

GLOBAL FINANCIAL CRISIS AND THE INTERNATIONAL MONETARY SYSTEM

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Abstract

I am among those who claim that signals about the crisis were given by economists and I consider this financial crisis a “White Swan”. The causes of the crisis were widespread subprime loans, broad monetary easing conducted by the Fed, the pursued policies of deregulation, financial innovation, moral hazard present in the “banks too big to fail” and the accumulation of fluctuant balance of payments in many countries (chronic deficits/surpluses). The first step towards a more stable global economy would be the reconfiguration of the international monetary system. The dollar is the main reserve currency and is used in international commercial transactions, however this demand creates a counter-sense force making dollars to get out of the United States, weakening its economic position. In this paper I will present the main solutions discussed by economists and own solution for the imbalances caused by dollar.

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1. Introduction

What was it eventually? A “Black Swan” or a “White Swan”? Could the 2008 crisis have been predicted? Before considering a real option, we should however define the two concepts. The first notion was introduced by economist Nassim Nicholas Taleb in his book “Black Swan, very little impact to probability” as an isolated case because nothing in the past has indicated him in any way possible, has a particularly impact and human nature made us

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invent explanations for its appearance, making it explainable and predictable (Taleb, Nassim Nicholas, 2010). Contrary to the words of great bankers, the current crisis was actually predicted by some economists including: Nouriel Roubini, Professor of Economics at New York University Stern who predicted the crisis, Raghuram Rajan, Professor of Finance at the University of Chicago, who revealed that “developments in the financial sector have led to an expansion in its ability to spread risks” (Rajan, Raghuram G, 2005); James Grant, a Wall Street legend, who reported the existence of a large bubble of cheap credit, William White, former chief economist at the Bank for International Settlements, who drew attention to the risk of speculative bubbles in the housing market and the credit, Nassim Nicholas Taleb, who warned of the fragility of markets, Wynne Godley and Steve Keen, anticipated the crisis with stock-flow consistent models. Indeed it is very difficult to predict the exact date of occurrence of the crisis because the market economy is a large, open, complex and dynamic system and marketing actions and the statements made by influential people can affect the response of the population and businesses, changing the results of the primary analysis. However, creating a pattern that highlights the causes of the crisis and shows how it spread, denotes the systemic risks and speculative bubbles that burst at some point will, indicating that this crisis was a “White Swan” (White Swan is a commonplace in the history of crisis, a crisis that can be predicted).

Borrowings from abroad revealed by the current account deficit and by the trade balance, highlighted the problems of the first world economy. In fact, the U.S. economy, which is the epicenter of the crisis, has shown signs that it has reached the threshold of a deep financial crisis. Other indicators such as asset price inflation, especially visible in the housing sector, increased family debt and slowing U.S. real output engines - the standard indicators of financial crises - all revealed some worrying symptoms. Indeed from a purely quantitative perspective, the run-up period to the financial crisis of the U.S. had manifested all the signs of an impending accident, which was only waiting for the right time to trigger (Reinhart, Carmen M., Rogoff, Kenneth, 2012).

2. Global crisis – from theory to policies

The Great Recession was based on more than the fact that the banks have given many subprime loans, a large share of the guilt falling upon the deregulation policies, monetary easing pursued by Fed, which helped inflating the real estate bubble, financial innovation through various financial

derivatives and through securitization, which although was intended to spread risks, turned mortgages into risky real estate securities because the creditworthiness of customers was set aside and the banks priority was to profit nicely from their rapid sale and the investment banks have enjoyed commissions obtained from intermediation, moral hazard present in the “banks too big to fail”, the over-indebtedness of households, governments and of the financial sector, increasing income inequality and the and the accumulation of chronic current account deficits in many countries. Securitization and other financial innovations are products of globalization and it is precisely by using these tools that contagion was made.

