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Some Considerations on the Underlying Need to Reform the Current International Monetary System

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GJMBR-A Classification : JEL Code: E02; E42.

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Some Considerations on the Underlying Need to Reform the Current International Monetary System

Ion Corbu α & Aurelian Virgil Băluţă σ

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Keywords: international monetary system, reformation, imbalances, crisys, international reference currency.

I. Introduction

The global economic crisis that began in 2007, in addition to the huge disasters it produced, also had a positive role. It highlighted the limitations and vulnerabilities of the International Monetary System (IMS), the current major imbalances that it generates and therefore, brought in public an issue that not many years ago could not even be thought: the reformation of the system based on the American currency issue, respectively, the dollar.

Recall that Michele Bachmann introduced a bill[1] in the House of Representatives which prohibits replacing the dollar with any other foreign currency.

Now this theme is a permanent presence on the G20 agenda and the subject of more and more Interventions from the countries of the world and, in particular, those who hold U.S. Treasury bonds.

Some the major vulnerabilities[2] of SMI that have have been observed during this crisis are:

1. The dollar, a reference currency, is itself, a vulnerable currency due to the fact that it is in a continuous depreciation[3] and the U.S. budget records a chronic deficit. For example, in the year 2013, the U.S. debt approaches the astronomical figure of 17. 000[4] billion dollars. At the same time we must not forget that virtually we are in a currency[5] war so that vulnerabilities can be speculated and hightened.
2. The lack of an international reserve currency to ensure global financial stability and facilitation of world economic growth.
3. The international monetary disorder generated mostly by the use of the dollar as the standard currency and that has replaced the use of gold as a monetary anchor.
4. The permanent erosion of foreign reserves of countries that have based their economy on the dollar.
5. The use of "global", "complex" and "sophisticated" financial instruments but basically opaque, outside international accounting rules, corporate governance. Because of that, losses were produced outside the specific laws of the market and fair competition mechanisms.
6. Decision-making within the system based on levels of rating given by rating agencies. They are few in number and therefore generate monopolistic dangers. At the same time they work without private

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[1] http://en.wikipedia.org/wiki/Michele_Bachmann

[2] Positions 1 ÷ 9 adapted from I. Corbu, The reformation of the global financial system, an imperative of sustainable development, Sustainable development and renewable energy, Romania of Tomorrow Fundation Publishing House, Bucharest, 2009.

[3] U.S. export interests have made the dollar be permanently impaired.

[4] http://lebulletindamerique.com/2013/03/27/la-dette-americaine-peut-elle-etre-reduite/

[5] http://www.lefigaro.fr/tauxetdevises/2011/01/05/04004-20110105ARTFIG00442-l-euro-demarre-l-annee-en-baisse.php „«Nous ne pouvons pas oublier que nous sommes dans une guerre des monnaies, tous les pays oeuvrent pour dévaluer leur monnaie afin d'en tirer des avantages commerciaux» Guido Mantega, ministre des Finances du Brésil

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or public control over their activities which puts their credibility into question.

7. The existence of major weaknesses in the functioning of rating agencies whose correction is difficult to accomplish due to the lack of a control or authority system over them. The monopol position of rating agencies limits the feedback of beneficiaries.
8. The existence of conflicts of interest between rating agencies and rated entities. Both the corporations and the public system regards the conflict of interest as one of the worst attacks on fair competition. We cannot speak of the fundamental rules of the market in conditions of conflict of interest.
9. Questionable at least, and sometimes arbitrary procedures of evaluation and assessment of financial assets. Financial instruments called "innovative", "complex" and "sophisticated" are actually lacking transparency. Usually they are measured and recorded in small circles, without applying the mandatory evaluation standards for all other securities in the financial market. Such instruments are introduced into the market without adequate financial analysis. Investors really do not know the reality behind these instruments.
10. The tolerance of these tax havens allows some market competitors to gain benefits out of the competition based on equal opportunities.
11. High capacity in disseminating negative processes (especially crisis) and limited ability to transmit development. A reality was already established: the rapid spread of the crisis (that began in 2007). Starting from U.S. financial centers, the crisis affected most countries of the world, both developed or emerging. This contagion of the crisis was an export from those responsible for its production in areas that lacked any interference in this crisis. Thus SMI proved to be a driver of negative phenomena canceling many of its positive effects.
12. The lack of financial rigor and discipline in SMI enabled the accumulation of large global imbalances. So, while the U.S. accumulated current account deficits, China and Germany, oil-exporting countries, have accumulated large surpluses. The natural consequence of these imbalances is represented, on one hand, by an enormous inflationary pressure, on the other hand, by generating capital flows in search for its utility. Such cash flows based on structural imbalances will also create unsustainable international reserves and increased credit flows, difficult to reinsert in the economy. All this will put pressure on monetary policy.
13. Lack of international bodies for monitoring and control, either private, public or civic that would effectively monitor the system, perceive early warning signals regarding the creation of imbalances and their production. These bodies should be neutral in relation to financial institutions and corporate and citizens interests as users of financial resources. Almost all financial experts considers IMF for this role. In our opinion, the IMF, as it is known, is mainly a bank and therefore will never have a neutral monitoring and control behavior. Furthermore, financial and economic policies promoted by the IMF have not revealed their efficiency. Even if we bring up experiments done in countries like Argentina, Uruguay, Paraguay, Ukraine and we find that the claim is submitted. As we have seen above, not even rating agencies have the practical ability to act professional, efficient, objective and neutral.
14. „The expansionist policies" of some developed countries in which the "economic growth" takes place based on deficit. The lack of coverage in goods and services of huge funds, mostly inflationists, injected into the market without any control, have contributed decisively to the generation of major imbalances affecting world economies. Here, it might appropriate to mention thelose of any control on "innovative" or "derivative" financial instruments.
15. The misinterpretation of neoliberal concept according to which there should not be any control because the unseen hand of the market adjusts the market and maintains its balance. According to the liberal approach, it was natural that after acquiring profit in business, the failure that followed on the financial market to be penalized by company loss even by bankruptcy in case of severe errors. Liberal economic and competition means clear rules applied to all and harsh penalties imposed for their violation. Practically, after a long period of time, about 60 years, in which large financial institutions have privately appropriated their profits, when the due date came and bankruptcy would have been the sanction of irresponsibly promoted policies, they began to invoke state intervention. On this basis, they turned to the state asking for help. Thus such losses were nationalized and were transfered to the citizens of the entire planet, primarily for small taxpayers. In fact, major financial institutions don't have and do not defend a certain economic doctrine out of the ones already established. They use the current SMI in their personal interest. These financial institutions invoke a certain doctrine according to their interests at that moment in time and, aided by an outdated mechanism, the current SMI, manage to assert those interests against the demands of development.
16. The authors noted in various debates or informal meetings that there is a high degree of corruption in certain large financial institutions, public control and

regulation institutes, departments of rating agencies. The authors have no documents or evidence in this regard but they cannot notice that if the informal reports are true, then the amplification of negative effects of the crisis on a planetary scale is explainable. With or without corruption in key points of the financial system, lack of IMS performance was evidenced by the inability to mitigate a local phenomenon, the liquidity crisis of financial institutions caused by incorrect management.

