; with a stated purpose to 'promote economic and social development' in their respective dependencies and to 'establish close economic relations between them the EC'(Ibid.). Thus, according to Raimondo, Africa did not have a role in the establishment of Bretton Woods or other development partnerships/initiatives created by powerful Bretton Woods member countries.

After independence, the Bretton Woods Institutions have been pursuing the same policies, one after the other, all with a miserable resultant effect on the African/SSA economy. According to Anthony Baah, there are initiatives of two types, "initiatives 'by Africa' and 'for Africa'. All the programs enforced on Africa, particularly since the 1980s, have totally been based on 'blind' and 'ruthless free market ideology and, they have all failed dismally" (Baah, 2003, P. 1). As Baah notes, efforts were made by African leaders, with an expectation of support from United Nations and the Bretton Woods institutions. According to Baah, the list of initiatives proposed by Africa included, among

others: The Lagos Plan of Action for the Economic Development of Africa:1980-2000 and the Final Act; Africa's Priority Programme for Economic Recovery 1986-1990; The African Alternative Framework to Structural Adjustment program for Socio-Economic Recovery and Transformation 1989; and The African Charter for Popular Participation for Development 1990. All those initiatives that were designed to be African-for-Africa programs were shrugged off by International Institutions. Instead, they designed their program focusing on delivering Official Development Assistance (ODA) as a tool in exchange for recipient countries to adjust their macroeconomic policies to open their markets to the West (Ibid.).

Although the BWS is styled as an engine for a spread of economic growth across the member nations (e.g., Cooper, 1968), the level of global inequality has been exacerbated since the UNMFC. "The existence of global poverty and the inequalities between the 'haves' and the 'have-nots' are clear and well-documented" (Hudson, D., 2015). The development gap between the world's richest countries and the poorest has increasingly grown larger and larger, despite the sustained growth of a sub-group of large industrializing countries such as China, Brazil, and India. One of the regions of the world suffering from chronic poverty is the Sub-Saharan Africa (SSA), which consists of 48 countries, is considered the most vulnerable, poverty-afflicted, debt-distressed, and marginalized continent with the poverty rate standing at about 41 percent in the year 2015 (World Bank, 2018). Sub-Saharan Africa, despite its natural resources, the sub-continent is getting poorer and poorer, particularly since the 1970s (Rodrik, 2006, 2016; Moyo, 2010, P.5). Many countries in the region cannot register output to their 1990 and even 1960s level (Rodrik, 1999, 2006, 2016). Notwithstanding, the push towards liberalization – the open market for foreigners, privatization, and other reforms – in exchange for massive aid and debt reductions, has devastated SSA's economy to be the poorest region in the world in that the real per capita income of African countries in 2010 was lower than what it had been in the 1970 (Moyo, 2010, P. 5).

### **3. THEORETICAL FRAMEWORK and METHOD**

The proposed research is theoretically informed by dependency theory although I will employ different approaches such as historical analysis and collective action. However, to demonstrate the effects of IFC and to further elaborate the analysis I will develop a conceptual model which I call

*Robinson Crusoe's Currency Model (RCCM)* to test the theories (theories of money and dependency theory), and my hypothesis against the prediction of the RCCM model and the observed relationship between sovereign countries.

### **3.1 Dependency Theory**

Dependency theory, which is regarded to be first introduced by Singer, Hans (1950), Prebisch, and Raul (1959), later named a Prebisch-Singer thesis, for their different works arrived at the same conclusion. Dependency theory was at its prominence in the 1960 and 70s in response to modernization theory. Other dependency theorist includes Baran, Paule (1957); Frank, A.G. (1967,1969,1977,1972); Samir Amin (1974,1976, 1977).

Dependency theory is an approach to comprehending the economics of underdevelopment that highlights the constraints imposed by the international political and economic system. Although the theorists differ in their conclusions in that they recommend different solutions ranging from a radical change (radicals) to a substantial reformation of the international regime. The theory is considered, unsurprisingly, Marxist in origin, and was not popular since the 1980s when neoliberal theories are more popular, especially in the West (Ghosh, B.N., 2001).

Nonetheless, the theory is still instrumental in explaining global inequality. According to dependency theory underdevelopment of economies is mainly caused by their peripheral position in the world economic system. A dependency is a form of unequal relationship between two sets of countries at the international level – a relationship where one set of countries, the peripheries, whose economic, political, and social life is dependent on those set of countries that are called the center or metropolitan center. The former represents the undeveloped region, and the latter represents the developed capitalist countries. Dependency theory is a mechanism of systematic analysis of the causes of development and underdevelopment. According to Ghosh, the dependency on the periphery manifests itself in various ways: technology, economic & financial aid dependency, the balance of payment dependency, policy dependency, bio-dependency, and others (Ghosh, 2001, PP. 1-13). Typically, underdeveloped countries (peripheries) offer cheap labor and raw materials to the industrial countries (Core); and import the finished products from the advanced economies, for example, coffee to be able coffee machines. They end up buying highly-priced finished products, depleting the capital they might otherwise allocate to investments to improve

their production capacity. The result is the vicious cycle of poverty that has increasingly widened inequality between the two constructs of the world economic system - the core and the periphery.

Thus, the dependency theory, I suggest, is the most appropriate theory capable of explaining the persistent entrapment of SSA countries in poverty as it relates to IFC. Although many writers have contributed to the development of dependency theory, there is a considerable variation in their attitude and the basic claims of the theory. However, one can still find some general trends and thematic similarities in the broader and basic positions of the different versions of dependency theory.

Since this research is focusing on the currency relationship between the poorest and the richest region of the world, dependency theory is appropriate to explain the underdevelopment of the low-income economies of SSA countries. Addressing the issue of money touches all aspects of a country's or countries' economic, social, and political conditions. Therefore, the poverty/underdevelopment of SSA can be explained through the lens of their dependency on the current world economic system and international currency that is instituted by the powerful metropolitan center. The explanatory qualification of the theory will be tested by using the novel conceptual model introduced as RCCM.

### **3.1.1 Other Development Theories**

There are also development perspectives, other than dependency theory, which attempt to explain the process through which underdeveloped countries can progress toward development; and recommend different social and economic policies.

### **3.1.2 Modernization Theory**

Modernization theory, as a study of modernization and development has been popular since the 1940s, and many of the studies in social sciences, and especially economic growth are influenced by the presumptions put forward by the modernization theory (Eisenstadt, 1974). The theory gained popularity in the 1950s and 1960s in connection with concerns of economic and social development

and developing policies that would support economic and social transitions in underdeveloped nations.

The timing of its inception and the popularity of the theory, during the 1950s to 1970s, coincides with the establishment of the New World Order at the UNMFC 1944. One of the most prominent modernization theorists was Walt Whitman Rostow (1959), who argued that societies pass through five stages defined by particular characteristics – starting from initial/traditional arriving at a stage of maturity (the age of high mass consumption). He drew examples from post-postmedieval Western Europe indicating the first country to come out of the traditional stage was Britain. The theory is criticized not only for its West-centric analysis and propositions but also for its incoherence and covering a wide variety of theories drawn from different disciplines; and the bias is underpinned by a capitalist ideology and ‘social Darwinism’ (Goorha, 2010).

