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AN OVERVIEW OF THE NEW ARCHITECTURE OF INTERNATIONAL MONETARY SYSTEM

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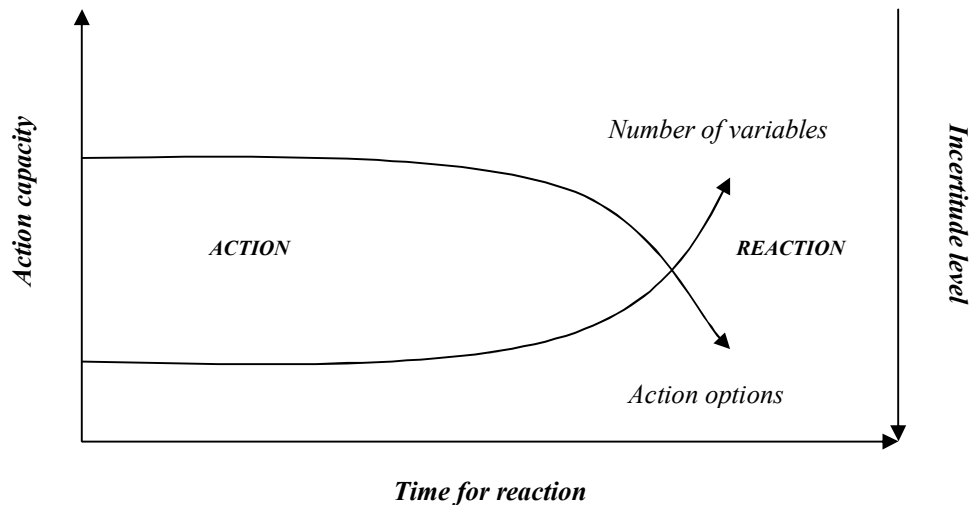
The new architecture of the international monetary-financial system is determined by the evolution of the economics, socials, culture and contemporary policies. The reorganization of the monetary-financial system's institutional and functional formulas is not possible against trimming the intervention according to all the attempts regarding defining the new equation of the global equilibrium. The International Monetary Fund and the World Bank represent only a parcel of the institutional system with universal vocation. Its role is to watch over the monetary-financial dimension and it has direct responsibilities regarding formulating certain policies and coherent strategies meant to assure the general monetary and the global financial equilibrium.

As a rule, on the international level, the action directions start from the dynamic evaluation of the major risks. These are intercorrelated and dimensioned according to the decisive geopolitical, geostrategical and geoeconomical panel. In the bellow is a representation of the global function evolution of response when a certain element of uncertainty is clearly shown. The evolution is defined considering the action time and free reaction space which the universal systems would get. Following the international monetary-financial system patterns, this graph can be translated by noticing a reversed proportion interconditioning relation between the action capacity and the disposal time response of the international financial authorities and its operational efficiency. This happens due to the exponential increasing of the number of variables implied, when a risk parameter related to the international monetary-financial markets is being present.

Rationally, the problem resulted analyzing this graph is related to the adequate relatively time needed for elaborating the supervision and governing policies for monetary-financial equilibrium assuring. The equilibrium is also in a reversed proportional relation with the available time for wording a reaction onto the market. Thus, taking in consideration the concentration of the markets (*markets concentration*) in time and space, wording the reaction is more difficult because the action space is propitious only for „*crisis prevention*” phase.

The preventing actions occupy the main position in describing the specific market risks manifestations. The strategic options can only be concentrated on the account of reducing the number of variables afferent to the internal or external functional environment of the markets. Thus, if there is not enough time for elaborating an adapted reaction, implementation of the preventing and supervising background becomes compulsory. In this order, when a simple deviation or functional side-slips will with interfere, the indicators shall be distinctively delimited and treated before the whole system is affected.

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Graph No.1*

Nowadays, the national economies represent themselves as centers of heterogeneous evolution which induces a series of risks and uncertainties to the system. These are defined by particular variables, not only in economically or financial area but also from geopolitical and geostrategical point of view. On the account of these centers of heterogeneous evolution some unique aggregate variables are being defined based on the *global* → *national* relation and not the other way around, as it would make sense, based on the *national* → *regional* → *global* algorithm. According to the graph no.1, defining a functional structure is compulsory. It must be grounded on the necessity of increasing the number of variables and on the *national* → *regional* → *global* relation so that the possibility of enlarging the curve of possibilities for subsequent reactions in the „*treating*” phase of crisis would exist. Furthermore, the example of defining the European Union space, represents the most eloquent successfully proof on the international scale. This happened by gathering countries around certain regional centers based on global realities building, starting with the regional integration. Thus, starting with the general difficulties caused by the great spread of the environmental variables and the comprehensive concentration in time and space terms, the new architecture of the international monetary system must be constructed based on 2 main pillars, such as: the defining of a common conciliated networking configuration of the national economies and the elaboration of a functional structure of the global markets under an integrated perspective.

