THE NEW ARCHITECTURE OF THE INTERNATIONAL MONETARY SYSTEM

Edited by:
Paolo Savona

Kluwer Academic Publishers
Boston/Dordrecht/London

The New Architecture of the International Monetary System

edited by

Paolo Savona
LUISS Guido Carli University
and
Guido Carli Association, Rome

Reprinted from
Open Economies Review
Volume 11, Supplement 1, August 2000

KLUWER ACADEMIC PUBLISHERS
Boston / Dordrecht / London

Distributors for North, Central and South America:
Kluwer Academic Publishers
101 Philip Drive
Assinippi Park
Norwell, Massachusetts 02061 USA
Telephone (781) 871-6600
Fax (781) 871-6528
E-Mail <kluwer@wkap.com>

Distributors for all other countries:
Kluwer Academic Publishers Group
Distribution Centre
Post Office Box 322
3300 AH Dordrecht, THE NETHERLANDS
Telephone 31 78 6392 392
Fax 31 78 6546 474
E-Mail <services@wkap.nl>

Electronic Services <http://www.wkap.nl>

Library of Congress Cataloging-in-Publication Data

The new architecture of the international monetary system / edited by Paolo Savona.
p. cm.
Paper presented at conferences held in Florence, Italy in June 19, 1998 and Oct.15, 1999.
Includes bibliographical references.
ISBN 0-7923-7854-7
1. International finance–Congresses. 2. Banking law–Congresses. I. Savona, Paolo, 1936-

HG203.N49 2000
332.4'5–dc21

00-036831

Printed on acid-free paper.

Printed in the United States of America

OPEN ECONOMIES REVIEW

Contents Volume 11 Supplemental Issue August 2000

The New Architecture of the International Monetary System

Edited by Paolo Savona

Part II: Legal Aspects

This supplemental issue has been made possible by the financial support of the Cesifin Foundation and of the Guido Carli Association.

The conference was held in Florence on October 15, 1999, at Palazzo degli Incontri, headquarter of the Cesifin Foundation.

Open economies review 11:S1 1 (2000)

Editor's Preface

PAOLO SAVONA
LUISS Guido Carli University and Guido Carli Association, Rome, Italy

The 1998 and 1999 conferences held in Florence on reforming the international monetary system were dedicated to the memory of Guido Carli. Carli was a respected and authoritative participant in all the major events involving the international monetary system—from the Bretton Woods agreement to the Maastricht Treaty. At various moments in his illustrious career he served as director of the European Union of Payments, executive director of the International Monetary Fund, governor of the Bank of Italy, and treasury minister in the government that brought Italy into the European Monetary Union.

The two conferences were sponsored by the Fondazione della Cassa di Risparmio di Firenze (CESIFIN) and organized by the Guido Carli Association in collaboration with the Aspen Institute Italia and, in 1999, by the Permanent Advisory Committee on Euro and Dollar (PACE&D) as well. The secretary of PACE&D, Professor George Sutija, played an important role in the organization of the 1999 conference. Both conferences examined the problems created by the unsatisfactory functioning of the international monetary system, a topic that always influenced Guido Carli's work and that remains relevant today.

In preparation for the first conference on June 15, 1998, a team of experts drawn from the principal industrialized countries did a good deal of research with a twofold aim. The first was an examination of how the international monetary system functions, with a special focus on the role that the euro would and should have. The other aim was to prepare suggestions on how to resolve the great problems, financial ones above all, that affect the development of the entire world. One of the characteristics of these Carli conferences has been the attention paid to the juridical problems arising from European and international integration and from the new architecture of the international monetary system.

The 1999 conference focused on the efforts taking place in many different institutions to construct what has been termed the new international financial architecture (IFA).

Acknowledgments

The ideas and conclusions expressed in each article in this volume are solely those of the authors and not the institutions or the individuals that are members of the Association.

Open economies review 11:S1 3–14 (2000)

Summary of Findings of the Guido Carli Association's Second International Conference

PAOLO SAVONA
LUISS Guido Carli University and Guido Carli Association, Rome, Italy

The work done to build a new architecture of the international monetary system (IMS) is described effectively by Fabrizio Saccomanni in one of the papers written for the conference and included in this volume. Saccomanni represented the Bank of Italy in the various venues where this issue was discussed and in this context personified the fine traditions established by Italy in both scholarship and monetary diplomacy.[1] The paper by Maxwell C. Watson describes the operational results obtained thus far in this area, dealing particularly with the aspects that involve the International Monetary Fund (IMF). The concluding remarks by Antonio Casas-Gonzáles, president of the Central Bank of Venezuela, complete the picture with an agenda of actions that might prevent complications. The work of these three scholars represents one of the most precise and well-reasoned syntheses of an issue now being examined by officials in the world's major industrialized countries.