Modernization Theory can be seen as a verbal version of the more mathematical formalized models in kinds of literature on economic growth, such as Robert Solow’s growth theory (1956), which suggest that poor countries will develop/catch up by following prescribed policies to boost their development. With the gap of inequality between the poor and rich countries getting wider and wider, Modernization Theory lost its momentum and is discounted as being west bias and deterministic. The policies it recommends are not in agreement with Dependency Theory, which is adopted in this paper, in explaining the cause and solutions of underdevelopment.

### **3.2.2 World System Theory**

World Systems Theory is a theory developed by Emmanuel Wallerstein, and the theory, in many ways, is similar to dependency theory. Much of the idea of the World System Theory is the same as Dependency Theory, except that the former added a third group of countries as ‘semi-periphery’ countries. They both share the same scope and assumption in their analysis of the international system and its impact on the economic development of the periphery countries (Chariot and Hall, 1982). Although world systems theory promotes the idea of three groups of countries within the world system, recent studies in economics predict that ultimately there are only two groups of countries – high and low income- each of the groups will converge to their distinct steady state, with a semi-periphery(middle) group disappearing over time (Goorha, 2010). The studies predict

that countries neither converge to the same steady state as predicted by a Modernization Theory nor diverge into three steady states as predicted by World System theory; but only two groups, with each group converging to their distinctive path of convergence – high and low income – core and periphery as adopted by dependency theory.

## **3.2 Method**

### **3.2.1 Robinson Crusoe's Currency as Opposed to Robinson Crusoe's Economy**

Neoclassical economists, especially trade economists, use Robinson Crusoe as a starting point of their investigation (Hymer, 1971, P.42). “Robinson Crusoe” is a short reference to Daniel Defoe's novel titled *'the life and Strange Surprising Adventures of Robinson Crusoe'*, published in 1719. Although the story told by Defoe portrayed Crusoe as one of 'conquest, slavery, robbery, murder, and force'; neoclassical international trade economists pictured Crusoe as one who masters nature through diligence, intelligence, and frugality (Ibid.)

The use of Crusoe, by economists, in their metaphors, stories, and models, has been more common among those that believe that an analysis of individual choice should be the starting point of economic analysis, such as neoclassical economics. In contrast, those schools of thought who have tended to think of economics as a 'social" science, such as classical economists/political economists and American constitutionalists school of thought, have found Crusoe far less useful to their purpose. It was Marx who, for the first time, detected and criticized the works of economists, such as Frederik Bastiat, Henry Carey, and Pierre-Joseph Proudhon who had introduced Crusoe to political economy (Kern, n.d.; Karagoz, 2014).

Although the use of Robinson Crusoe is criticized by social scientists mentioned above, I believe the use of Robinson Crusoe in currency issues is more effective than using it in a model in which the role of currency is not represented, for example, in the comparative advantage model, which only depicts barter exchange of goods without showing the currency used, both in the original David Ricardo's conception and in the mathematical equilibrium models developed in the neoclassical period. To understand how the introduction of an IFC, after the UNMFC held in

Bretton Woods, has affected the Global South, I introduce a novel conceptual framework/model which I referred to as *Robinson Crusoe's Currency model (RCCM)*.

I suggest that using RCCM will help reveal the role of currency by observing its function separately so that a logical and intuitive observation would explain the relationship pattern among nations better than what the mathematical equilibrium models depict.

RCCM follows the same logic as the idealized framework of *Robinson Crusoe's Economy*, a thought experiment in neoclassical economics, where the economy is assumed to be based on a lone person (Crusoe) on an island which is cut off from the rest of the world where he has to produce by himself or use the stock available, and without international trading. It is a simple framework used to explain some fundamental issues in economics.

On the contrary, *Robinson Crusoe's Currency Model* is used to show the importance of international currency where it assumes a country without meaningful production to sustain itself, but its currency is, somehow happens to be an international currency, with Robinson Crusoe at the helm of the country's central bank.

Following the Robinson Crusoe model, which is the first case or a starting point of our observation, those assumptions in cases **two**, **three**, and **four** will be relaxed to represent real historical events as Robinson Crusoe's activities increase to be closer and closer to reality/empirical facts with diversified production and trade relations.

This conceptual model is not necessarily detached from empirical intuitions. It is quite instrumental in testing theories and concepts, and beliefs that are developed through empirical research. According to Jaakkola, a conceptual model focus on linking theories, research questions, and goals with the aim of proposing new relationships between or among constructs – in the case of this research the constructs are a core country/ies on the one hand, and periphery countries on the other. Citing King and Lepak (2011), Jaakkola explains that the objective is to develop logical and complete arguments about the relationships with an emphasis on providing a theoretical explanation for that link/association. Since that “explanation demonstrates the logic of connections between concepts, it is critical for theory building” (Jaakkola, 2020). While linking concepts is crucial in theory development, the robustness of the theory should pass the test of empirical data.

### **3.2.2. Historical Analysis**

By employing a historical analysis approach, the research will investigate the evolution of the concept of money throughout the long history, and the social, economic, and political contexts or events that determined the perception of money. Generally, it will be used to compare and contrast social processes, concepts, and events across time and place.

## **4. THE CONCEPTUAL MODELS AND THEIR IMPLICATIONS**

### **4.1 CASE I: Robinson Crusoe as a Head of a Central Bank**

Before we start analyzing the pattern of the relationships between a country issuing an international currency and countries using that currency as a medium of exchange in their international trade, we first need to define two important concepts – seigniorage and price making vs price taking positions.

#### ***Seigniorage***

Seigniorage is one of the primary benefits sought after by a country issuing an international currency. Seigniorage is defined as the difference between the face value of a currency note and the cost of producing it. Considering the cost of producing millions of \$100 bill notes is close to zero, the seigniorage obtained from a \$100 bill note is, therefore, close to \$100, especially in the digital era. Internationally, when an issuing country uses its currency to obtain goods and services from countries that accept its currency, the issuing country enjoys a gain through seigniorage equivalent to the value of goods and services it receives, plus assets acquired through investment abroad (Cohen, 1971).

There is another addendum to the definition of international seigniorage, that implies gains due to the difference between the foreign assets acquired by an issuing country and assets acquired by foreigners in its own territory (Chey, 2012). But this latter definition arises from the first definition already mentioned above. This definition is a bit confusing if not obscuring the meaning of seigniorage. First, the difference in value between assets the issuing country has in another country,

and an asset owned by another country in the issuing country is not a seigniorage. It is better expressed in terms of the balance of payment, especially in capital accounts. Seigniorage is a power that derives only from the use of currency. Since many works of literature on currency are introducing their financial and other microeconomic terms, the real discussion on currency issues, which, for the most part normative, is missing from their discussion.

On the other hand, it is worthwhile noting that there are writers who believe that the seigniorage accrued to the United States is exaggerated. Richard Cooper believes that the US gain is exaggerated since most of its gains come from risk-taking, not seigniorage (Cooper, 2009).

### ***Price-making and price-taking***

A country, depending on its comparative bargaining position, can be a price-maker in that it decides what prices goods and services would be, or it takes a price that is already set by a price-maker.