But what exactly is **globalization**? According to Professor Joseph Stiglitz, Globalization “consists of a stronger integration of the countries and their populations due to the significant reduction of transport and communication costs and the elimination of artificial barriers to the movement of goods, services, capital, knowledge and (to a more some) of people between states.” Globalization itself is neither good nor bad.’ It can do a lot better and East Asian countries that have embraced globalization under conditions imposed by them, it was very useful, despite step back represented by the 1997 crisis. But in many parts of the world it has not brought comparable benefits. For many, globalization looks like a total disaster (Stiglitz, Joseph E, 2003). But globalization has brought many gains, and despite the controversy aroused we can talk about the “fruits of globalization”, as Nobel laureate Paul Krugman, in his "Decline and Return Economy Crisis in 2008,” called benefits of this process. Underpaid labor force and raw materials cost and tariff reduction, cheaper transport, improve communications and infrastructure have attracted a large number of large companies in Third World countries, and where new export activities were successful, they brought wealth to people's lives, caused migration of rural population to urban areas and increasing employment.

Paul Krugman reveals in the same book the advances due to globalization registered in Third World countries as being: "the indirect and unintended result of the actions of soulless multinational corporations and rapacious local entrepreneurs, whose only concern was to exploit the profit opportunities that offered them cheap labor. It has not been a civil show; but no matter how petty the reasons of those involved are, the result has been to help millions of people out abject poverty and lead them into a situation that in some cases continues to be terrible, but still significantly better” (Krugman,

Paul, 2009). In recent years this has facilitated the development and implementation of new instruments in transactions, sophisticated and difficult to decipher. Wonder if the axiom *Homo economicus* is still valid? We like to think that all people act rationally and based on this behavior, the Liberals issued theories and develop economic models.

Homo economicus is an approach that separates human behavior in economic life from its moral charge, considering that the economic decisions are essentially of a hedonistic and utilitarian nature. *Homo economicus* is assumed to be rational, namely that he “knows” to prefigure his goals and to choose the means to achieve them (Dobrescu, Emilian M., Mureșan, Maria, Bodea, Gabriela, Mureșan, Dumitru, 2005). We seem to have forgotten about the “animal spirits”. In “General Theory of Employment, Interest and Money”, John Maynard Keynes described this concept as follows: “Most of our decisions to do something positive, decisions whose consequences will be seen after a long time can only be explained as a result of animal spirit - a spontaneous need to act instead of choosing inaction and not the product of a weighted average of quantitative benefits multiplied by quantitative probabilities” (Keynes, John Maynard, 2009). Therefore, animal spirits are related to consumer confidence and perception of honesty in transactions. No need to look at the world in black and white and therefore consider both concepts as real in certain circumstances.

From this we can deduce the veracity of the concept introduced by George Soros, called reflexivity, according to which “our thinking actively influences events in which we participate and we think” (Soros, George, 1999). Because the economy is created by people, any resemblance to the laws of physics is unwarranted. While gravity exists everywhere and permanently in the universe, the state of the economy depends on the human beings’ feedback in relation to the market events. That said, I can say firmly that no economic model is perfect, and the economy depends on the mindset of individuals, but crises can be predicted by using the indicators presented above.

And yet, what we do when everything collapses? Knowing what causes myocardial infarctions is by far not the same as knowing how to treat them; the same can be said about the economic crisis (Krugman, Paul, 2012). The most important fact in the development of economic measures to address any crisis is to abandon subjectivity and ideologies, as every major economist has demonstrated a right to a certain aspect of the economic situation. Next I

will try to identify a number of advantages and disadvantages of Keynesian and liberal economic policies without being biased.

Keynes believed that the economy can not get out of platitude by itself. Only if the government took a step forward to fill the place left empty and, directly or indirectly, it would intensify the pace of demand in relation to supply and abundance of unused capacity, could stabilize the economy - not to mention the return to prosperity. This would require the deficit spending, but it's better to spend money to prevent the aggravation of calamities, Keynes argued, balancing the budget can wait after the crisis (Roubini, Nouriel, Mihm, Stephen, 2010). On the other hand, liberals believe government to be as "always and without exception the largest spender of society." Adam Smith argues that the sovereign has only three duties, namely the duty to protect society from invasion of other independent societies, the duty to properly administer justice and thirdly, the duty to provide jobs, public institutions too expensive for them to take a single individual or small groups of individuals, but that would benefit society as a whole. In Adam Smith's conception "self-interest, creating and maintaining the entire economic body" provides in the same time "a nation's progress towards wealth and prosperity" (Popescu, Dan, 2003). Public lending allows politicians to bribe voters with immediate benefits without imposing costs equivalent visible in the form of higher taxes or user fees. If you are not constrained by constitutional rules or strong personal convictions, it is expected that politicians will use deficits to hide part of the cost of programs and policies designed largely to obtain electoral support (Gwartney, James D., Stroup, Richard L., Lee, Dwight R., 2008).