II. International Monetary System – Background

With the abandonment of an IMS operating according to the Bretton Woods agreement in 1976, in the Conference in Kingston, Jamaica, were laid the foundations of the current financial and economic crisis. For though they were highlighted in the brightest ideas and concepts, principles laid down in the conference, in fact, could not fill in the Bretton Woods agreements on the one hand and could not keep up with the rate of development of contemporary economy and the general imbalances and their constant increase. So little by little, the system came to demonstrate its limits and ineffectiveness. And the crisis that started in 2007 and which has not yet ended, gave the final blow, proving that the system has become obsolete and as such, must necessarily be reformed.

From a long, sinuous and sometimes spectacular development of IMS, otherwise a known trends, we briefly analyze whether the IMS objectives have been achieved starting from the principles from which IMS, based on the Bretton Woods agreements, was abandoned.

We recall the agreements in Kingston, 1976 after which the gold standard was formally abolished but which was abandoned unilaterally since 1971 by President Richard Nixon[6]. However, in a certain way, an end was put to tensions arising in the system due to unilateral termination of the gold convertibility of the dollar. At least as a front. Because tensions and frustrations continued to exist, their sharpening in time showing by the form of the various crises affecting the system.

Technical aspects of the current IMS regulation

At the Conference in Kingston, "Agreements Kingston recorded:

- *increase of participation rates of the member countries at the IMF social capital by 33.5%;*
- *wider use of IMF resources in the national currencies of the member countries for transactions and operations of the Fund;*
- *restricting the role of gold in the international monetary system (its demonetization), including the sale of part of the gold held by the IMF [...];*
- *increasing the capacity of the IMF to provide financial assistance for Member States in order to balance external payments;*
- *liquidation of differences between the U.S. and France on the issue of exchange rates, first allowing member countries to choose their exchange rate regime that suits them, including the use of courses under the supervision of the IMF, and then, when economic and financial conditions permit, to skip to a parity and stable training system but adjustable, controlled by the IMF [7].*"

Haircut was between limits [-4.5% ÷ 4.5%] and IMF member states had to adopt macroeconomic policies to ensure price stability and margin fluctuation of currencies. In light of economic developments and possible macroeconomic imbalances coming from statal payments, it were to be intervened for adjustments or changes.

These agreements will be essentially found in the modified statute[8] of the International Monetary Fund which entered into force on 1 April 1978. In Article IV, Section 2, General Exchange Arrangements, paragraph (b) reads what was actually settled in the Kingston Conference:

„(b) Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or another denominator, other than gold, selected by the member, or (ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice."

[6] The Nixon Shock was a series of economic measures taken by United States President Richard Nixon in 1971 including unilaterally canceling the direct convertibility of the United States dollar to gold, http://en.wikipedia.org/wiki/Nixon_Shock

[7] Elena Drăgoescu – International Monetary Fund, „Dimitrie Cantemir" Publishing House, Tg. Mureş, 2000, pg. 47

[8] Articles of Agreement of the International Monetary Fund, Adopted at the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 22, 1944. Entered into force December 27,1945. Amended effective July 28, 1969, by the modifications approved by the Board of Governors in Resolution No. 23–5, adopted May 31, 1968; amended effective April 1, 1978, by the modifications approved by the Board of Governors in Resolution No. 31–4, adopted April 30, 1976; amended effective November 11, 1992, by the modifications approved by the Board of Governors in Resolution No. 45–3, adopted June 28, 1990; amended effective August 10, 2009, by the modifications approved by the Board of Governors in Resolution No. 52–4, adopted September 23, 1997; amended effective February 18, 2011, by the modifications approved by the Board of Governors in Resolution No. 63–3, adopted May 5, 2008; and amended effective March 3, 2011, by the modifications approved by the Board of Governors in Resolution No. 63–2, adopted April 28, 2008.

a) *The historical method of analysis of the current SMI*

According to the intentions of its creators, the International Monetary System had to ensure some stability in prices, a harmonious and balanced development of all its members. In a systemic approach, IMS is a unified and coherent whole, characterized by a coin or set of coins accepted by all members, rules and regulations, infrastructure, logistics and procedures for payment and value intercountry transfers as necessary.

Will the International Monetary System's mission and role that will be assigned by its creators really be achieved?

The answer is clear and undeniable. And can easily be given by both specialists and ordinary people. IMS has not fulfilled its assigned mission and role. One can justify this response by the multitude of crises that have occurred[9], that of 2008 being the largest since the Great Depression of `33. Also, the major imbalances existing in the world today, major tensions and their potential for generating conflicts that smolders in various parts of the world, shows how far the initial target was to be reached by using this system. The following are the major crises that occurred starting with the 80s[10] "*[...]* which were marked by the fall of the Tokyo and New York Stock Exchange. In 1987 the stock market crash occurred. In the 90s, pressures on the exchange rate mechanism caused the pound sterling, the Italian lira and the Portuguese escudo to "come out of the tunnel." Also in the early 90s there was the collapse of "Junk Bonds" and the "Saving and Loans" crisis (American savings banks). Mexican peso collapsed, in the fall of 1994, revealing the fragile financial state of Mexico which was based on speculative financing of the budget deficit on increasingly shorter terms. In 1994 the U.S. property titles crash occurre;, in 1997 was the onset of the Asian financial crisis that has internationalized and which came to extend, like a domino, Thailand, Korea and Hong Kong and in 1998, Russia and Brazi;, in 2001-2003, the Internet crisis and 2007 brings forth the U.S. mortgage crisis. "

Then came the Greek crisis, in which the state authorities were involved in handling and hiding financial and economic data. After the Greek crisis followed a crysis in Cyprus. In fact, when they are not systemic, crises are necessary, in that they "are an indispensable sanction for management errors[11]". In fact, crisis are precisely a sanction on management errors to which IMS had an important role.

[9] In fact in the last 200 years, there have been numerous crises, more rare at first and more frequent in the last 50 years that, on average, at about 2.5 - 3 years we are dealing with a crisis. Our note.

[10] Ion Corbu, U.S. mortgage financial crisis, Economy, integration, eficiency, Romania de Maine Publishing House Foundation, Bucharest 2008, pg. 264-271.

[11] Une crise revelatrice, Alexandre Lamfalussy, audited in Februarie 27th, 2008 during the Finance Committee of the EU, where he presented his analysis of the subprime crisis. (Our Note)

III. Literature Review

The paper "La reforme du systeme monetaire international: une approche cooperative pour le vingt-et-unieme siecle[12]" analyzes and justifies, in detail, the need to reform the International Monetary System. The report concludes with the following conclusions and remarks: „The crisis heralded, indeed accelerated, a transition to a new world where emerging market economies together play a large role on a par with advanced ones in driving global growth; a world that will be fundamentally multi-polar, and in which global monetary problems must be dealt with cooperatively. The reformed International Monetary System we aspire to is one that preserves the gains of the past sixty-five years, without succumbing to its own instability. It is a system that maintains freedom of trade and current payments and that allows sharing more widely the benefits of financial globalization, appropriately regulated. It is a system where all countries recognize their stake in global stability and accept that near-term national objectives may, if needed, be constrained by the global interest. International cooperation is, in the long run, a necessary ingredient in the search for national prosperity. This should lead every country to look with a renewed sense of responsibility and discipline to the system as a whole. The G20 is in a powerful position to promote the global common good, and to make it prevail, at times against limited, parochial interpretations of national interests. The opportunity for the emergence of a fully fledged international monetary order is here at stake."