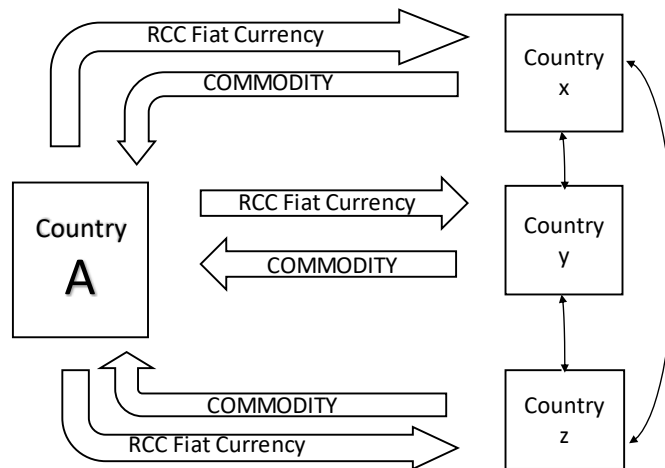
Now, let's examine how Country A would relate to Countries x, y, and z, based on any trends we might discover in our hypothetical setting of Robinson Crusoe.

Assume:

- 1) Crusoe is the head of the central bank of his country (he is not alone as in Robinson Crusoe's Economy),
- 2)) Crusoe's country (Country A) has no meaningful resources to support itself. It doesn't produce but trades with the outside world,
- 3)) Country (A) has, somehow, the capability to impose the use of its currency, RCC, on countries a, b, and c, in their trade with country A, and among themselves.

Let's look at what the pattern of their trading pattern and its impacts will look like.

In this simple model, RCC flows from country A to countries a, b, and c. In return, as shown in Figure I, commodities flow from Countries (x), (y), and (z), to Country (A). In addition, since countries (x), (y), and (z), require RCC to conduct international trade, each of them tends to export to country (A), first, because they also require to have RCC to do business among themselves. Therefore, trade among countries (x), (y), and (z), is secondary, as indicated by a line in Figure I.



**Figure I: Robinson Crusoe's Currency for Trade Without Producing**

It is also possible that country (A) could also influence the prices of a commodity that originates in one country, say country (x), and is highly sought by all countries; then, country (A) may possess the power of price-making by competing on a price of the specific commodity – in this case, by offering higher price to country (x), and the remaining two countries (y) and (z) can not compete with a country issuing an RCC. Alternatively, since Country(A) has a monopoly, it can also lower the price of commodities available in all three countries so that they will export more to fetch more RCC. The welfare of its citizens will also be raised more than the citizens of the countries that are participating in the production of commodities. The real income gains that accrue to Country (A) may lead to an abundant increase in investment in the local economy.

### **Analysis**

Given that Country(A) is the only country issuing an international currency, the seigniorage gain is high. Since it is not producing, the ratio of a currency economy (instead of using the term monetary economy) to a real economy is 100 percent. The questions that can come at this point are, 'Is the currency in this model a token?', 'Is it really playing the role of lubricating? Lubricating

what? Lubricating between itself and the commodities originating from abroad? <sup>1</sup>The answer is NO, as demonstrated in the model and the analysis below, IFC is not a token. As discussed somewhere above, a token, according to neoclassical thinking or tricking, is claimed to play the role of lubricating a functioning of an economy so that it enhances the efficiency of exchange among equal traders who are willing to exchange their commodities through the medium of exchange. A currency may serve as a token and a lubricant in a local economy, as long as a government is responsible for the welfare of all its citizens, without any prejudice or discrimination, and without making decisions to make ‘winners’ and ‘losers’. This suggests, even in a local economy, a currency’s role as an efficient lubricant depends on the type and actions of a government.

We can also deduce, from this model, an international currency is a powerful weapon employed to access real resources in exchange for a fiat currency that is costless to produce. The currency-issuing country does not encounter any risk in issuing an international currency other than a net gain. Thus, in our case, Country (A)’s gain is 100 percent since it doesn’t produce but trades due to its position as a sole issuer of an international fiat currency, RCC.<sup>2</sup>

Although this model is hypothetical, it reveals some truth about an economy in real life. For example, if Country (A) were a producing country, the only thing that can be changed is the ratio of its currency economy to its real economy. We can then establish, as a fact, that an international currency always augments the real economy of the issuing country - enabling the issuing country to consume more than it produces.

The model is hypothetical simply because it assumes a country has not had meaningful resources/economy to sustain itself but issues a currency. However, if we follow the logic of international neoclassical macroeconomics, we will find that substituting Country (A) with single person, person (A), makes our model consistent with real life. In other words, the model is hypothetical when it deals with countries, but more intuitive when dealing with a single person. If we follow again the same logic of the neoclassical macroeconomy, what is observed in a single person can also be observed in a country. This is because the “neoclassical macroeconomics tool

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<sup>1</sup> For more information, see, Niehans, Jurg. (1978). *The Theory of Money*. Baltimore and London: Johns Hopkins University Press.

<sup>2</sup> See Kurtzmann, J. (1994). *The Death of Money: How Electronic Economy Destabilized the World’s Market and Created Financial Chaos* New York: Simon & Schuster Inc.

is derived directly from microeconomics – the theory of how an individual agent in the economy behaves” (Keen, 2001, P. 8), and it doesn’t matter whether the individual agent is a person, a firm, or a country, the same mathematical formulation is followed. And if we take a single person who doesn’t work and has no inheritance or windfalls, but has amassed a lot of money, regardless of how he/she gets it, can consume more. The model is, therefore, not far from reality when it is expressed by a single person. If it were a person, we would call him names, such as deceptive, a Ponzi scammer, a cheater, a robber, fraudulent, and so on.

To conclude, from our model, Country(A) an issuer of an IFC will always consume without producing. A country issuing an international currency could, again in theory, purchase if the whole world placed itself up for auction if the price is denominated in the international currency. Under a ‘free’ market environment, it can also keep consuming more than it produces. Since the cost of producing a fiat international currency is cost-free, it amasses real economic stocks by importing foreign goods and services and acquiring foreign assets (Cohen, 1971; and cf. Cohen, 2015). When a country is producing and where there is protection on trade, the only thing that is changed from our model is the ratio of the ‘currency economy’ to a ‘real economy’, depending on whether there is trade protection or not, and presence of other competitors – competitors both on resources and currency.

## **4.2 CASE II: Robison Crusoe as a Discoverer**

The conditions we put forward are no more assumptions, as in Case I, but reflect the reality supported by historical facts. Thus, I am using the terms “conditions” and “assumption” interchangeably to reflect the fact that the models in Case II, III, and IV are reflections of real historical facts.

Let’s then put the conditions/assumptions:

- 1) Crusoe’s country (Country A) has no meaningful resources to support itself., or to exchange with others
- 2) Country (A) has, somehow, a hard power and means of transportation that enables it to discover new territories to trade with.

3) Country (A) doesn't have a currency to exchange trade with the outside world

Let's look at what the moves of Country(A) would be, and the pattern of its relationship with other countries located beyond the deep oceans.

For a country's fiat currency to be used, for the very first time, as an international medium of exchange, as in Case I, is a daunting challenge. As Polanyi suggested, in comparing commodity money with a fiat currency, the implementation of fiat currency, both a local and an international currency, involves something outside the market (Polanyi, 1957, p. 137).