Considering all the arguments, I believe that during a crisis the state must replace some private investment provided not to risk entering into payment inability. But given that we're talking about open markets, it is possible that some of the expenses amplify the trade deficit given the population preference for imported products, but to some extent they can be recovered by favorable impacts of government spending multiplier action in other states. These fiscal interventions while increasing aggregate demand, take a financial burden on future generations. In other countries, like the U.S., the best solution is to reduce consumption and increase savings as suggested by the G20, because Americans have long lived beyond their means of subsistence.

During this crisis, the U.S. has offered the highest package of financial support and the problem is not the fact itself that saved those banks

were “too big to fail” but that is how the aid was granted. And here, there was a glaring difference to the way the banking warnings were conducted in the UK, where there was even a semblance of accountability: Managerial old leadership was thrown out, they imposed restrictions on dividends and salaries and systems were in place to encourage lending. In contrast, banks States continued to pay dividends and bonuses and did not deign to pretend that it would resume lending (Stiglitz, Joseph E., 2010). Those made huge budget deficits could be focused to solve oil dependency through refurbishment, given that the United States is the main consumer of oil and the world's biggest polluter, while discretionary spending could be reduced. The success of such investment means lower oil consumption, its price and creating jobs.

In addition to direct public spending, fiscal policy may contain reductions or increases in taxes and fees. Keynesians argue that the reductions in taxes on wages have the effect of stimulating consumption and thus increase in consumption and income budget. Keynes reveals that “normal psychological law whereby society when real income rises or falls, consumption will increase or decrease, but not as fast, so it can be implemented – indeed not with absolute precision, but under certain obvious conditions which can be stated formally – in the sentence according to which that ΔY_w and ΔC_w have the same sign, but $\Delta Y_w > \Delta C_w$ where C_w is the consumption expressed in wage units. So be it, then, dC_w/dY_w marginal propensity to consume. This quantity is of particular importance, as we say it will be split next increment of income between consumption and investment, given as $\Delta Y = \Delta C_w + \Delta I_w$ where ΔC_w and ΔI_w represent increases in consumption and investment, respectively” (Keynes, John Maynard, 2009). However, the population is likely to anticipate the risk of these measures and expecting more times heavy and austerity measures to save money earned in this way and will not boost consumption.

Unfortunately, in today's political leaders impose tax increases that reduce consumption and population burdens in violation of the first maximum on taxes stated by Adam Smith, the justice principle, according to which “it should be that the commoners of every state to contribute as much as possible to support the state according to their possibilities, namely in relation to income, of which, under the protection of that state, they can benefit” (Smith, Adam, 2011). However, the state can stimulate certain areas, such as IT or green energy production through tax cuts, collecting more money from the state budget and by such measures, creating jobs. It discusses the privatization

of state companies. Although normally SOEs should feed budget in Romania they had major losses from the collapse of communism, which increased the budget deficit and inflation pointless. Over time, within these state companies, there was a spider web formed between the members of the political class and nepotism was promoted. Hence, I consider privatization to be a good solution, in the circumstances where the company is not profitable and produces only to provide a “social welfare” to the political class.

Thus, each theory has its limitations. In other words, the proper "prescription" of economic policies or dosage, the sequence and duration of treatment may be more important than one policy or another, even though each political party is suitable both theoretical and practical, to achieve a particular purpose. It's just like in medicine: a drug can be expensive and good, but its effectiveness depends on the compliance dosage, combination with other drugs and avoids harmful side effects (Isărescu, Muger C., 2006).

3. Reshaping the international monetary system

But maybe we do not look in the right direction, and the first step towards a more stable global economy would be the reconfiguration of the international monetary system. Since the 1944 conference in Bretton Woods, U.S.A. has enjoyed a huge advantage called “*exorbitant privilege*.”