In the current stage of the world economy, every nation tries to adapt its economy to the new *given* realities by following the demands established through the results of the international cooperation and the decisions worded at the level of the greatest economical powers. In this way, the emerging countries destinies are tributary to promoted interests and preferences of this privileged group of states. In spite of fact that this meters concern all of us, the variables are predefined by the exclusively arbitration of the developed countries. Unfortunately, for these

* Source: *Global Risks 2007. A Global Risks Network Report*, January 2007

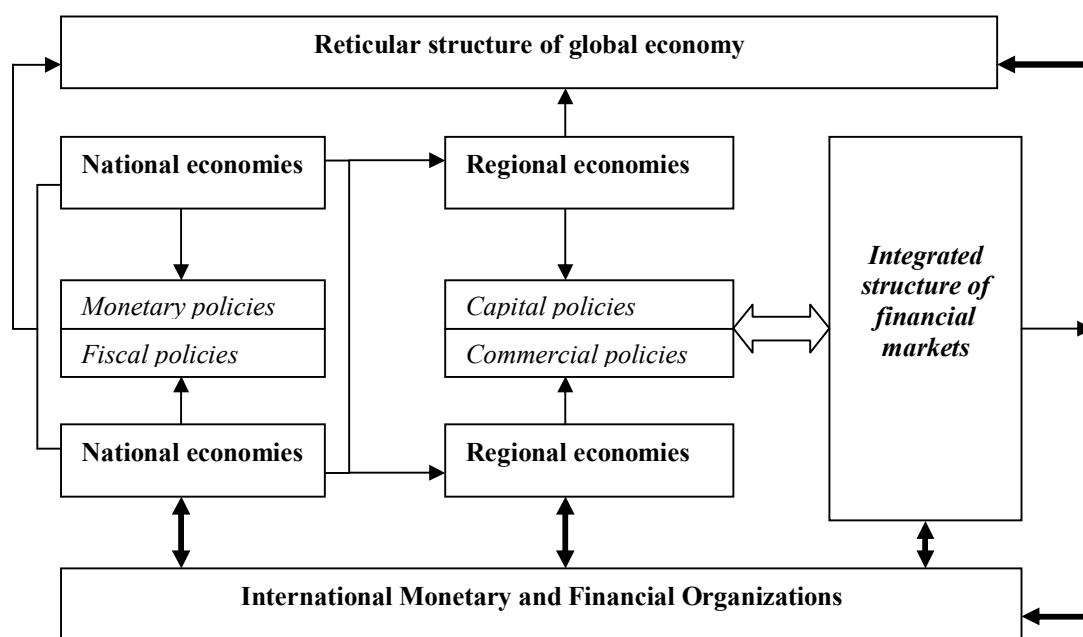
countries the market game has different meanings than the global overwhelming problems in terms of poorness, organized crime or the environment pollution.

Starting with the principle according with the equilibrium of a system can be governed efficient only through the equilibrium of the parts, we can concluded that the international monetary system could become impossible for a global governing, in terms of action heterogeneity possibilities on the regional level. Global economy configured as a ***functional network***, should emphasizes the particular perspective of a modern world economy, where the states are integrated in an equitable system own to a fair distribution of capitals exclusively based on absolute and comparative advantages theories. This proposed new architecture should be built starting with a functional structure of a global informational network for data correlation on an international level, having as primary purpose, the global variables defining. In this order, the coherent market reactions, within this kind of network, can be assured only by assuming a generalized global responsibility, consolidated around the main recognized principles of macroeconomic policies. The results of this plus in flexibility should be found in terms of time, within the enlarged broadband of regional reactions and, further, in the consistency of global reaction formula.