Following the first condition, Country (A) may not conduct trade with the outside world due to:

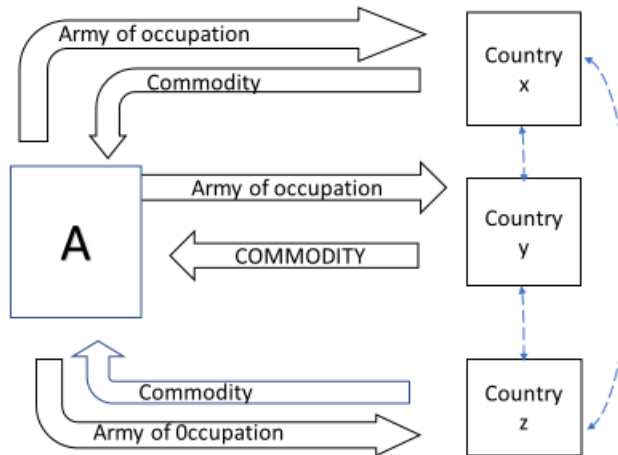
- a) a lack of resources that it can exchange in trade, and
- b) as Nicholas Oresme suggested above, others whose surplus Country (A) desires may not need Country (A)'s commodities.
- c) Country (A) doesn't have currency to be used for international trade.

Given the condition that Country (A) is in and that it can not create a fiat currency for its international trade, it is natural to think that this country would resort only to the resources available in its territory. This also leaves Country (A) deprived of the necessary supply of sustenance, and its people lead a miserable life.

The only thing a country in Country (A)'s situation may have done is to resort to 'discovering' other nations, following condition two above. The pattern of relationship Country(A) will have with the countries it encountered is represented in Figure II.

**Seigniorage:** In this model, the concept of seigniorage does not exist. There is nothing to say about it since access to commodities in other countries is performed by conquering territories instead of through a currency.

**Price-Making:** The same is also true for this concept, in this model, for the reason explained above.



**Figure II: Outward Military Expedition and Exploitation of Resources.**

As mentioned above, this model is akin to what did happen in the past to the relationships between nations – a time when peripheries had become a core.

### **Analysis**

In the situation above, where there is no commodity money or fiat currency to facilitate trade, the ‘discoverer-discovered’ relationship was established after the European discovery of a sea route around Africa’s Southern coasts in 1488 and America in 1492, followed by a ‘colonizer-colonized’ relationship at around 1500.

Understandably, if the nation doesn't have enough Gold or Silver, it is hard for that nation to efficiently engage in international exchange. The lack or abundance of Gold was therefore a matter of survival for most of Europe during the medieval age. Furthermore, as Postan explained, "the bulk of the European medieval economy was not involved in international trade, and some of it was not involved in any trade at all". This leads us to examine what Europe looked like in the medieval ages, and how its substance economy and its trade practices were. Liberal economic historians, according to Michael Postan, “have frequently taken it for granted that a market economy, like the bourgeoisie, arose at a single point in English history, usually at a point best

suited to their argument"... to legitimize the liberal market economy at the international level (Postan, 1978, p. 29)

The history of medieval Europe demonstrates that Europe endured continual and chronic poverty. The 14th century, the terrible epidemic known as the Black Death, which killed "one-third to one-half" of Europe's population, was the deadliest. The population of most of Europe would not return to its 14th-century level even when it started to increase in the fifteenth century. For Germany, recovery was not achieved until the mid-sixteenth century; most of Western Europe until the seventeenth, "or even perhaps the eighteenth in England." As Europe was looking forward to a recovery of its population, a plague "struck again" in 1357-58, 1363-64, and 1369. After the third pandemic, the plague struck again and again. The Black Death is, however, one of the factors that devastated Medieval Europe. Europe of that time was inflicted by a multitude of factors that range from famine to wars. To understand this, one must consider multiple factors which played themselves out over the course of some two centuries, beginning in the latter half of the 1200s (Briggs, 2011, p.23)

Famine was one of the persistent problems of medieval Europe, food shortage had been a persistent/chronic phenomenon across Western Europe. Part of the reason is that extremely harsh cold weather is inconvenient for crops to grow in. Most of the crops that we see in today's Europe are not indigenous to Western Europe and are introduced to Europe during those difficult times. Famine was, therefore, familiar in medieval Europe. Apart from the Great Famine of years 1315-1322, Southern Europe, suffered considerably at times 'from scarcity, with Italy being struck by famine in 1328-29, 1339-40, and 1346-47; Spain and much Mediterranean basin in 1323-33(killing 20 percent of the population in Barcelona), and Provence and the midi in the 1340s, England in 1370, and then, more seriously and along with the rest of northern Europe, in 1437-38. Famine struck Spain in 1371..." (ibid, PP.11-12)

There were, also, above-normal cold seasons including summers in Europe at certain times. For example, North Europe had suffered from particularly cold winters during the 1160s, and it is reported by the English Monastic Chronicler Matthew Paris that owing to a long-delayed spring planting caused by extremely cold weather lasting well into June, 'an innumerable multitude of the poor died' (Jordan W.C. 1996, P.17).

In addition to wars, plagues, and consecutive famines, Europe was also unable to import enough food from outside. This is due to the scarcity of Gold; and even the discovery of the silver mine of Freiburg, in the middle of the twelfth century, was insufficient. Henri Pirenne put it eloquently the situation by saying, "It is in fact of the greatest importance, and one which might well appear paradoxical, that the whole monetary system of Europe under ... the huge British Empire today [1956] was established at a time when the circulation of money had declined to the lowest level which it ever reached"(Pirenne, 1956, p.107).

It might look like a paradox, however, as we will see, the paradox is no more paradox. When we deal with power or international political and economic relations between nations, it is imperative to stress the role of guns in enabling Europeans to colonize different regions of the globe. Carrol Quigley's *Weapons Systems and Political Stability* stresses that while power can be analyzed into three aspects: Force, Wealth, and Persuasion, the first is the most fundamental (Quigley, 1983, P. 13).

Colonization was possible because of the invention of the gun, in the early 15th century. It was only after the invention of a gun that African/Asian/Inca warriors found themselves unable to defend themselves, in a protracted war, against the invaders from resource-scarce Europe. The timeline of colonization coincides with the making of the first gun. It is believed that the first personal firearms were developed around the 14th century leading to the making of the matchlock around 1450, the wheel locks around 1515, and the flintlock musket around 1610 (Herbst, 2005). The timeline highlights how a military power played a role during European colonization in executing the atrocities and looting of precious resources that helped build Europe. This is consistent with the time of the Portuguese expedition across the oceans where they showed their dominance in the gunfire of their fleets (Braudel, 1979, Vol. 3 p. 139)

What life looked like in the colonies? The story in other regions of the world is different from that of Europe. Although there were diseases and draught, there was no chronic lack of food. As described above, gold and silver money was very important in conducting international trade. Unlike city governments of Europe, kingdoms were ruling a wide area that used Gold and silver, along with ivory and other 'primitive money', for international trade. It is believed that many kingdoms, before and after Christ, used gold and silver mints in conducting international trade. These kingdoms include Ethiopia (Axum, although much of the West-biased works of literature do

not mention it), Persia, China, and other jurisdictions that existed at the time when there were city-states/governments in Europe. These kingdoms, at any moment in pre-colonial history, had a more vibrant market economy than Europe had.

The coastal cities of Ethiopia, Manila, China, Achem in Sumatra... Burkina Faso in Africa and other cities had a market economy for centuries. Fernand Braudel, using the City of Surat as an example, has described, articulately, how those cities looked like at different periods of history.

"It was in Surat [India] that the Dutch came and ...the silver rupees they needed for their Bengal trade... another indication of its importance for international trade was its ethnic and religious cosmopolitanism. But in 1758, just after the British conquest of Bengal, the Englishman John Henry Grose was as full of amazement as the admiration at the spectacle of Surat. ...Was there no Capitalism, were there no Capitalist?" (Braudel, 1979, Vol.2 p. 184).