The term “*exorbitant privilege*” was coined in 1965 by the then French Minister Valéry Giscard d'Estaing, to describe the unique ability of the U.S.A. to finance large external deficits (Gourinchas, Pierre Olivier, Rey, Helene, 2005). The French economist Jacques Rueff (1971) explains the working of the exorbitant privilege as follows: “...when a country with a key currency runs a balance-of-payment deficit - that is to say, the United States, for example - it pays the creditor country dollars, which end up with the latter's central bank. But the dollars are of no use in Bonn or in Tokyo or in Paris. The very same day, they are reloaned to the New York money market, so that they return to the place or origin. Thus the debtor country does not lose what the creditor country has gained. So the key-currency country never feels the effect of a deficit in its balance of payments. And the main consequence is that there is no reason whatever for the deficit to disappear, because it does not appear” (Cheng, Wenli, Zhang, Dingsheng, 2011). This definition also reveals the symbiosis that exists between the U.S. and China, the latter finances the U.S. budget deficit, as it is the main market for its products, while the United States does not impose protectionist measures against Chinese products to

gain access to credit. But meanwhile the United States might lose the exorbitant privilege, the causes are explained best by “*Triffin's Dilemma*”, which says that other countries must also have a reserve currency and this demand creates a counter-sense force making dollars to get out of the United States. These pressures will lead to a result of the current account deficit, weakening the economic position of the United States.

Testifying before the U.S. Congress in 1960, economist Robert Triffin exposed a fundamental problem in the international monetary system. If the United States stopped running balance of payments deficits, the international community would lose its largest source of additions to reserves. The resulting shortage of liquidity could pull the world economy into a contractionary spiral, leading to instability (FMI - Money Matters). Triffin's dilemma remains relevant today. The dollar is not convertible anymore, but it remains the main world reserve currency, although this demand contributes to creating ever growing global imbalances (Roubini, Nouriel, Mihm, Stephen, 2010).

Regarding *the currency structure of the international reserves* (see Annex 1.), during the period 1899-1987 (Eichengreen, Barry, 2005), it is shown as follows: in 1899, the share of sterling holdings of international reserves was 64%, while the German mark and French franc stood close positions, 15% and 16%, in 1913, sterling had a little less than half of international reserves (48%), French franc doubled its share reaching 31% and the German mark remained constant, ie 15%, in the interwar period, pound sterling, U.S. dollar and French franc were the main reserve currency of the world countries, in the second half of the twentieth century, the U.S. dollar is the primary currency (85% in 1973), the weights of the other Coins dropping a lot (before the 70s, the British pound was the second reserve currency, the German mark was later replaced). Follow a series of ups and downs for the dollar, it records in the late 80s and early 90s in the structure to reduce the number of international reserves (from 66% in 1987 to 50.6% in 1990) and then in the '90 to follow an upward trend from 50.6% in 1990 to 71.1% in 2000 to levels not seen since the 70's.

Period 2000-2011 (see Annex no. 2) is characterized by the reduction of the U.S. dollar (from 71.1% in 2000 to 62.2% in 2011) and reinforcement of the euro (in 1999 replaced the currencies of participating in Monetary Union European) as the second international reserve currency (from 18.3% in 2000 to 25% in 2011). The decline of the U.S. dollar was determined by subtracting the value of dollar holdings in reserves world states and the

gradual diversification of currencies used. Dollar share of reserves developed countries was 66.3% in 2011 (compared to 69.7% in 2000) and in the emerging and developing countries 57.6% (compared to 74.9% in 2000). In the year 2011, the information on the structure of the international reserve currency were available for 55% of total reserves, 87% for developed countries and only 40% for emerging and developing countries. In fact, the share of allocated reserves for which no information is available on the composition of coins has been an alarming increase (affecting the quality of education), from 22.6% in 1999 to 45% in 2011 (Orăștean, Ramona, 2013). In addition, since 2011, the share of dollar in international reserves declined further (see Annex no. 3).

But *the weight of the dollar also plummeted in commercial transactions*. China dropped the U.S. dollar in commercial transactions with the BRICS countries – Brazil, Russia, India, South Africa and the United Arab Emirates –, concluding only agreements where local currencies were used. In addition, many oil-producing countries decided in early 2012 to carry out transactions in other currencies, which makes dollar losing international dominance. Decades in a row, most of the world countries used the U.S. dollar to buy oil and to trade between them. As of June 1, 2012, the two major Asian powers, China and Japan, use only the yen and the Yuan / renminbi in bilateral trade at a parity of 7.9480 Yuan per 100 yen to stimulate trade cooperation, reducing currency risk and transaction costs.