As a result of the effects and disasters of the crisis which began in 2007 and due to the fact that, finally, this crisis has managed to open the eyes, of both of professionals and of ordinary people regarding the vulnerabilities and frailty of the International Financial System, specialized literature is extremely rich on this theme. And experts almost unanimously agree that the current IMS cannot function anymore and is in need of reformation.

Zhou Xiaochuan, in an essay[13] published in March 23rd, 2009 states categorically that *„The reestablishment of a new and widely accepted reserve currency with a stable valuation benchmark may take a long time. The creation of an international currency unit, based on the Keynesian proposal, is a bold initiative that requires extraordinary political vision and courage. In the*

[12] Report at the initiative of the Royal Palace, by a group Groupe coordinated by Michel Camdessus, Alexandre Lamfalussy and Tommaso Padoa-Schioppa and which also included Sergey Aleksashenko, Hamad Al Sayar, Jack T. Boorman, Andrew Crockett, Guillermo de la Dehesa, Arminio Fraga, Toyoo Gyohten, Xiaolian Hu, André Icard, Horst Koehler, Guillermo Ortiz, Maria Ramos, Y.Venugopal Reddy, Edwin M. Truman, et Paul A. Volcker. The report was published on 18 January 2011

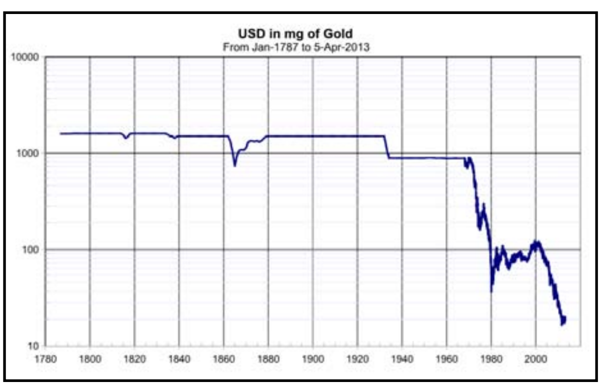
[13] Zhou Xiaochuan, Reform the international monetary system Essay by Dr Zhou Xiaochuan, Governor of the People's Bank of China, 23 March 2009

short run, the international community, particularly the IMF, should at least recognize and face up to the risks resulting from the existing system, conduct regular monitoring and assessment and issue timely early warnings."

We also mention *Global Imbalances and Developing Countries: Remedies for a Failing International Financial System,* [14] *Reforming the privatized international monetary andfinancial architecture*[15], *À la recherche d'un nouveau système monétaire international*[16] *şi A Brief History of the International Monetary System*[17].

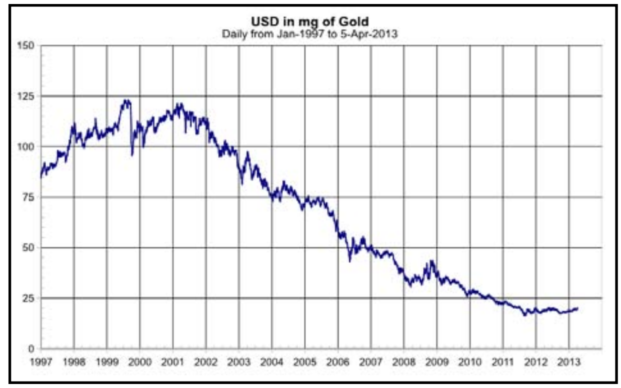
IV. Some Critical Aspects Regarding the Current Internation Monetary System's Vulnerabilities / Statistical and Economic Arguments on IMS Vulnerability

The first and largest vulnerability of current IMS is the currency it uses, namely the currency issue of the U.S. Federal Reserve, the dollar. The use of this currency issue, as well as the use of any currency issue as international payment and international reserve currency, will sooner or later lead to placing it in a certain "conflict of interest". This is because, to encourage and increase the expansion of exports, the issuing country will tend to devalue its currency against the currencies of other countries, and primarily against the currencies of countries in which the exports are made. And basically this became constant in the case of the dollar. The graphs in Figure 1-4 proves this aspect.



Source: http://pricedingold.com/us-dollar/

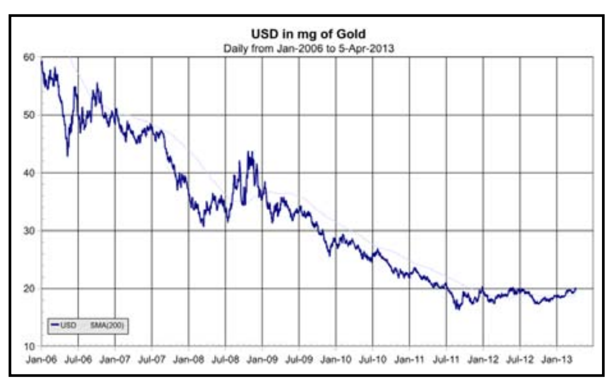
Figure 1



Source: http://pricedingold.com/us-dollar/

Figure 2

It is noted that, except for small periods of time, the general trend for the U.S. currency was to devalue. As said above, this monetary policy helped U.S. exporters and positively influenced U.S. balance of payments. For those who voluntarily make saving and place them in banks, wither individuals or legal entities, this behavior led to constant erosion of savings. One of the largest holders of U.S. dollar financial assets is China, which has more than 2000 billion. Therefore, China's position to assume that the current International Monetary System is "dead" and belonging to other historical times is justified. If corroborated with the great technical and economic development of China in the last 40-50 years, the claim of this country for the Yoani to become international reserve currency is justified. Besides Sino-American relations know many frictions as concerns the permanent depreciation on the dollar. With growing competition between the two countries (China and USA), the existence of these problems shows that the current IMS might constitute an obstacle to the development of trade, investments in other markets and economic progress.



Source: http://pricedingold.com/us-dollar/

Figure 3

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[14] White, W. R. 2007. The need for a longer policy horizon: a less orthodox approach, in Teunissen, J. J. and Akkerman, A. (eds), Global Imbalances and Developing Countries: Remedies for a Failing International Financial System, The Hague, Forum on Debt and Development (FONDAD)

[15] D'Arista, J. 2000. Reforming the privatized international monetary and financial architecture, Challenge, May–June, vol. 43, no.3, 44–82

[16] À la recherche d'un nouveau système monétaire international, Revue de l'OFCE, 2012/2 n° 121, p. 289-293. DOI : 10.3917/reof.121.0289

[17] Kenneth N. Matziorinis, A Brief History of the International Monetary System, Montreal, QC, Canada, 2006.