Here one can, reasonably, ask that "why Europe intended to do this, while the gunpowder itself was even discovered in China? Why didn't the Chinese do it themselves? Were Chinese morally superior to the Europeans? Probably. Paper money too – A gun and a paper currency – were both invented in China and utilized in tandem by the 'desperate Europe'. Most of the scientific inventions prior to the invention of the gun were in the East and all the inventions, until that point in time, were not instrumental to perform decisive war against the warriors in different parts of the world - Galileo's telescope could not help in doing the killing.

It is around this time that many prominent European writers known as the founding fathers of liberalism, such as Sir Thomas More, John Locke, and Montesquieu, explicitly suggested the necessity of building an empire and justified colonization on grounds of survival and subsistence – NOT on ideas of promoting market economy, democracy, liberalism, and other terms that neoclassical writers reverberating again and again.

In his *The Spirit of Laws*, Montesquieu stated that "...everywhere violence...while men are constrained to take refuge in marshes, in isles, in shallows of the sea.... It was necessary that they should subsist; they drew, therefore, their subsistence from all parts of the world" (Montesquieu, 1752 [1748], P. 349). John Lock, in a similar fashion as Sir Thomas More's, claimed that the damages of war were insignificant, 'in any part of the world, where all the land is possessed, and none lies waste'; and in connecting the use of European silver and sequestration of land in another

nation, he suggested that the same may lie in store for any nation that does not use Europe's "silver money" (Seliger, PP. 14-15).

We can, then, conclude that, for the powerful, currency and hard power(gun) are interchangeable or can work in tandem reinforcing each other to achieve, maintain, and elevate the required economic prosperity in Country (A). Thus, the extraction of resources from all around the world, as John Locke suggested, can be executed by forcibly annexing territories, or by compelling territories to accept currency created by the powerful country (A).

Both maintaining and elevating own economic interest by extracting resources from other countries requires subjugating them in one way or the other so that they remain at a lower level of economic development.

### **4.3 CASE III: From a Gun to a Dollar**

By now, it is clear that we have already seen country (Country(A) has two instruments, as suggested by Locke, by which it can achieve the same objectives- one being a gun that enables Country (A) to physically conquer territories, and two, a currency that can do the same job as a gun does.

To build our model, we will need to put forward the conditions/ assumptions to examine if our model predicts the pattern of relationship that exists between the Core and Periphery countries. But first to the background.

The founders of the current currency system that we know now have dedicated themselves to arranging consecutive meetings (including secret ones), negotiations, and agreements, all for the purpose of setting the foundations for the establishment of the New World Economic Order ideal for both prosperity through maintaining extraction of resources from the colonies, while at the same time, as they say, 'to bring about peace'. Bringing these two, peace and prosperity while continuing extraction of resources through currency, into harmony, might not look to be feasible.

The current world economic order is established and took decades to be erected on a relatively solid foundation sustained for decades. The process of creating the Bretton Woods System started on August 14, 1941, when the agreement, known as Atlantic Charter, was signed between the US and the UK. Since the Charter's third and fourth points are relevant to our purpose, it is worth

mentioning them: On the third point of the Charter, they agreed to support those who have been forcibly dispossessed of their sovereign right and self-governance to be given back to them; they also agreed on the fourth point, to endeavor to make sure all states have equal access to the raw materials of the world.<sup>3</sup>

By February 1942, officials from both nations, including John M. Keynes and Harry Dexter, had already started to sketch out more detailed plans for postwar economic stability. The Bretton Woods agreements were the result of numerous meetings, including the Atlantic City Conference held just before the UNMFC, that spanned three and a half years and thousands of hours of labor. Many of the participants were under colony and there are not expected to participate fully to shape the negotiations and the agreements reached at the Bretton Woods.

As indicated above, the UNMFC was held in July 1944 when many nations were still under the colonizers who happened to be shapers and movers of the process that led to the Bretton Woods Agreement. Two of the Atlantic Charter agreements, which are the most important points of the agreement are the third and the fourth points. These are related to decolonization and access to world raw materials, respectively. And yet, it took decades to grant freedom to most African countries until the early 60s. Instead, as Nkrumah (1965), the First prime minister of Ghana and writer, indicated, the colonizer countries, which happened to be the core participants of the Bretton Woods Agreement, focus their efforts on balkanizing nations into small pieces and on training local cadres that could serve the colonizer's interest after getting independence. Among the most plausible reasons for this action are: First, that the existence of weak nations is a requirement for the BWS sustain. Second, it was a necessary condition to make sure that the future independent nations are led by the cadres that have an affinity to colonizers and are willing to abide by the rules and principles set by the New World Order. Thus, decades would be required to decolonize the colonies, especially in Africa.

Therefore, one can conclude, convincingly, the third and fourth points of the Atlantic Charter agreements were not actions to be implemented simultaneously, instead the third point is contingent

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<sup>3</sup> See: US Department of State, Archive, Bretton Woods Conference 1944. <https://2001-2009.state.gov/r/pa/ho/time/wwii/98681.htm> Accessed on:24-04-2023

upon the implementation of the fourth - making sure that the resources and raw material would flow first before the colonies be decolonized.

On the other hand, the Core countries were intensively engaged in forging their cooperation in their move towards the convertibility of each West European currency into a US dollar. The negotiation to full convertibility took time since many European countries needed to adjust and strengthen their balance of payment. The first European country that made its currency convertible into US dollars is the UK, in 1948; followed by others until finally all European governments, as their balance of payments improved, came to an agreement, in 1958, to make their currencies freely convertible into US dollars (Helleiner, 1994, PP. 53-71).

Furthermore, the development of the commodity market was taking place concurrently with the progress of currency convertibility. In 1954, the UK reopened the London Commodity market for commodities such as gold and grains; and the Euromarket, based primarily in London, was created in the late 1950s, allowing international financial operations to be conducted relatively freely; transactions could be made in nonlocal currencies (Ibid., p.70, 82). According to Helleiner, this act is a shift from a Bretton Woods financial order despite its continuance throughout the 1960s (Ibid., P. 82). His opinion might be tangentially in accord with what Michael Bordo suggested, somewhere above, that the US broke its promises to stabilize prices.

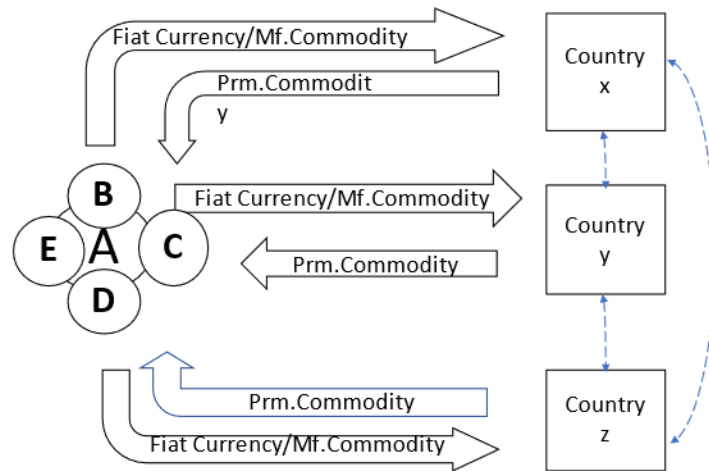
Although the US is usually blamed for abandoning redeeming US dollars into gold, a close examination of events may indicate otherwise. It made no sense for the US to redeem its currencies in gold when the major international trading countries already agreed on the convertibility of their currencies. Considering fiat money is already in use for international trading, why should the US redeem its currency in gold, especially after 1958? The abandoning of the gold standard in the Bretton Woods was not a US decision alone, it was done in concert with the cooperation of European countries, who were as equally esteemed as the US was, to get rid of the gold-backed currencies. After August 15, 1971, announcement of suspending the convertibility of a dollar into gold or other reserve assets, the G7 + 3 countries of the OECD assembled at the Smithsonian Institution in Washington, in December 1971, to officially agree to abandon the Bretton Woods fixed exchange rate in December 1971. It is against this and other backdrops, such as the petrodollar agreements, that the Bretton Woods System is created and evolved into what we know it today.