However, the renminbi is far from meaning a currency. Measures necessary internationalization of China's currency are to promote commodity prices in renminbi, removing restrictions on capital movements, which must be preceded by financial deregulation and liberalization of interest rates and ensure the convertibility of Chinese currency, enhancing exchange rate flexibility, increased central bank independence.

Consequently, an international multipolar system is being configured both in monetary terms and the GDP. According to the Report of the Experts board of the President of the UN General Assembly on the reforms of the International Monetary and Financial System, September 21, 2009, a system with two or more spare coins can be worse than a single reserve currency. The advantage of a multi-polar international monetary system is that it provides diversity. But the exorbitant privilege and Triffin's dilemma would divide between the economies whose currencies are widely used in international trade and financial transactions, but great powers should not be the main

borrowers, but the main creditors. On the other hand, it adds an additional element of instability: the exchange rate volatility between the currencies used as reserve assets. If the central banks and the private agencies in response to exchange rate fluctuations, changing the composition of their international assets, it would sow instability in exchange rates. In these circumstances, it would be a return to a regime of fixed exchange rates among major economies. Ronald McKinnon proposed a new type of international system where the U.S. dollar, Japanese yen and euro are connected by fixed and level of courses to be determined in two ways: based on purchasing power parity and balance of trade balance.

Thus speculation on which nation's monetary policy will be the most inflationary becomes pointless; and a major source of instability in international currency preferences is eliminated once speculators know that future nominal exchange rates will be the same as today's (McKinnon, Ronald I., 1988).

But "Trilema" ("impossible trinity") tells us that there cannot be, at the same time, a fixed exchange rate, free movement of capital and an independent monetary policy. Dollar devaluation increases oil price and produces significant losses for countries which save their reserves in dollars, but either multipolarity is not an effective remedy. In the following I will present the main solutions discussed by economists and my own solutions.

3.1 Return of gold standard

Gold standard is considered by economists the most stable monetary system created and price mechanism - currency - flow (Hume's theory) demonstrated providing automatic balancing of the economy.

Internal balance implies that the money supply in an economy should be correlated with the amount of goods and services and to cover the amount transacted.

According to the quantity theory of Irving Fischer: $M * V = P * Q$, where M - money supply, V-speed rotation, P - price, Q - the amount of goods and services. At the time of the gold standard, V and P were constant, and between M and Q there is a stable relationship.

External balance refers to the balance of payments. It has two components: the current account and capital account (capital movements and transactions Central Bank). During the gold standard, debts could be paid in gold. At times, gold was leaving one country and entering another. The debtor

country, the gold came out and caused a restriction of the money supply with immediate effect of lower domestic prices. This boost exports and discourages imports. The negative balance of current account and simultaneously cause a reduced growth rate of the effect of increasing foreign capital inflows. The balance of the capital account and balance of payments increased balance.

But can we now return to a monetary system based on gold? The truth is that gold has “its sins”: not all the countries have large reserves of minerals and gold, and two systems based on gold have failed. Gold standard lasted until 1944 when the conference was held at Bretton Woods. The blockage was due to the Great Depression and the Second World War, when countries adopted protectionist measures freezing the movement of gold. The Bretton Woods monetary system was adopted based on a new gold-dollar standard, the only U.S. currency convertible into gold and other currencies of countries participating in the new monetary system were defined in relation to the dollar. This system failed in the 70's due to increasing balance of payments deficit of the United States because of the war in Vietnam and massive imports from Europe. Western countries and Japan have accumulated large amounts in dollars and central banks have asked the U.S. to convert dollars into gold, which led to a split in the gold market, ie a market where the official Central Bank using the official \$ 35 and a private market where the price of gold began to rise. After several attempts to improve the system in 1976 was abandoned gold-dollar monetary system and made the transition to a floating current monetary system

But the biggest “sin of gold” is that it can not cover the value of goods and services produced. Of course one can conclude an agreement by which one gram of gold be worth for example \$ 1 million, but while there would be a rift gold market and this precious metal will lose its value against the dollar. Although Robert Mundell, the father of the euro area, believes that gold will be part of the international monetary system of this century, but not the way it was in the past, I refuse the idea considering the reduced amount of gold at global level, the continuous growth of world population with infinite needs and the resources of gold which are limited.