Source: http://pricedingold.com/us-dollar/

Figure 4

In the introduction from the article „*Chinese–US Economic Relations After the Global Financial Crisis*[18]" professorul Geoffrey Garrett menţionează: *„The global financial crisis has had three profound effects on Sino–American relations. First, China and the United States have become a de facto Group of Two (G2), largely by default, as Europe and Japan have fallen on even harder times than the United States and because India's development path is at least 15 years behind China's. Second, the speed with which China is catching up to the United States has increased, with the mid-2020s projected as when China will pass the United States to become the world's largest economy—though it will then still be a much poorer and less powerful country than the United States. Third, the global financial crisis (GFC) did not—as some projected—reduce the enormous economic imbalances between China and the United States even as both countries reduced their imbalances with the rest of the world."*

The graph in Figure 5 reveals the deficit situation recorded by USA against China, from 2001 to 2010 and by comparison in Figure 6, deficit against China, red curve and against the rest of the world, the black curve.

Here is what is mentioned in the article above in the paragraph „Chinese–US economic imbalances": *„Putting together all we know about the economics of the crisis, the world does appear to be moving towards a de facto G2, almost by default. The Chinese–US economic relationship is very big. But it is also very imbalanced. The headline statistics concerning the two key indicators of Sino–American imbalances pre-GFC are by now well known: the mushrooming of Chinese Government purchases of American Treasury bonds (T-bills) and American consumption of Chinese goods. China increased its holding of T-bills more than fivefold to well more than US$500 billion from 2000 to 2008. Over the same period, America's trade deficit with China more than trebled to more than US$250 billion*[19]*"*.

Because this crisis, which was caused mostly by the irresponsible actions of some of the leaders of Wall Street, by speculating current IMS vulnerabilities, affected the whole planet, more and more researchers, specialists, heads of state and governments criticize this situation and seek those responsible and the guilty.

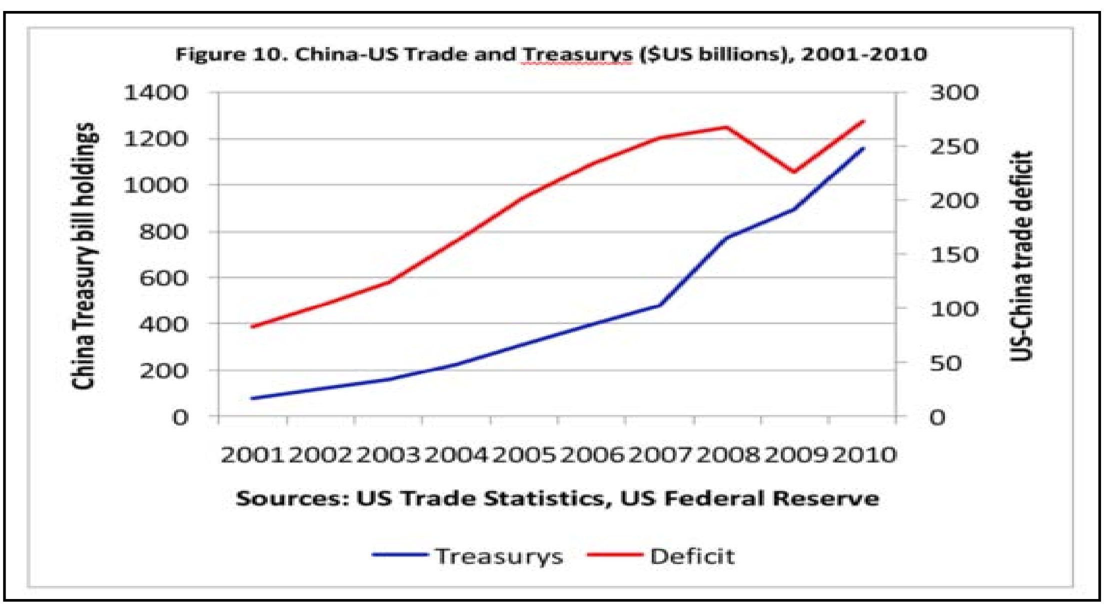

Figure 5

[18] http://ussc.edu.au/s/media/docs/publications/1107_Garrett_ChinaUS.pdf

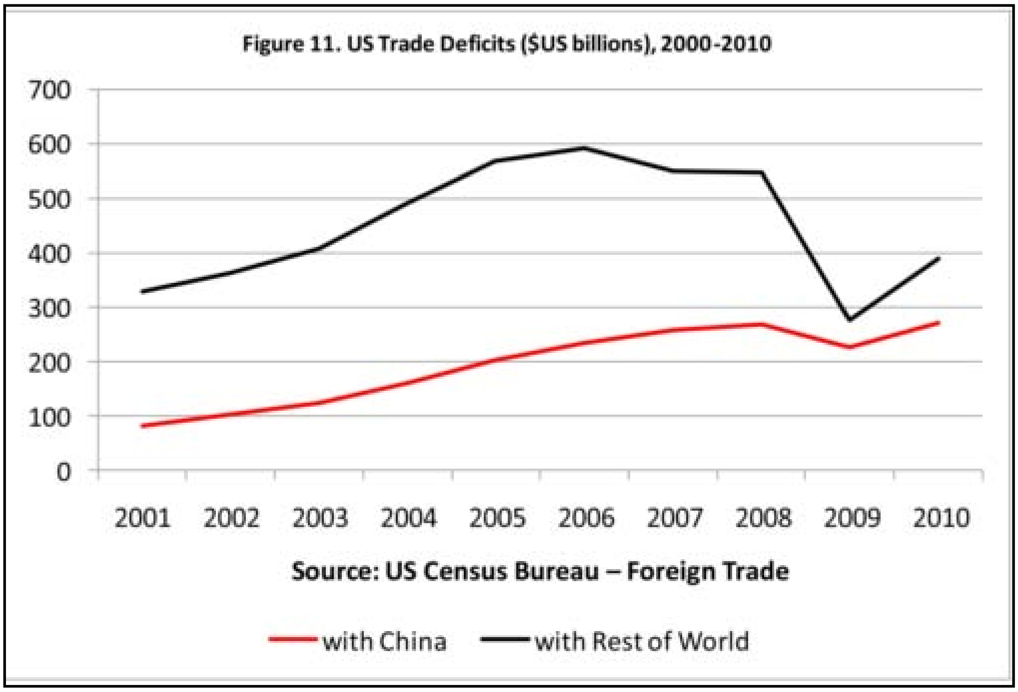

Figure 6

Some outspoken critics of global currency status of the dollar include the Kremlin. Several times it has exhibited strongly its antidollar position and pro reform of the IMS. However Russia has massively declined in U.S. currency reserves trying repeatedly to promote the ruble as a reserve currency, even regional.

It's more often talked about establishing a monetary union of Gulf states, countries that hold about 45% of global oil reserves. Besides, four countries of the Gulf Cooperation Council (GCC), Saudi Arabia, Bahrain, Kuwait and Qatar signed in 2009 in Riyadh, an agreement to create a monetary union and the launch of a new currency, originally planned for 2010. According to some analysts, the new currency could be launched in 2013[20].

If, initially, the U.S. authorities did not even conceive talking about a new global currency, now they are already used to the idea. Besides, U.S. Treasury Secretary Tim Geither, produced some shockwaves in global markets when he said he was "quite open" to China's proposal on the progressive implementation of a new global reserve currency under the coordination and management of the International Monetary Fund.

Moreover, the idea of replacing the dollar as the international reference currency is not new. Many years ago J.M. Keynes advanced as single currency, the bancor and F.D. Roosevelt, the unitas. Let's remember that a Nobel Prize winner, Joseph Stiglitz, considering that the dollar has a high degree of risk, proposed a new international reference currency. There were many other that also pleaded in this respect.