In our model, the Core is represented by a group of Core countries gather around Country (A) and represented by capital letters. The peripheries are, as in Cases I and II, acting and responding to an economic environment they haven't participated in creating.

From our priori that there was anti-colonial resistance in the colonized territories, we suppose that committing to a prolonged direct administration of colonies is unattractive and there exists competition from other countries that have similar power and ambitions that Country (A) has.

Consider also that the core countries resort to a method of coercion, using a currency, at a time when it has envisaged that continuing economic extraction through direct control of territories may not always be sustainable, and persisting to control them by force could eventually lead to losing them forever.

Suppose that Country (A) is relatively powerful and his friends of the same drive and comparable power, may cooperate to forge a system that can serve them all against the rest – the colonized and uncolonized. They are all convinced that it is not an easy move for all of them, say Country (A), (B), (C)..., to abandon its overseas colonies without diminishing its economic advantages and the welfare of its citizens. It might require instituting an international currency that would help sustain their collective economic benefits without investing in directly controlling the colonies. The process might take a long time, and if they all agree on all steps, and turns-and-twists, to finally secure the plan and achieve its objectives, Country (A) would be an issuer of international currency while, at the same time, all core countries' currencies are convertible into each other's currency. Having this assumption, the pattern of relationship they construct with their former colonized countries would resemble the illustration shown in Figure III.



**Figure III: Collective Action for Neolonizing by International Currency**

### Analysis

**Seigniorage:** Since it is covered in Case I, there isn't much more to say about it at this point. The logic of how seigniorage is accrued is somehow similar to the prediction made in Case I. By definition, assuming the Country (A) is an issuer of an international currency, it has a seigniorage over the world. But in practice, it is not so. The seigniorage that accrues to Country (A) is simply dependent on the vastness of the countries it has colonized. If its allies have more vast colonies with a huge population of the world, and still their currencies are convertible with Country (A)'s currency, then the seigniorage that accrues to Country (A) is lower, than predicted in Case I. The seigniorage is shared between ally countries whose size of a share depends on their economy. Since each of them has the potential to use their fiat currency for international trade, due to convertibility of currency among core nations, a seigniorage accrues to their respective economy. Each of the Core countries can purchase goods and services from peripheries, as long as their currency is convertible into a dollar. Therefore, the seigniorage is shared among the Core countries according to the size of their respective economy.

**Price Making:** Price making power of the core countries is enhanced due to the increasingly organized financial exchange and commodity markets. Each commodity's price is determined in

London's commodity exchange market and the prices for primary products originating from core countries are low, due to the monopolistic nature of the commodity markets in OECD countries. What do low prices mean to periphery countries? Well, they would sell more resources in exchange for a fiat currency and pay it back to imports. Under monopolistic commodity markets, the price of primary products such as gold, and silver is very low and may rise marginally over time. On the contrary, manufactured goods are getting more and more expensive, so the periphery countries can not catch up with their demand for hard currency. Regardless of the level of their volume of exports, the dollar value is low, and its purchasing power may not be the same as it would have been. This is one of the principal reasons why these countries are still on the periphery. The logic is that a country that has less hard currency is more dependent on that type of currency. The less price a country gets for its product, the more is its demand for a currency that it is dealing with in its international trade.

**Trade Patterns:** As is depicted in Figure III, the trade pattern of the periphery is always with the core countries. Because of the need for hard currency. These countries have to, always, export to the core countries. This doesn't mean that they do not export to other countries that can afford to pay in hard currency but to highlight that most of the non-perishables are directed to the Core countries. The reason again takes us to an issue of an IFC. Trade among the periphery is almost nonexistent for commodities that fetch hard currency. The implementation of the fiat international currency, by nature, prohibits periphery countries from trading with each other because each of them runs for an international currency, and the market for fetching that currency is designed by the system to be in the core countries.

**Trade Policies:** If trade policies are drafted, and their rule of execution is approved by the core countries, then it would be unfavorable to the peripheries. One of the policies that the core countries may enjoy is an open market and free trade. The open market and free trade could mean a market free of any intervention from a government, and no government ownership of enterprises. And free investment for business from entities originating from core countries. In Case I, it is predicted that if there is money there is anything, as long as that thing is available and presents itself up for sale. With money now, in our case, being elastic without a limit, the only entity that benefits from this sort of setting is a group of core countries, and all the currencies of the core nations are international currencies due to convertibility. The investors and traders are those who have the international

currency. No investment from one of the countries in the periphery would come to core countries. Open market policies and issuing a fiat international currency are highly associated. The peripheries, due to their dependence on international currency, there are prone to all types of coercion as described by Jonathan Kirshner (1995).

**Aid:** this comes in at a time countries in the periphery are already in a deep balance of payment crisis, which is generated due to all the issues described above. The core countries, while encouraging the troubled peripheries to stay on the same route, advise them to reform their economies in a way the rules and policies set by the core are vigorously followed. This leads to another level of crisis, as the disease itself can not be a medicine. The logic is again, not to minimize dependency but to tighten that dependency by making sure these countries are always short of an international currency.

***Sovereign Debt:*** as time passes on, the peripheries have no way to escape this debt crisis, as long as their balance of payment is in disarray. In most cases, these indebted countries in the periphery would find themselves in a deep level of poverty, by which all levels of important indicators score badly. The debt brings about a debt service, which may cover a substantial part of the GDP of the indebted country. The sovereign is a word that links the type of debt with the type of currency the debt is denominated – in this case, an international currency.

**Conclusion:** countries in the periphery are disadvantaged by following all the prescriptions they receive from the core countries. They are shaped from the beginning for them to behave this way in order to sustain the extraction of resources through a fiat currency. If a periphery country fully abides by the rules of the core countries, it is doomed to permanently remain in the periphery (see. Kim, 1991). The more an economy is deprived of a hard currency, the more dependent the country is. The more adherent the country to the rules and policies recommended by the core countries is the more susceptible to chronic crisis. The reason is the system is created to extract more and more resources out of the periphery. This extraction is possible by making sure that the periphery country always gets less currency, through low prices, so it has fewer currency resources to fund its subsistence, let alone for local industrial investment. In other words, the system that we know now could not have been sustained without making the periphery remain in the periphery. The high standard of living in the core countries is dependent on the low living standard in the peripheries. It is the IFC, which substituted direct colonization, that has brought about this disparity. In other

words, IFC stands high at the top of the hierarchies of all factors considered as causes of underdevelopment of countries after the BW system.