The major difference between the international economies heterogeneous characteristics and the reticular network configuration of global economy consists in the possibility of a direct involvement in the decision process and not only in the cooperation stage or assistance procedures. Considering this, as a priority, the state interests must be assimilated and harmonized with the general interest in terms of *national* → *regional* → *global* relation. All of these have to contribute in defining process of some system variables specialized and personalized on countries and different regions for further developing of an international early warning system. Developing some informational networks that are regionally integrated will give the opportunity to increase the speed reaction based on the initial decreasing of the variables number and on the restraint of the treatise spaces. Thus, the European Union example, offers a background of a possible regional common settlement, from the economical, monetary or social convergent policies. It also offers a political discussions forum, grafted on collective participation meant to stimulate the decreasing of the environment variables (regarding the predictability of policies, single currency and integrated markets), favoring the action unity and a coherent intervention attempts, within the assurance of the regional and, further and global equilibrium.

In a different order, the states have on their disposal a large set of monetary and financial policies, used for governing internal variables of environment, such as: the economic growth, the inflation, the budgetary deficit or the currency rate. Taking under consideration the major impact of the capitals free circulation against those indicators locally governed after the classic policies, we can suggest that there are missing exactly the specific governing instruments of the relation between the internal national or regional indicators and the external pressures.

According to the relations suggested in the graph no.2, the monetary and the fiscal policies must be completed by a set of *capital policies*. This policy set must be able to offer the opportunity for controlling the internal indicators in relation with the particular evolution of the capital flows (agents of fusion) on a regional and international level. If capital influxes are freely left, as neolibérale thesis emphasize, without a regional harmonization, there cannot be established an accurate report between the immediate national interest opposite to investors aims and the *free market* principles.



Graph No.2

As it has been shown, in the international practice, the macroeconomic indicators (intensely detailed and defined by the economical theory), have different evolutions. Their evolution is based on the national and regional characteristic features regarding economical, social, political and cultural or strategically points of view. Even more, the heterogeneity of this indicators evolution becomes more obvious since the capital flows have been liberalized and new dilemmas and challenges have been corresponsive appeared, determined by the pertinent necessity of macrostabilization. On the other hand, these consequences are embedded by the imperative need of maintaining the minimum external standards regarding the market image or perception. The transmission of the crisis contamination cannot be stopped by isolating economies with problems. It can be reduced only through a precise preliminary delimitation of the affected sectors and thus by interrupting the propagation channels of the crisis on these segments. The contagious affection of the health states placed in a unequillibrate region, justifies the necessity of a national economies preliminary integration, first in regional structures and second in a global perspective.

For example, if we take under consideration the inflation phenomena on the macroeconomical level from the perspective of the classical theory, its evolution can be reduced. Normally, this can be done through the interests rate controlling or through sustainable

policies for national currency protection against the main foreign exchange rates volatility. In spite of the neo-liberal theory about maintaining the freedom of foreign capital inputs and outputs, the interest rate burst and the depreciation of the currency can determine the premises of huge speculations coming from the greatest financial corporations. An eloquent example is offered by Stiglitz J. who is mentioning the technique of the repeated speculative attacks over the main Asian currencies. The result was the collapse of the currency exchange rates by taking under consideration whether they had, or not, sufficient reserve currency to remunerate these speculations at the right time. The creditors of currency of those state who borrowed a currency being in a full process of depreciation, will have the interest to stimulate its immediate failure. This kind of speculative actions has been executed very often in last three decades and the states, depending on their financial power, reacted different. For some states record a quick stabilization (e.g. South Korea) based on their great reserve currency, while others, opposite in terms of financial power, succeeded just to increase their debts with no possibility of establishing an equilibrium in short time (e.g. Indonesia, Thailand). In background, through its substantial direct interventions, International Monetary Fund has been feed in fact these speculations, by speeding up the national currencies depreciation on the vicious spiral of uncertainty.

Therefore, adopting and forcing through their policies and actions the Washington Consensus “*free market*” rules, International Monetary Fund, has been acted against the national interests, subordinating the local macroeconomical imperatives and priorities to the speculative market game. In case of a reticular structure of the national economies, in a crises situation, the IMF’s intervention could be directed exclusively to the affected segments without any distortions of market image for states in troubled and without aggravating the markets reactions. In the given example this fact could be expressed by the agreed intervention of the fund. The priority is to accomplish an immediate stabilization of the markets but not for directing the macroeconomical policies of the affected states. In terms of promoting a reticular structure, the economies will succeed only adopting or negotiating common regional policies related to the capital flow policies. This new policies shall be transparent and shall be based on medium and long term in relation to the expected crisis effects.