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Table 1 : Current account balance, percentage of GDP, 3 year backward average

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	:	5.3	5.2	5.3	4.8	4.2	4.0	3.8	3.7	2.9	2.3	1.9	0.8	-0.3	-0.3	-0.3
Bulgaria	0.6	2.1	2.1	0.2	-3.4	-5.2	-4.4	-4.4	-4.7	-7.8	-11.9	-18.1	-22.0	-19.1	-11.2	-3.4
Czech Republic	-3.5	-4.9	-4.8	-3.4	-3.0	-4.0	-5.0	-5.5	-5.4	-4.0	-2.7	-2.4	-2.8	-2.9	-2.8	-3.0
Denmark	1.2	0.9	0.4	0.6	0.8	2.2	2.3	3.0	3.0	3.6	3.4	2.9	2.4	2.5	4.1	5.0
Germany	-1.1	-0.7	-0.6	-0.8	-1.3	-1.0	0.1	1.3	2.9	3.9	5.3	6.3	6.6	6.5	6.1	5.9
Estonia	-6.5	-7.9	-9.4	-8.0	-6.1	-4.9	-7.1	-9.0	-11.1	-10.9	-12.2	-13.8	-13.5	-7.2	-0.9	2.8
Ireland	:	2.5	2.0	1.1	0.2	-0.3	-0.7	-0.5	-0.5	-1.4	-2.5	-4.1	-4.9	-4.5	-2.3	0.0
Greece	:	-3.0	-3.2	-3.3	-4.7	-6.2	-7.2	-6.8	-6.3	-6.7	-8.3	-11.2	-13.6	-13.6	-12.1	-10.4
Spain	-0.6	-0.2	-0.5	-1.4	-2.7	-3.6	-3.7	-3.6	-4.0	-5.4	-7.2	-8.8	-9.5	-8.1	-6.3	-4.3
France	0.8	1.6	2.3	2.7	2.2	1.8	1.3	1.1	0.7	0.2	-0.2	-0.7	-1.1	-1.4	-1.5	-1.6
Italy	2.1	2.7	2.6	1.9	0.9	0.4	-0.1	-0.3	-0.5	-0.7	-0.9	-1.2	-1.9	-2.0	-2.8	-2.9
Cyprus	:	-4.0	-2.2	-1.1	-1.3	-3.5	-4.1	-3.1	-3.7	-4.4	-6.0	-8.2	-11.5	-12.7	-12.1	-8.4
Latvia	-0.1	-3.6	-6.6	-7.9	-7.6	-7.1	-6.4	-7.5	-9.3	-11.2	-16.0	-19.2	-19.4	-9.0	-0.5	3.1
Lithuania	-6.6	-9.1	-9.9	-10.7	-9.4	-7.1	-5.2	-5.5	-6.5	-7.1	-8.4	-10.7	-12.7	-7.9	-3.0	0.0
Luxembourg	:	11.3	10.3	9.3	10.3	10.1	10.8	9.1	10.2	10.5	11.3	10.7	8.6	7.5	6.9	7.5
Hungary	-6.3	-3.7	-3.5	-4.9	-7.1	-7.5	-7.2	-7.0	-7.8	-7.8	-7.6	-7.3	-7.3	-4.9	-2.2	0.6
Malta	:	-8.9	-7.4	-4.8	-7.1	-6.4	-4.6	-1.5	-2.2	-5.9	-8.2	-8.3	-7.0	-6.3	-5.8	-4.3
Netherlands	5.5	6.0	5.0	4.6	3.1	2.8	2.4	3.6	5.3	6.9	8.1	7.8	6.8	5.4	5.7	7.5
Austria	-2.3	-2.8	-2.3	-1.9	-1.3	-1.1	0.4	1.2	2.2	2.0	2.4	2.8	3.7	3.7	3.7	2.2
Poland	-0.1	-1.7	-3.3	-5.0	-5.8	-5.5	-4.0	-2.8	-3.5	-3.4	-3.8	-4.1	-5.5	-5.5	-5.2	-4.6
Portugal	:	-3.3	-5.7	-7.2	-8.7	-9.8	-9.6	-8.3	-7.7	-8.4	-9.8	-10.4	-11.1	-11.2	-11.2	-9.1
Romania	:	-5.9	-6.6	-5.6	-4.8	-4.4	-4.1	-4.9	-5.9	-7.6	-9.1	-10.8	-11.8	-9.7	-6.7	-4.3
Slovenia	1.3	0.1	0.0	-1.2	-2.1	-1.9	-0.5	0.1	-0.8	-1.7	-2.3	-3.0	-4.5	-3.9	-2.5	-0.4
Slovakia	-1.2	-5.7	-9.5	-8.1	-6.2	-5.8	-6.5	-7.4	-7.2	-7.4	-8.1	-7.2	-6.4	-4.7	-4.2	-2.1
Finland	3.1	4.5	4.8	5.2	6.1	7.2	8.2	7.2	6.5	4.8	4.6	3.9	3.7	2.9	2.0	0.6
Sweden	1.9	3.1	3.8	4.0	4.0	4.4	4.6	5.5	6.1	6.8	7.3	8.1	8.9	8.3	7.5	6.6
United Kingdom	-1.0	-0.7	-0.4	-0.9	-1.8	-2.4	-2.1	-1.8	-1.8	-2.1	-2.7	-2.8	-2.4	-1.8	-2.1	-2.2

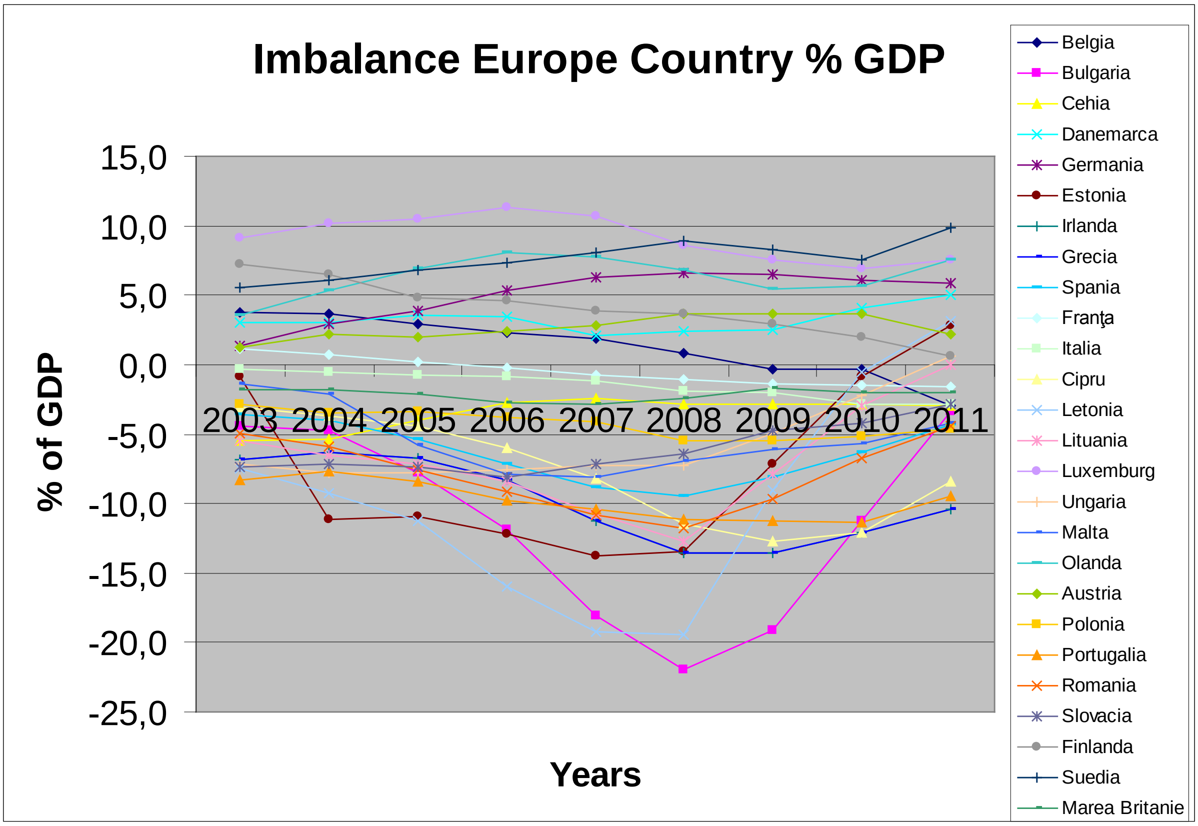
Source: Macroeconomic Imbalances Procedure Scoreboard Headline Indicators, 1 November 2012 Statistical information (Eurostat 2012)