#### 4.4 CASE IV: The Way-Out of The Periphery

Suppose there comes a single or a group of countries emerged out from the existing periphery group. Also, assume the group of countries follows their own road map to mobilize their own capacity in order to boost their economy. Imagine that these countries follow policies opposite to what the peripheries in Case III follow. Then, we could have a pattern of relationships between countries as demonstrated in Figure IV.

To follow policies opposite to what is recommended by the Core counties group (A) would mean implementing local policies favorable to get rid of dependency. These policies may include persistence in following the policies designed, minimizing imported goods for consumption, maximizing local investment, boosting & diversify the export sector, and minimizing government consumption. All the actions are related to minimizing currency dependency, which is the key factor for the periphery to exit poverty.

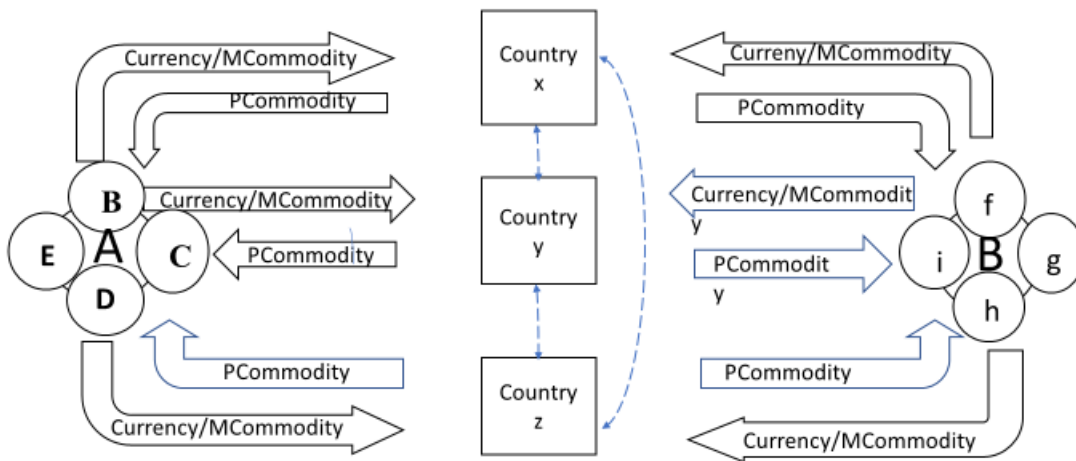


Figure IV: The Way Out Of The Periphery

Let's examine our model!

**Seigniorage:** The seigniorage that accrues to the core countries in group country(A) is not large as it would have been in the absence of the emergence of a competing group of core countries gathered around Country(B). In our case, the Core group (B) would have access to resources in the periphery to the same level Group (A) has, and as a consequence, the seigniorage that has been enjoyed by Group (A) diminishes, as it is shared by all core Group (A) and Core Group (B) countries.

**Price-Making:** Price competition is high since there is no sole group that monopolizes the functioning of the commodity markets. This leads to a commodity price increase to a level that can be considered a boom in commodity prices. The price peripheries receive is higher prices, and assuming the prices of imported goods and services are constant, the increase in commodity prices translates to more savings and investment (again if the peripheries chose to do so).

**Trade Pattern:** the trade pattern also follows the fact that there is a group that competes for resources and with higher prices, this is translated to a substantial part of the trade of the peripheries being directed to group(B) countries. However, trade between peripheries is still missing. The only change is that the peripheries are now trading with another core, Core Group (B) competing with Core Group (A).

**Aid:** Peripheries may get investment aid. in areas that the group(A) countries ignored for a long period. This is a form of competition between Core Group (A) and Group (B) for attracting trade partners with huge reserves of natural resources.

**Debt:** this is another means of creating dependency. In this case, the peripheries will have a wider opportunity to search for a loan with terms affordable to them, in terms of interest, mode of payment, and so on.

To conclude, the situation in Case IV is better for countries in the periphery. The changes identified above are mere improvements due to the availability of a competitor to work with. This doesn't mean that the dependency is eliminated. It is a mere change of lords who apply a slightly different approach to handling things. The only substantial move would be the alternative currency that is backed by commodities. Since most of the peripheries are relatively rich in those commodities, they would be better off if that happens, especially if the periphery countries can negotiate on the nature of the currency and its management. If it is fiat, there will be no change because the nature

of elastic money that is created by a certain group of countries is still extractive. Commodity money is the best since it allows peripheries to trade in strategic commodities with their neighbors. The same is true with commodity-backed money as long as the settlement of the balance of credit and debit is done within a specified period. If money is commodity or commodity-backed there will be no extremely excessive consumption. Each country will trade depending on what it has, and what it needs, based on a willing buyer and willing seller basis, just as any individual, which is a true meaning of free trade that guarantees equal exchanges of commodities with real money as a medium of exchange.

## **5. DISCUSSION**

The results from a short review above, key findings emerge that can be categorized into two to reflect the method we used to answer all three sub-questions in order to derive an answer to our central question.

The historical analysis part of this research suggests that the system is calculatedly designed well ahead of its creation (see., Nkrumah,1966, Adebegi,1995, and Raimondo.2020). By doing so, core countries would continue extracting resources from ex-colonial countries even after the colonies become independent. The system ensures that this could happen by instituting IFC so that the flow of resources from those peripheries resumes so that the core countries continue extracting resources in exchange for fiat money, instead of physical control by a gun. It was necessary, therefore, for the core countries that happened to be colonialists at the time, to establish an international fiat system that ensures the flow of raw material without disruption; and that the system must be established on a relatively solid foundation.

This led this study to conclude: a) decolonization of the peripheries was contingent on the establishment of the current IFC system, and b) the decolonization of the colonies was contingent upon the establishment of an international fiat system. These two conditions are considered to be necessary and sufficient to conclude that the system is not designed to bring prosperity, equality, and peace around the globe, but with an intention to sustain the interest of core countries, an answer to one of the sub-questions of this study.

The results of our RCCM, a model of a mental construct or a simple thought experiment, demonstrate that a country that issues an international currency has a different level of seigniorage depending on the situations that are modeled in four different cases.

In the first case, which is purely a mental construct, the study suggests that a country that issues IFC could purchase, in theory, if the whole world puts itself up for auction and if the price is denominated in the IFC. This insight contradicts with credit theory of money while consistent with commodity money theorists.

This theoretical model suggests that IFC is represented just like a real commodity or a resource in itself, instead of being a token that functions as lubricating an exchange of different real commodities between two parties. This finding affects the validity of the neoclassical theory of money in international trade, such as questions on how Britain and Portugal can enjoy their respective comparative advantage of producing cloth and wine, say for example, if the exchange is conducted if and only if in a fiat currency printed in one of these countries.

This finding suggests, if Britain and Portugal trade their cloth and wine to each other respectively, with, say a fiat currency created in Britain, then Britain has an opportunity to buy all the wines produced in Portugal in exchange for just a piece of paper, which is cost-free to create. Britain doesn't require to produce wool in order to import wine produced in Portugal. The comparative advantage thing dies right there. While some international currency literature recognizes the power of issuing an IFC, they still stick to the idea of the benefit of trade based on the comparative advantage (Cohen, 1971; and cf. Cohen, 2015).