As an idea, creating some *global centers of collecting and interpreting* the risk factors, may offer a real consistency to the global attitude idea as long as all those who are present on the market are involved in this action. Also, creating an international institution of the post-crisis reforms arbitrage may cointerest the creditors to participate effectively in the reorganization of the countries affected by the crisis. In this order, the collecting and evaluating the risks would be called in the phase of stability to harmonize the global informational system in relation to the heterogeneous macroeconomical realities. In this way, when are launching crises, a macroeconomical common answer shall be, in time, coherent formulated. The answer will be adapted to the international markets reactions. Creating new institutions does not occur

in the famous perspective of J. Stiglitz over the reform process (“... the mountain gave birth to a little mouse”) but it certifies the idea that the equilibrium process of the financial system, involves the international negotiations including extremely laborious and bureaucratic steps. As long as this situation lasts it can be said that supervising the markets is firstly a political problem that needs to be treated as such. No matter how many technical organisms will work; finally, the political side and the administration institutions of the consensus will be the most important. On the contrary, avoiding or neglecting the political dimensions, will permanently maintain speculations regarding the lack of efficiency of the international financial institutions.

The market stabilization can be done either from an informational point of view, through detailed calculation of loss, on risk categories and by setting the rational market action limit (courtesy of that global centre of collecting and interpreting risk factors), or by subsidizing short-term loss (e.g. aided by derivate promissory notes), conditioned by reforms negotiated and accepted on the market. As a suggestion, these reforms could be negotiated inside a international crisis arbitration forum, that would function similarly to the example provided by company restructuring processes: country in trouble proposes a rehabilitation plan and creditors, jointly interested, help structural adjustments through reforms (new business opportunities, based even on a potential *pre-emption* right).

The right moment for action, from the IMF and WB point of view, is the moment when markets are steadying, and can be marked by involvement in arbitration orders, offering the solicited technical or financial support, but less for correcting some short-term monetary formulas, and more in the purpose of stimulating real economy. In the IMF and WB case, these interpretative aspects (sometimes maybe too simplified, for reasons enforced by generalization), justify the strategic shift in preference toward a global surveillance, defining the conduct-related boundaries frame, based on equitable management of consensus, assuming responsibilities regarding the financing of durable development, on a global scale.

The main characteristic of the reform process is, basically, acknowledgement of the necessity to reestablish the two specialized institutions as foundation elements of the institutional political system, on whose account they have been created – these five strategies, in fact, setting the premises for a rebound of representatively, utility, efficiency and relevance principles, looking at world expressed trends, expressed in the Monterrey Accord (United Nations – Department of Economic and Social Affairs, Mexico, 2002). The desideratum of having the two institutions’ integrated within global consensus, administrated by the United Nations System, has moreover been stated officially through the U.N. Resolution No 61/253 dating on the 8th of August 2006, concerning implementation of the Conference’s results in the sense of financing Monterrey’s development program.

As specific actions, what stands out are: strategies on reducing poverty, technical and financial assistance on structural adjustment, the support of social projects or assistance on strengthening the response capacity to international economies opening. Sustaining the system

of attracting financial support, based on projects or “grant”-s, contributes to the transparency of the monetary-financial organizations, but the lack of strategy competition and regional priorities creates the premises of inadequacy towards the requirements of steady development. The IMF and WB need to get more involved in attempting a fruitful cooperation between mid-developed countries and pointing macroeconomic policies towards progressive coping with the values of globalization, and not by shock-therapies. Implementation of regional strategies can be helpful in “exercising” the principles of free market, between states of equal size and caliber, decisively lending a hand to acquiring breathing space necessary for finding the flaws in national economies, calcifying their own institutions and elaborating strategies that adapt to total openness of the economies towards international capital flows.

Conclusively, the new face and body of the international monetary-financial system may be shaped first by applying major reforms to the present political consensus situation, with the participation of all states in the process of setting the right strategies and policies in order to achieve intercommunity, under globalization and economic integration. Regionally, the latter presently appears to be the first logical step in defining a global system. The experiment of European integration and the positive results from Central and Eastern European countries, much better when confronted to crisis situations, is itself hard evidence that the metamorphosis into a global system must be divided into integrative regional steps, that later should be possible to combine into a coherent, functional system – with enough exercise in sharply pointing out the right direction of action. Once politically “stimulated”, the globalization process, through regional integration, can lead to the reticular development of the global economy and might just mean the “fresh breath of air” for many growing countries, in their collation with the Great Powers. The responsibility carried by highly developed countries towards the ones less so, who retain majority by their demographic strength and their incidence over systemic risk variables, is overwhelming, and the success of the new economic and financial “design” of the world relies, after all, on the way in which this group of states chooses to involve in shaping contemporary global relations.

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