Note: The current account covers all transactions that involve economic values occurring between resident and non-resident units. The basic components are exports minus imports of goods and services, net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). The current account provides important information about the economic relations of the country with the rest of the world. A high current account deficit indicates that the economy is importing in excess of its exports. Data for the current account are based on Balance of Payments information. The Balance of Payments summarises the economic transactions of an economy with the rest of the world, and may be broken down into three broad sub-balances: the current account, the capital account, and the financial account. The legal basis of the Balance of Payment can be found in the Regulation n°184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment (OJ L35/23 of 8/02/2005), together with its implementation and amendment.

Figure 7 graphically presents the developments of European countries imbalances during 2003 – 2011. It's observed that the maximum deviation, respectively, the maximum offset of the imbalance between European countries ranges from 32% (- 22% Bulgaria 2008 and + 10% Sweden 2011). In that period only five countries had surplus, namely Sweden, Holland, Germany, Finland, Austria, Denmark and Belgium (not the entire period). All other countries had deficits.

Certainly, these imbalances are not due to IMS. A multitude of factors, among which, management, productivity, competitiveness, economic structure, policies, etc. have a substantial influence. But IMS with its vulnerabilities influence these factors and leads to greater imbalances and polarization of the world. The constant depreciation of the international reference currency and injecting huge amounts of money in the system, without coverage of goods and services, undoubtedly lead to greater imbalances.

[20]http://www.7sur7.be/7s7/fr/1536/Economie/article/detail/1319495/2011/09/15/Les-pays-du-Golfe-veulent-lancer-leur-monnaie-unique.dhtml



Source: Chart prepared by authors based on data from Eurostat

Figure 7

A second large vulnerability of the IMS is precisely the coordination and management of the system which is conducted by the IMF and related institutions. It would be naïve to believe that what IMF could not resolve over a period of about 70 years[21], will succeed from here on. Whether out of organizational saturation or out of habit and routine, the IMF cannot and will not be able to effectively lead a new IMS and a new global reserve currency. A new vision, a new spirit is needed, a dynamic corporate culture, open and suited to the circumstances of the XXI century and the new realities on the free movement of goods, capital and labor. In addition, this new authority should be neutral with monetary and banking institutions, capital markets, governments and international institutions, with users of financial resources and citizens. Such authority must not have overlapping activities, must not be involved in government policies, etc.. Such an authority should be constituted after the model of a central bank and must have decisional independence from governments and international bodies. At the same time, it must coordinate the central banks of all IMS members. Therefore it must behave neutrally to all market operators. The mission and role of this authority are issuing, monitoring and controling the new currency, maintaining global price stability and facilitating a harmonious and balanced development of the member states. With the Central Banks of the members or monetary unions, this new authority, which we could call the World Central Bank (WCB) could achieve the Global System of Central Banks (GSCB). Following the model of success, the European System of Central Banks (ESCB).

A third major vulnerability of the current IMS is the rating agencies. They are outside of any private, governmental or civic control, they lack transparency, often acting almost occult and, as resulted from this crisis, often have conflicting interests and acted connive in the interests of fraud. In most cases, on the reports and notations of these agencies dependents the life and existence of countries, areas, regions or even whole continents. Through their work, some agencies have contributed directly to the onset of many crises. We believe that given these facts, it is required to introduce some performance standards for rating agencies. It is also found useful to have one or more institutions for periodic assessment and accreditation of rating agencies, institutions under private, public and civic control.

A fourth important vulnerability of the current IMS is the speculative financialization of the economy and the removal of financial economy from the real economy. Also the deregulation and lack of certification

[21] The current financial crisis and many other crises that preceded it, bears witness to the inability of the IMF to effectively manage IMS (our note)

by a neutral body of "complex" and "sophisticated" financial instruments, but in reality nontransparent, have enabled financial markets to be infested with fake currency, impossible to detect from real currency. This is also caused by the fact that the reference currency of the current IMS is, in fact, in this financial mess without end, lacking any anchor.

The fifth major vulnerability is the "conflict" of the current IMS with sustainable development.

The weaknesses and vulnerabilities of IMS mentioned above cause the current IMS to conflict with the principles of sustainable development[22]. Either sustainable development is the only way humanity can develop and therefore this paradigm of avolution should not be affected by defects of a system that has exhausted its possibilities of stimulation, being, in fact, a powerful accentuation of imbalances and a brake on development.

In accordance with principle 8[23] of sustainable development that "*to achieve sustainable development and a better quality of life for all people, states should reduce and eliminate unsustainable patterns of production and consumption [...]*". The current financial system proved unsustainable since it has direct and significant influence over all forms of production and consumption. As noted above, the current IMS is generating major imbalances manifested by crises of all kinds that occur periodically. These crises are at the root development of wild capitalism and unethical globalization. At the same time, it generates a large and immoral polatization of the world which is the carrier of a potential conflict which may sooner or later manifest.

The current IMS comes in contradiction with principle 12 of sustainable development according to which, "*States must cooperate to promote an open international economic system that would lead to economic growth and sustainable development in all countries, to better address the problems of environmental degradation. Commercial policy measures for environmental purposes should not constitute a means of arbitrary or unjustifiable discrimination or any hidden constraint on international trade. [...]* ". It is undeniable that the current IMS can not ensure long-term stability, balanced development, economic growth and sustainable development. On the contrary, it leads to crises, recession, rich-poor extreme polarization, environmental destruction. This behavior contradicts the rights and aspirations of future generations. If the financialisation of the economy it also reminded, particularly the speculative financialization, in the sense of a break from real economy in which speculation[24] ranks first, the need to rethink a new IMS becomes imperative. The natural role of finance should be to finance the real economy. Now, we are witnessing a 180 degree turn of normality. The real economy is in the service of the financial economy and is a pretext for speculation of all kinds.