3.2 Expanded SDR

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR was initially defined as equivalent to 0.888671 grams of fine gold—which, at

the time, was also equivalent to one U.S. dollar (FMI - <http://www.imf.org/external/np/exr/facts/sdr.htm>). In 1974 currency basket was composed of 16 currencies of IMF member countries with a share of at least 1% in world trade due to fluctuations in the market price of gold and abandoning the link between gold and currencies of different countries. In 1981 the number of currencies forming the basket was reduced to five currencies (USD, JPY, GBP, DEM, FRF) to simplify defining its value and attractiveness, and in 1999 the German mark and the French franc were replaced by the euro, which is the form of current SDR. The present value is based on a basket of four major currencies, and SDRs can be exchanged for freely usable currencies. Since 2000 the Governing Board of the IMF decided that only freely usable currencies to be included in the basket.

SDR is a cryptic currency; it exists only in the accounts of central banks. It gets into accounts as a result of periodic allocations by the IMF. Allocation volume is based on the size of participation rates. DST performs all the functions of a currency except the one in circulation, namely: limited backup and payment means (banking settlements between central banks).

In 2009, the Governor of the Central Bank of China, Zhou Xiaochuan proposed a supranational currency to compete with the U.S. dollar. The banker supported the creation of “an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies” (Xiaochuan, Zhou, 2009). Zhou Xiaochuan believes that this currency should be SDR, that it could be used in future international trade and must incorporate multiple currencies of strong economies to become more stable and attractive.

The first option that we consider in order to extend the currency basket is *renminbi* because China is the main exporter. Here we encounter a dilemma for China's currency is pegged to the dollar for cheaper products exported to the U.S. are the main market for Chinese products. Given that the float switch certainly would appreciate the renminbi against the dollar and the SDR would become more attractive. The question we ask is how long this appreciation as China has a huge real estate bubble that can burst in the coming years. Given that we are talking about the second world economic power, the active labor force and rich natural resources held by China in the long term the euro is certainly a good choice for widening currency basket. Since inclusion in the SDR currency of China, while it is left to float, would

lower the volatility of this universal coin, I think that is not enough, but it is necessary to include and other currencies - particularly the other members of the BRICS (Brazil, Russia, India and South Africa), these countries achieving spectacular growth in recent years - provided of flexible exchange rates.

On the other hand, the introduction of SDR currencies of the G20, given that G20 members represent almost 90% of world GDP and two-thirds of world population could provide more confidence SDR's. Of course, the exchange rate of such currencies shall not controlled by the State to which they belong, otherwise their inclusion in the currency basket would only add an element of volatility. For example, if the expanded DST included in the future 10 national currencies in addition to the current ones, which are linked to the dollar, following a depreciation trend, then the new DST would also follow this trend. Under these conditions the IMF, which would become a global bank (must have impeccable rating, AAAA) may impose regulations to G20 Member States and could fine countries that start currency wars.

Another element that may be reconsidered is the frequency of calculating the weight of each currency in the SDR currency basket. Currently coin weight is calculated every five years according to exports and international reserves denominated in that currency. It would be preferable that the weight of coins that will be part of the currency basket to be determined each year.

The most important aspect that requires special attention is that this currency will come to be used in international trade and financial transactions. For that purpose it is essential that the currency basket have several roles, that it can be changed into any national currency of the Member States IMF, so they can pay future sovereign debt with that money and that governments and corporations can issue denominated bonds in SDRs.