The studies published here offer a significant panorama of the changes taking place in how the reform of the international monetary system is viewed. The regulatory capacity of government authorities suffered an eclipse following the wide acceptance of the philosophy of the superiority of market discipline, but this theme made a reappearance in the agenda of the Group of Seven (G-7) countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) following a series of crises in currencies, in banking systems, and in the finances of various countries. These crises were increasingly severe and widespread, leading to worries that the global market could be vulnerable to systemic contamination. Unlike what happened during the Great Crash of 1929 to 1931, the recent events did not lead to talk about market failure but rather to an awareness that the policies of public intervention were being badly administered. The awareness grew out of the need for a new international financial architecture (IFA) characterized by better integration among the rules of the game, public institutions, and market forces.

The participants in the second conference concentrated their attention on the following issues:

- Dissatisfaction with the functioning of flexible exchange rates and the possible corrections of the existing mechanism;

- Changes in the political climate toward the approach to be taken regarding problems rising from international monetary instability;
- The monetary nature of derivatives and the implications for the policy of targeting; and
- Juridical aspects of the new architecture of the international financial system.

Participants at the conference, in analyzing the relationship between flexible exchange rates and the free circulation of capital in the world, reached a unanimous opinion that flexible exchange rates were not functioning in a satisfactory way with respect to what the theory promised. Robert Z. Aliber and Dominick Salvatore strongly emphasize that flexible rates have created an hysteresis in foreign trade net commercial balances, leading to imbalances that are more severe than those recorded during the regime of fixed exchange rates, due to the hesitation by government authorities to alter the parities. Watson observes, for example, that "it is puzzling that instability [in exchange rates] has not diminished at a time of low inflation and interest rates in advanced economies." These scholars conclude that the regime of flexible rates—even if it has not been fully experimented as yet due to the presence of various regimes and exchange-rate policies in the world—is governed by capital flows and not by the flow of goods. And since financial flows, particularly short-term ones, are highly unstable, a vicious cycle develops whereby the practical results of flexible rates diverge from the ones that should theoretically occur.

Paolo Savona, Aurelio Maccario, and Chiara Oldani do not deny that instability is born when capital is moved but argue that its extent and the way in which it can spread is due more to the derivatives' market than to official markets. It would be a mistake, therefore, for governmental authorities to concentrate their attention and their interventions on the capital markets. These three economists also concur, principally but not exclusively, with the analysis offered by Jeffrey R. Shafer, whereby the freedom of the movement of capital does carry risks for the stability of currencies and stock markets but also offers numerous advantages in terms of the efficient allocation of resources in the world. It would therefore be wrong to "throw sand into the gears," as Tobin put it, to limit freedom of movement in some respect, or, even worse, to adopt policies of target zones, reference zones, or soft zones in exchanges. Such a system would be destined to failure, without meeting the problem (and resolving it) of bringing under control the international money supply as it has logically been redefined in this era of financial innovation, the Internet, and information technology.

The repeated outbreaks of currency, banking, and financial crises have led to a shift in political attitudes toward a reform of the international monetary system from the concept of "first putting your own house in order" to one of "putting the global market in order as well." The conference participants, however, felt that actions taken so far have been inadequate and have not really faced up to the problem. Saccomanni observes that "the reform of the international financial architecture ... has been a necessary step in the effort to contain international financial instability but has not been sufficient to bring about a comprehensive reform of the international monetary system. *The latter remains an unfulfilled dream"* (emphasis added). Going to the heart of the problem Watson adds that "the new architecture may begin at home, in domestic reforms, but it cannot end there."

If one accepts the growing awareness that putting one's own house in order is no longer enough—in a time when global operators are ever more powerful and equipped with rapid and sophisticated information technology and with instruments (such as derivatives) that allow them to act swiftly and at low cost—one must also admit that a corresponding awareness has not developed around the fact that sources of monetary creation now exist at the international level (derivatives, in fact) that are under the control of market operators and that leap across even the most rigid national monetary controls. Every attempt to keep one's house in order, therefore, is upset by the operational freedom and the inventiveness of the international markets.

There is a growing consensus that the development of the global market makes it necessary to increase international cooperation to find an effective substitute for the indispensable figure of an international central banker. As of now the "seven bigs" of the G-7 do not intend to ordain the International Monetary Fund to fulfill this function, resulting in markets that are left with the power to set the rules of the international financial game. This decentralization is part and parcel of the dominant political philosophy that the private sector can arrive at more effective decisions than the public one, even in setting monetary policies. The current thinking could also be motivated by a fear that if central banks were put to the test of taking over those decision-making powers and proved ineffective, then it would undermine confidence in the central banks—a confidence they still possess despite repeated crises.