For Britain to maximize the benefit of using the international power of its currency (in this case, in Portugal) it requires another fundamental condition to be fulfilled, and that is a full-fledged open market, without any protection that allows a free movement of commodities. All the suggestions presented in the remaining three models, flow from the premises set in the first model.

The second case of the model shows that when there is no international fiat currency and a country is relatively powerful, the only way for that country to access resources in another sovereign country is by invading the country and bringing it into its colony, as suggested by the founding fathers of 'liberalism' such as John Locke (Seliger, 1969) and Montesquieu, and many others.

The third case reveals that for an IFC to sustain the requirements are, as mentioned in the first case, an open market, free movement, rules, and institutions that direct and manage international trade, implying, again as indicated above, that the effectiveness of IFC is directly connected with the policies of openness of markets all over the world. The more open the world market, the more extraction of resources is possible by the currency, the less open the market is the lesser the exploitation is. Theoretically, this would mean that if the market of the peripheries is closed for the core countries, the effectiveness of the IFC issued by the core countries in exploiting the peripheries is effectively zero. From this, an idea can be inferred that a difference in a position regarding a global open market is directly related to the differential advantages that international liberalization may generate. In other words, the support for international liberalization is a logical position of core countries given that the IFC can only be effective when markets are open and free.

It also suggests, that for this effectiveness to sustain, in addition to the UNMFC, core countries require institutions, such as the BWIs. The policies and 'development initiatives' designed by these institutions and imposed on the peripheries are to make sure that liberal policies are in place so that the core countries continue to exploit international resources available worldwide so as to maximize the benefits that accrue to the core while, at the same time, constraining the peripheries within the perimeters of their peripheral parameters (see, Baah, 2003; Moyo, 2010, Rodrik, 2006, 2016). In other words, the research suggests, the system that we know now could not have been sustained without making the periphery remain in the periphery. The high standard of living in the core countries is dependent on the lower living standard in the peripheries.

This study also implies, in case four of the model, that the only way for the peripheries out of their peripheral position is to initiate local development policies and programs that would be able to contribute to lessening their dependency on the IFC. This includes implementing policies opposite to what is recommended by the BWIS, since, for the most part, all economic disorders that exist in peripheries emanate from the use of IFC which has nothing to do with their economy. Those countries that do so are depicted as new emerging core countries competing with the already established core countries, those countries that do not follow the same path will remain to be peripheries as long as they are so attached to the prevailing IFC system. Deinking of the economies of the underdeveloped countries from the currencies of the core countries is of paramount importance followed by wisely implemented homegrown economic policies.

These emerging core groups would compete with the established core countries in accessing resources that may lead to a price increase in commodities. This might bring to periphery/poor countries a slightly better atmosphere due to the nonexistence of monopoly. This study finally suggests that the solution for peripheries to get out of their chronic and structurally calamitous economic situation is to adopt, in one way or another, a commodity or commodity-backed (real) money (but not necessarily the Bretton Woods type, as each country can singularly decide to conduct its international trade, sell and buy, in commodity money). If money is commodity or commodity-backed, there will be no extremely excessive consumption. Each country will trade depending on what it has, and what it needs, based on a willing buyer and willing seller basis, just as any individual, which is a true meaning of free trade that guarantees equal exchanges of commodities with real money as a medium of exchange, as suggested by thinker in the ancient, medieval and classical era ( see e.g., Plato, Laws bk V and Aristotle's politics above; Monroe, 2005; Schlichter, 2014)

Finally, this study, based on the result of the sub-questions it posed, concludes by answering the central question of whether the IFC has a link with the development of the Global South and Africa/SSA, and it found the IFC is the most fundamental determinants of the strength of a national development/economic development – while its benefit to Core countries is enormously high, the damage it poses on the periphery countries is devastating.<sup>4</sup>

The contribution of this research can be explained by its use of a novel/new conceptual model. Augmented by a historical analysis approach, the novel model I introduced, which I call RCCM, demonstrated its potential in helping this research achieve its objectives by linking together the research questions, hypothesis, theory, and goals with the aim of identifying the patterns of relationship that may exist between our constructs – core, and periphery. It is found to be effective in isolating an international currency from that locally used by avoiding microeconomic concepts such as efficiency, transaction cost, cost minimization, exchange rate, and other concepts. In this regard, the model is a new/novel contribution to the existing knowledge of international currencies. The results that our mental experimental model generates do not fit with the theory of neoclassical thought or the credit theory of money. It builds on the use of commodity currency in international trade, which existed for the last five thousand years, before the establishment of the BWS, and is

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<sup>4</sup> See, Amato, M. and Fantacci, L. (2012). The End of Finance. Cambridge: Cambridge Polity Press.

consistent with the Commodity theory of money. IFC and international trade experiment provides new insight into the relationship between the core and the peripheral countries. Nonetheless, the research results, and probably the method I employed, may not be helpful enough to convince neoclassical thinkers.

Based on the conclusion, it is recommended, primarily for policy practitioners, to consider the real effects of imposing IFC on others. The system is not up to what its founders promised the world that it would bring prosperity, peace, and equality, by means of equal access to resources and open markets, is purely an ideology based on the greed of the powerful. Inequality among nations is getting wider and wider and can be a major recipe for global instability. Equality and greed, peace and greed do not go together. As competitors emerge and compete both in currency and other parameters with the established core, the seigniorage of the core declines, which would necessitate an adjustment in a living standard. This would require courage and adherence to truth. Nothing is scarier than someone losing power, as people who are losing power do violent and desperate things. God save us all!

For neoclassical theoreticians, it is recommended future writings examine if the neoclassical international monetary and trade economics doctrine is still valid in treating IFC in their mathematical equilibrium models in a similar fashion they treat currencies that function locally.

## **6. CONCLUSION**

This chapter concludes the study by summarizing the main research findings in relation to the research objectives and research questions and discussing their value and contribution. It also reviews research limitations and suggests future research opportunities.

The research aimed to examine the link between international fiat currency and development to answer the central question of how an international currency issued by a country or countries affects the development of other countries that use the currency as a medium of exchange in conducting international trade. Sub-questions that are also utilized to help answer the main question include: 1) what necessitated the BWS and how the IFC enjoyed acceptability and sustained for seven decades; 2) what role BWIs do play in sustaining the IFC? And 3) how the SSA has been

affected differently from other regions of the world. A novel method, which I called the ‘RCC conceptual model’, is employed to analyze the effects of IFC.

While the historical analysis indicates that the system is calculatedly designed to serve the core countries so that they can continue extracting resources in exchange for fiat money, the results of our RCCM show that BWIs’ rules, policies, and recommendations are aimed at sustaining the system by keeping peripheries remain in periphery. It also suggests that the way out of the periphery is to delink the economies of underdeveloped countries from the IFC and develop a local development strategy, policies, and development programs different from what is recommended by the BWIs; and Africa is lagging in this respect. Finally, these results lead the study to conclude IFC is a major determinant of national development – affects positively the core countries, and negatively the periphery countries. Countries that issue an IFC have a seigniorage over the world are the core countries, and the underdevelopment of peripheries will persist as long as the current IFC system is in place. The conclusion also suggests there is no equal exchange within the current system because issuers of an international currency can consume more than they produce, and even, theoretically, without producing.

It is recommended that the practitioner reconsider the realities, and the service that commodity money can provide, as it had been providing before the UNMFC, to the global community by lubricating an exchange of real commodities of equal value; and limiting the service of money to exactly that.

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