Also, every point from 1 to 15 presented in the introductory paragraph, represents IMS vulnerabilities which a new system should take into account.

V. Discussion

A new IMS should have a currency that can fluctuate within certain limits to ± 3-4%, but also to be stable in this range for long periods, namely to act as a „financial flywheel" against shocks in different economies. Of course, such a currency should be designed, created, based on a basket of currencies that reflects the main centers of economic power in the world. A currency formed after the extended DST model. At the limit, for reasons of acceptability and to spare the national pride of IMS members, the basket of currencies could include all the currencies of countries or monetary unions participating in the new IMS.

Such currency, effectively managed, coherent, consistent with the rules and regulations adopted and neutral by all operators belonging to the system, may lead in time to fulfill the role and mission for which IMS has been or will be created: maintaining price stability, harmonious and balanced development of members, making secure international payments, disposing a stable currency to build confidence in the financial markets.

Following the crisis, IMS reformation is increasingly discussed. Current G20 agenda includes this topic. We consider that it actually launches ideas without horizon and without force, simple adjustments, a kind of stall. Those involved in reforming IMS think maybe the problem will resolve itself. Apparently, still the seriousness of the problem is not realized and it is not decidedly proceeded to a substantive reform of the system. In our opinion, the reformation has a few basic directions: a new currency, a new management and regulatory central bank authority type, one or more institutions of authorization, accreditation, monitoring and control of credit rating agencies, standards and procedures. This reform must begin and be implemented quickly. The delay of IMS reform and its distrust will not remain without effect. "Sanctions" will even appear from users of currency, treated in an unfair matter by the current system. In the end they become suspicious, frustrated and looking for alternatives. What do they want? A supple, flexible, secure, reliable,

[22] Adapted from "Introduction" in McKeown, Rosalyn. Education for Sustainable Development Toolkit, Version 2, Center for Geography and Environmental Education, University of Tennessee, July 2002.

[23] Principles of sustainable development, as was stated in the 1992 Rio Declaration on Environment and Development

[24] It is estimated that only 2.2% of the stock transactions in 2008 represented real economic transactions. The other 97.8% were mere speculation. Not illegal but speculation broken from real economy.

reasonably priced IMS. Huge and undeserved salaries of some of the leaders of Wall Street are notoriously known. The first thing they did after receiving support for their institutions not to enter bankruptcy, was to give themselves and to collect fees and wages. Therefore, instead of having an IMS to help world economies, increasingly more operators feel it as a burden. And alternatives are looming. Maybe the barter or multilateral clearing, maybe a new currency imposed by practice and reality. Behold, now, the Bitcoin, an electronic currency, unregulated reached transactions of about 1 billion USD. Sure, at the beggining it is experimental and controversial. According to some, very reliable, to others uncertain. It took advantage of the current crisis events and developed rapidly (launched in 2009[25]). However, in our opinion, this currency puts pressure on the reforming of IMS. We can not make predictions but it would not be excluded that such management technology of the new Bitcoin currency to impose itself (some say it's a speculative bubble, others, as a result of its decentralized and shared concept using absolutely safe cryptographic information means, suggest it could be the new currency of the future). The fact is that the world is looking febrile and appears to be boiling. A sign that time must not be wasted and proceed to the reforming of IMS.

There are many proposals and initiatives on a new international currency of reference. Thus, Nursultan Nazarbaev, supported by a Nobel laureate, Robert Mundell , the father of the single European currency "Euro", proposed the introduction of a single currency crisis, "acmetal[27] ". Mundell declared that such a plan is feasible and that it offers the global economy very good prospects. He also proposes that Asia[28] should create a single currency with the U.S. dollar as anchor. He also commented on the need to create a global single currency with fixed rates against the currencies of economies of more developed, U.S. dollar, the Euro and the Japanese yen.

The current states of the Middle East are also dissatisfied with IMS. Thus, "The Independent" newspaper published reports that a number of states in the Middle East have initiated talks with Chinese, Russian, Japanese and French officials to stop trading oil in dollars.

Circulating reports indicate that the global economic crisis could lead to major geopolitical restructuring, respectively, forming the North American Union (NAU), a replica of the European Union. NAU would include the U.S., Canada and Mexico and will adopt a single currency, the "amero". The dollar will no longer be necessary because it will depreciate to extinction. This scenario started at an event on March 13, 2007. Then, the American Senate held a fifth, out of its 182-year history, secret meeting and its unofficial agenda seems to have been the following: the imminent collapse of the U.S. economy, the decline of state finances and civil war because of economic collapse. NAU would be provided with cheap labor from Mexico and raw materials from Canada. Coin to be issued would be called "Amero". The dollar, remained without coverage, would be dropped.

Japan and the Asian Development Bank support the creation of a common currency ACU (Asian Currency Unit), equivalent ECU (European Currency Unit), the forefather euro.

VI. Main Actions in Order to Reform and Implement the IMS Worldwide[29]

From the above, it results a concern for reforming the current monetary and financial system and urgent need to achieve this goal. Unfortunately, out of the need to save the system, the beneficial effects of any crisis[30], manifested brutally and on penalties like bankruptcy of underperforming entities or entities that violate market rules, were not allowed to manifest. And the role of crisis, to clean up market, was taken over by global management and we refer to G20 achieved by transforming G8, through an interventionist and regulatory path and by adding a necessary and appropriate control. That is a "peaceful revolution" of the

[25] https://en.bitcoin.it/wiki/Satoshi_Nakamoto

[26] Canadian economist, professor at Columbia University, has formulated theories on which the single currency was created. Received (1999) Nobel Prize for economics namely for his analysis on exchange rates and how these fluctuations affect monetary policy. He laid the theoretical foundation of the European Monetary Union being one of the most ardent supporters of the euro currency. However, paradoxically, based on his theory on "optimal" currency areas, many economists have countered the idea of creating the European Monetary Union and questioned the chances of achieving the project. However Mundell did not participate directly in planning the launch of the euro. But he was the first who, since 1961, has raised a key question: "At what point is more advantageous for the state to give up monetary sovereignty?"

[27] "Acmetal" is the name of the currency and is a combination of the Greek word "acme" (peak level of development) and "capital". Nazarbayev believes that the establishment of a single monetary system will allow replacing the word "capitalism" with "acmetalism" to define a more accurate global finance.

[28] It's foreseen here a possible idea that we support, namely the creation of some economic and financial poles and some coins to represent these poles. In this context one can imagine an IMS with a few competitive components (economic and financial poles) following that world currency will be based on the basket of currencies representing the poles. Such a world currency would be more stable. And it may be much less sensitive to shocks under one of the poles. The probability that all poles simultaneously suffer shocks, in different currencies, is much smaller than when there is a single global currency of issue. (our note)

[29] Paragraph taken from paper of I. Corbu, The reformation of the global financial system, an imperative of sustainable development. Sustainable development and renewable energy Romania of Tomorrow Foundation Publishing House, Bucharest, 2009.

system which will be difficult to achieve. Because, once saved, the entities responsible for producing the crisis, regaining their power and influence, will resist mightily to major changes that threaten their privileges. An example of this is the opposition of the tax on financial transactions as well as capping bonuses refusal.