3.3 Substitution Account

The best solution for DST's promotion would be the development of a Substitution Account. C. Fred Bergsten, former director of the Peterson Institute for International Economics believes this is a winning proposition for both dollar holders who would diversify reserves and the United States, avoiding the risk of free fall of the dollar. However, this idea is not new, but has been considered in the 70's, but was rejected because it did not reach an agreement on who will bear the costs and currency risk. It involves the creation of a substitution account that central banks should be exchanged

dollar denominated assets (short-term securities issued by the U.S. Treasury) in SDR. At maturity term, there is a gain from the interest rate for depositor at a certain rate of interest on amounts deposited in the reserve account and gain interest substitute for the IMF if they invest amounts drawn in U.S. long-term securities (this implies the existence of a private bond markets / other securities in SDRs), the difference between the two is believed to cover interest rate risk.

That said, to the extent demand for SDR-denominated reserve assets grows faster than the supply of U.S.-issued reserve assets shrinks, the process could lead to an increase in U.S. interest rates, with implications for the interest rate differential with other major currencies and bilateral exchange rates. The pace of transition would therefore warrant careful consideration (Mateos y Lago, Isabelle, Duttagupta, Rupa, Goyal, Rishi, 2009).

The alternative could be exchanging of more reserve currencies in SDR, which would reduce risks on interest rates in the United States and central banks should obtain a stable currency basket in exchange of currencies held up to that point without changing exchange rate. A reduced annual fee scale for depositors and increase perceived value of participation rates can be taken into account. A possible approach would require that countries agree to exchange their currencies for the new global currency, which would thus be fully supported by a basket of currencies of all members and no doubt, gold is a great option instead. Peter B. Kenen argued that this account should be used only for transactions between the IMF and national governments; rather it should be used for transactions between national governments. A government needing another country's currency to intervene in the foreign-exchange market, to repay sovereign debt, or for other purposes, could obtain that other currency from the issuing country in exchange for SDR-denominated claims on the Substitution Account (Kenen, Peter B., 2011).

To address the demand for reserves of developing countries it is required that SDR allocations be made not only by equities but also according to their needs and in time, allocation to meet countercyclical policies, in this case with IMF having a greater role in crisis prevention and resolution. In these circumstances, the IMF will become the lender of last resort, providing liquidity in the event of adverse shocks.

3.4 Bancor

Keynes' original proposal envisaged a global bank (the International

Clearing Union or ICU), which would issue its own currency (bancor), based on the value of 30 representative commodities including gold, exchangeable against national currencies at fixed rates. All trade accounts would be measured in bancor, while each country would maintain a bancor account vis-à-vis the ICU (expected to be balanced within a small margin), and also have an overdraft allowance vis-à-vis the ICU. When countries experienced large trade deficits (more than half of the bancor overdraft allowance), they would pay interest on their accounts, undergo economic adjustments (possibly also capital controls) and devalue their currencies. Conversely, countries with large trade surpluses would also be subject to a similar charge and required to appreciate their exchange rates. This mechanism would bring in a smooth symmetry of adjustments across countries and avoid global imbalances (Mateos y Lago, Isabelle, Duttagupta, Rupa, Goyal, Rishi, 2009).

A commodity-based currency would suffer from traditional problems of the supply of a scarce commodity resource. If non-metallic commodities were included – e.g., foodstuffs—then to the extent that the new assets represent claims on the supply of those commodities, this could drive up the price of those commodities and could conceivably cause market disturbances, at a time when there is already substantial volatility in global food prices (Lin, Justin Yifu, Fardoust, Shahrokh, Rosenblatt, David, 2012).

3.5 A single global currency

This idea contains a variety of disadvantages. Benefits come from trade facilitation and movement of capital by eliminating currency risk, cancelling speculations and arbitrations on currency. The creation of a single currency, which gradually leads to the removal of national currencies, is impossible to implement due to differences in competitiveness. Giving autonomy of monetary policy, economies with low productivity will become even more unproductive and the powerful, and stronger, developing acute crisis.

Therefore, the first step towards a single currency would be to create a global economic and monetary union in each continent and then forming single global currency. Obviously, not all the continents meet the criteria for the formation of optimum currency areas, namely: the degree of labor mobility, the integration of financial markets, the size and openness of the economy, the degree of diversification of the supply of goods and services price and wage flexibility, the integration of goods and services market and

the degree of fiscal integration.

In adopting this global currency a global bank needs to be created. Such a central bank could prevent a boom and decline cycle for the world as a whole, but could not do this for every part of the world. For example, if the institution applies a policy of cheap money in Europe and North America, the continents being in crisis, that money will develop a speculative bubble in Asia. In another situation, the institution increases interest rates to control the speculative bubble in Asia, increasing emerging recession in North America and governments / world government could not solve such problems.