The highest price for this situation was paid by the IMF, which was compelled by the "great powers" to experiment with ways of alleviating those crises. It has been transformed from an organization that was established to supervise the orderly functioning of exchanges, according to the philosophy accepted at Bretton Woods, into an agency that dispenses credit. Crisis after crisis nailed down the change in the IMF's primary role, without, however, creating an institutional replacement to restore control over the creation of money and therefore make the system function effectively. The IMF's interventions were criticized by practically everyone at the conference, with the Fund receiving only a modest degree of support. Aliber noted that the credit flow instituted by the IMF was indirectly effective, serving as a tool to make countries willing to accept constraints on or modifications of their economic policies—in particular regarding their foreign-exchange regimes, which are usually at the heart of the crisis. Without losing contact with the reality of the markets, Alexander K. Swoboda instead stresses the central function of the IMF and the need to "give the Fund a more independent voice ... to reconcile the globalization of markets with the fragmentation of policies and politics made at the national level."

From the work of the two Carli conferences it becomes obvious that neither the current literature nor government authorities present as yet any clear picture of the endogenous nature of the creation of international money within the malfunctioning of the IMS. Peter M. Oppenheimer points out that a great deal of attention was devoted to this subject in the eighteenth and nineteenth centuries, leading to the creation of two opposing schools of thought: the banking school, which argued for the free market of deposits and credits (and therefore of money), and the monetary school, which called for the control of the quantity of money by public authorities. In the twentieth century the need to control the quantity of money, to create a central bank, and to make it politically independent won the argument, but the banking school, escorted to the door by national economic systems, year by year built a new fortress within the global market, greatly aided by the existence of offshore centers and the "blackmail" these represented for the national systems. In order not to lose a significant share of international banking business to the offshore centers, the industrialized countries found themselves obliged to allow the free exchange of any kind of "capital," giving the markets a *de facto* freedom to create money, while they barricaded themselves behind the rationale that the only thing they could do was "to put their own house in order"—which soon became the only thing that had to be done.

The result of this state of affairs is the one described by Saccomanni: we've gone from a "government-led international monetary system" (G-IMS) to a "market-led international monetary system" (M-IMS) in which the markets and not the authorities provide for mechanisms for international money creation and exchange-rate determination. According to the definition proposed by Saccomanni, a "M-IMS is a system based on the freedom of capital mobility, in which exchange rates, as well as the creation and distribution of international liquidity, are determined by market forces." In other words, money is once again endogenous, as it was before the rise to power of the ideas of the monetary school and the restatement of those ideas by the Chicago school.

The thesis of the monetary nature of derivative instruments as an important component of the endogenicity of monetary creation was tested econometrically by Savona and Maccario, and their results were presented at the first conference. This test was perfected by the same authors in collaboration with Oldani and presented with new arguments and empirical logic during this year's conference. The three authors concentrated their attention particularly on the relationship between monetary creation as it is known traditionally and the way in which derivative markets function. Their conclusion is that interest rates react to the demand for derivatives according to the relationship set forth in the liquidity preference schedule first identified by Keynes and afterward in the common patrimony of different schools of economic thought. Derivatives are therefore an excellent substitute for money in speculative activities.

The authorities should therefore pay attention to the problem of integrating the monetary targets that are normally used (M2 or M3) with derivative instruments or, alternatively, make extensive use (as is happening without the reason being explained) of monetary policies oriented to interest rates. In this latter case, the authorities tacitly accept the negative consequences that, according to economic theory, affect the stability of real growth.[2]

Given the impossibility of supervision by an international monetary government, a greater coordination between national policies is needed. Casas-Gonzáles stresses two points: (1) "a new financial architecture that works efficiently must be built on the basis of active participation by all countries" and (2) "a central element of international financial reform is related to the need to provide sufficient and timely liquidity during crises associated with massive capital outflows." It has been noted, however, that the biggest obstacle is the refusal by the United States to accept foreign influence over its policies and also the inability of many other countries to accept a reduction in their national monetary sovereignty. One can only hope that the European Union (EU), having reached a relative standardization of policies among its member states, will accept as one of its responsibilities the search for internal and external monetary and financial stability, which will contribute to the creation of a greater degree of cooperation among the world's economic leaders (the United States, the European Union, and Japan) to stabilize the functioning of the IMS. Salvatore believes that two factors limit the effect of European Monetary Union (EMU). The first is the unresolved problem of how to handle asymmetric shocks; and the other is the relationship between the ins and outs—whether these are the founding members that have chosen to remain outside EMU (the United Kingdom, Denmark, and Norway), the one that has not yet qualified (Greece), or the numerous countries that would like to be admitted (such as the postcommunist countries of Central Europe). Oppenheimer believes, instead, that a central bank like the one established by the Maastricht Treaty (in which the monetary functions are separate from the ones governing the stability of the banking system) cannot function properly, especially if the decision-making powers are in the hands of the European governments rather than in the hands of the central bankers who participate in the European Central Bank (ECB), and he wonders "how far this sharp separation of powers can be maintained."