Many economists believe that the proposal of J.M. KEYNES[31] to introduce a taxation of financial capital to reduce speculations and create a global currency as well as a supranational institution to manage it, could have prevented such a major crisis or at least it could have lessened the effects. Moreover, the need for a new international reserve currency was and will be of great interest and represents one of the directions for creating the new system. Also, although major challenges were put forward, some of which of technical matter, we consider that the financial transaction tax and building an international solidarity fund with poor countries upon this charge or at least the implementation of the Tobin[32] tax, also representing an important direction of action.

As analyzed, the 2007 crisis is not incidental. Lack of adequate control as well as rating agencies deficiencies overlapped over systemic roots of the structure and working mechanisms of the current monetary and financial system and which represents the root causes of the current crisis. One of the main causes of the current crisis are: the dominant role the U.S. dollar holds as international reserve currency, the huge deficits which it is based on, creating money and injecting it into the market through non-transparent oversofisticate instruments, all brilliantly packaged and disseminated with the jointly interested support of some well known banks. Therefore, it requires severe financial regulation both in banking circuits and financial circuits.

A particularly important direction of action is to strengthen the banking and financial regulations and rethink the functioning of credit rating agencies: risk provisioning requirement for loans, non-acceptance of securities (financial instruments) off balance, not accepting refinancing by central banks of other banks that hold securities with speculative character, solvency ratio increase to $\geq$ 8% of risks assumed, rulemaking to remove black holes from derivative markets, hedge funds, including OTC market. Evaluation of financial return for investors, traders, to reduce the speculative spiral and the financial arrangements and, perhaps, even certification titles introduced in the market by an independent authority. Also, there is a need for rethinking the rating agencies by diversifying and increasing their number and their evaluation and approval by an independent authority. There will also have to be developed uniform criteria for assessing the risk by rating agencies.

Another direction is to increase the role of global governance in the sense of enhancing the role of the IMF and the restructuring and modernizing it with increasing financial and granting new responsibilities, especially regarding market surveillance. We can say that the crisis has brought the state back in the economic stage, dominated so far by the neoliberal doctrine and the minimalist, almost nonexistent, state.

Finally, returning to the real economy and providing it with the necessary funds for healthy and sustainable productive activities that produce goods and services for the man who, under the new management models must be considered in an anthropocentric way, namely put in the center of all the technical, economic and financial activities.

Let us not forget two of the decisions of the European Council[33] of 18-19 June 2009, which "agreed on a new supervisory structure to be introduced in Europe, inspired by the work of the High Level Reflection Group chaired by Jacques de Larosière[34]. The new framework aims to strengthen the surveillance system and restore confidence in the financial system that was affected by the global financial crisis. It involves the creation of a European Systemic Risk Board to continuously assess the stability of the global financial system and the three supervisory authorities responsible, respectively banking, insurance and securities industries, cooperating with national surveillance in a network." "The Council welcomes WGPC[35] report, which focuses on four main policy responses to reduce the potential pro-cyclical effects of financial regulation and the development of counter cyclical measures, namely:

i. monitoring of system-wide risks;
ii. creation of anti-cyclical reserves through capital and provisions
iii. improving accounting rules
iv. establishing a solid framework for remuneration schemes.

[30] For Alexandre Lamfalussy, former general manager of the Bank for International Settlements, financial crises are necessary in that they "are an indispensable sanction of management errors"

[31] J.M. KEYNES Théorie générale ch 12 p 160

[32] James Tobin (05.03.1918 - 11.03.2002) American economist. Known for his suggestion to create a fee on foreign transactions, known as the Tobin tax. It was designed to reduce speculation in the forex market, which he reckoned to be unproductive. He also suggested that the charge could be used to fund projects for the benefit of third world countries or to support the United Nations.

[33] Council of the European Union, Press Release, The 2954th meeting of the Brussels Economic and Financial Affairs Council, July 7, 2009 The President, Mr. Finance Minister Anders Borg of Sweden

[34] Former managing director of the International Monetary Fund.

[33] Council of the European Union, Press Release, The 2954th meeting of the Brussels Economic and Financial Affairs Council, July 7, 2009 The President, Mr. Finance Minister Anders Borg of Sweden

[34] Former managing director of the International Monetary Fund.

[35] Working Group on pro-cyclicality

The report focuses on developing a macro prudential approach through various means, including the inclusion of automatic stabilizers in the regulatory framework and through better information on the discretionary supervisory measures and changes to the regulatory framework through enhanced monitoring."

VII. Conclusions and Proposals

1. The International Monetary System, with all the adjustments and tests for adapting to new economic and financial realities, according to its role and mission, can not ensure stability and development. This is mainly due to its involvement in the economic policies of governments though, often a not recognizable fact. However, even the imposition of conditions, specific agreements with governments, means a more or less veiled interference in the economic policies of the countries they lend. The fact it borrows, respectively wears out the bank status, makes it lose its vocation of neutral regulation, monitoring and control of IMS and financial markets. And, amassing an organizational culture as having overlapping or conflicting tasks of interest, could not and will never be able to fulfill the role that the IMS so desperately needs, which is that of the Central Bank. For these reasons and many more, it is necessary to fundamentally reform the IMS, not symbolic adjustments, but substantive changes. If this reform is not done, a new crisis with far greater disastrous effects will be produced. The problem is not if it occurs but when it occurs. And it is not one but many crises.
2. For achieving goals regarding stability and harmonious, balanced development of its members the IMS must have a stable, strong and credible international reference currency that is not a national issued currency. Such currency should not longer be in "conflict of interest" in relation to internal and external interests. A national issued currency, used as an international reserve currency, will always have the doubt of conflict of interest, and this is a major vulnerability of the system. Because the State of the issued currency will always be tempted of using it in their own interests, which come into conflict with the interests of other operators, internationals, which will have to use this currency. The U.S. dollar has exhausted all possibilities to substantiate a monetary and financial international system, mainly as a result of its continuous depreciation and economic development based on a huge deficit.
3. Such currency should be designed to have cargo anchors and a stack of coins to equally represent the major economic poles of the world. For reasons of political acceptability, this basket could contain all the currencies of IMS members. Such a global currency would be denominated[36] monemo, monem or similar, suggesting its global nature.
4. It is necessary to establish a Central Bank regulatory, monitoring and control entity that should be independent from governments and bank financial institutions. This entity could operate under the UN to which it should submit regular progress reports.
5. It is necessary to establish performance standards and developing a harmonized set of rules and regulations to provide a rigorous discipline of monetary and financial markets, and certification of financial instruments that are introduced into the market.
6. The establishment, authorization and operation process of credit rating agencies must be reassessed and have new basis. Independent bodies of authorisation and accreditation of rating agencies must be established. And this, because through their activity they can fundamentally influence the lives of millions of people. It is necessary to rethink institutional rating agencies and their functioning on the basis of harmonized procedures and subjecting them to control and authorization from a competent, autonomous and independent international authority.
7. The establishment of a civic or government control of IMS is necessary and have strengthened the role of the states in the functioning of the new system.
8. We believe that the financial transaction tax exchange and establish a solidarity fund could end arbitrariness and disorder in these markets. These measures should be subject to scientific debate and public debates.

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