3.6 In an ideal world...

The next question is why not include more currencies in the currency basket, taking into account the states economies and not the currency composition in exports and international reserves. Furthermore, including smaller countries in the basket would encounter the risk of having to revise the composition of the basket regularly to account for changes in country rankings. Finally, the choice on the number of currencies results from a trade-off between efficiency (which requires a limited number of currencies to reduce hedging costs) and stability of the value of the basket (which favors including more currencies to the extent that they are uncorrelated with the currencies already in the basket) (Bénassy-Quéré, Agnès, Capelle, Damien, 2012). I support the idea that the new global currency should include all the currencies of IMF members and reviewing the composition of currency basket to make daily through an efficient mean. This plan can be provided by a system like SWIFT with the condition to quantify collected exports and Central Bank interventions made to change the exchange rate in each country. Achieving such a supranational currency to circulate alongside national currencies and in time to become the main reserve currency and the main currency used in international trade requires IMF monitoring in all Member States without requiring participating countries to abandon fixed rates. Assuming for example that Switzerland will not give up control of its currency, the Swiss franc will have a smaller share in the new currency-basket, and the largest share will be occupied by the floating currencies of countries with exports at a high level.

$$W_i = (E_i + S_i - P_i) / \sum (E_i + S_i - P_i)$$

W_i - weight of the coin, they - exports from a given country

S_i - sales of foreign currency made by the Central Bank

Pi - purchases of foreign currency made by the Central Bank

Instead, as shown in the formula used to create this currency, a regulation is necessary, i.e. purchases of foreign currency cannot be greater than the amount of foreign currency sales and exports in an economy. This rule is beneficial because the accumulation of huge reserves can cause global liquidity problems, given the crisis-hit Asian countries tend to gather reserves for prudential reasons, not to call back to funding from the IMF and stimulate export growth (see Annex no. 4). Of course these macro-aggregates on which the value of this coin depends can be calculated quarterly and annually, but there are risks that the next quarter the currency of a State or the currencies of several states with high values of exports to be intentionally depreciated for stimulating of exports, or exports to fall sharply, and then will follow a composite currency depreciation trend. But DST is currently facing similar problems currently and, as the share of each currency component is calculated every 5 years, during this time a currency may depreciate due to declining exports, but its weight in the currency basket is not reviewed and this may lead to depreciation of basket currency. Naturally, I support the promotion of this currency by the methods described for the extended DST.

4. Conclusion

It is exactly as Paul Volcker said: “A global economy needs a global currency.” The obstacle placed to a global currency is not necessarily economic, but political and it is possible to adopt such currency only in the emergence of a depression, which is feasible if we consider the debt crisis in Europe and anemic economic gains made in the states, which, although those countries had a low level of public debt, were forced to balance the state budget, thereby decreasing consumption. Moreover, the settlement of Triffin's dilemma will depend on superpowers.

Historically, whenever there has been a superpower in the world, the currency of the superpower plays a central role in the international monetary system. This has been as true for the Babylonian shekel, the Persian daric, the Greek tetradrachma, the Macedonian stater, the Roman denarius, the Islamic dinar, the Italian ducat, the Spanish doubloon and the French livre as it has for the more familiar pounds sterling of the 19th century and the dollar of the 20th century. The superpower typically has a veto over the international monetary system and because it benefits from the international use of its currency, its interest is usually in vetoing any kind of global collaboration that would

replace its own currency with an independent international currency (Mundell Robert A., 1997).

Among the proposed solutions, in my opinion the most stable would be the basket-currency consisting of all IMF member states, but this is also the most difficult plan, which is why the feasible project with the highest ratio between stability and coverage cost is the expanded DST formed of the currencies of the G20 Member States.

Obviously, we need a “common sense economics” as Professor Marin Dinu, considers, we should reduce income inequality (see Annex no. 5), wisely learn the lessons offered by this crisis and take decisions which benefit all states, not only those that meet certain interest groups, otherwise we risk that the Great Depression will look like a simple vibration compared to future earthquakes!

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