At the present time, the efforts to establish a new international financial architecture fall into five baskets:

- Enhancing transparency and promoting best practices,
- Strengthening financial regulation in industrial countries,
- Strengthening macroeconomic policies and financial systems in emerging markets,
- Improving crisis prevention and management and involving the private sector, and
- Promoting social policies to protect the poor and the most vulnerable.

The breadth and the limitations of each of these five components are examined in Saccomanni's paper on the progress reached by the panoply of groups working on this subject. He observes that, for the moment, the principal site of coordination on questions of monetary and financial stability is not the IMF but the Bank for International Settlements (BIS) in Basle.

What appears evident from the papers and the discussions that followed at the conference is that the problem of the stability of exchange rates (perhaps one can even say the abandoning of the current regime officially defined as "flexible" because the status of the central currency of the system, the U.S. dollar, is so great) is not on the agenda of the authorities, of their working groups, or even of the scholarly experts. Professor Aliber points out that the political establishment now seems to have less use for contributions from academia and seems to attempt to go forward by relying on its own forces, thus depriving itself of precious support that, in the past, was the driving force behind reform in this field.

The problem of the unsatisfactory functioning of flexible exchange rates as a source of real and financial stability was studied by Aliber and by Salvatore, who traces the reasons that flexible rates were adopted after the 1960s. It was felt that they would provide a greater degree of adaptability, given the different inflation rates between one country and another; that the currency markets possessed a greater capacity to evaluate the situation than did the authorities; that they would allow a government more freedom of choice in framing its policies, and that they would reduce the need to maintain official reserves and lessen the chances that a currency crisis would erupt.

Aliber observes that, in the last analysis, everything depends on the validity of the first proposition—that is, the greater adaptability of exchange rates to achieve parity with purchasing power. But that expectation proved unfounded because of the influence exerted on operational freedom by monetary and capital movements.

The central problem facing the new international financial architecture according to Aliber, is therefore the one of intervening at the source of instability as represented by the combination of the variability of capital flows and the floating exchange-rate system. "Since uncertainty about exchange rates ... is larger when currencies are floating than when they are pegged, then the inference is that the differential between domestic and foreign returns when currencies are floating ... is larger when currencies are pegged and are pegged by more than enough to compensate for the increase in the uncertainty." In brief, uncertainty feeds on itself, and it finds in exchange rates a compensatory mechanism that creates a vicious circle of monetary and financial instability in that it is moved by, and in turn moves, monetary and financial resources between countries.

Aliber's pragmatic conclusion is that the variations in exchange rates are prevalently the result of the market's reply to the desire on the part of investors to change the composition of currencies representing the activity of their portfolios—a desire induced by the comparative movement of real growth rates, inflation, and interest rates.

The Savona-Maccario-Oldani thesis is that the characteristics of derivatives make it superfluous to move capital. In other words, by buying or selling securities and accepting the cost of those transactions, it is sufficient to "bet" on the movement of interest rates, exchange rates, or economic indexes (such as those of the stock exchanges or commodities markets) to reach the same goals at a much lower cost. Derivative contracts, in fact, cost less than the underlying ones.

Savona takes a step further, observing that derivatives act first of all on the rate of substitution between portfolio activities. They therefore play an important role in the mechanism that transmits impulses arising from monetary policies, in a more general sense from economic policies, and finally from the private operators themselves. This takes the theoretical problem back to the unresolved debate between economists on the role played by the substitutability between financial assets (and between these and real assets) in the effectiveness of policies directed at influencing savings and investments schedules and the rates of accumulation and employment (Savona, 1999, pp. 151–155). Oppenheimer believes that this is a promising line of analysis, but he also points out that an obstacle exists to making progress in this area: the scant knowledge that scholars have about how these markets really function.

A comment by Michele Fratianni underlines one aspect of Aliber's analysis, which that author was aware of even if he did not state it explicitly: the absence of a solution to the problem of financial instability. Fratianni points out that "there is little evidence that the G-3 (Germany, Japan, and the United States) has any stomach for currency management" and that "the paucity of global thinkers on reforming the international monetary system may reflect awareness that there is not a dominant solution" beyond international cooperation, above all now that the European Monetary Union has shown that it wants to adopt the line of nonparticipation in defining and governing a different international monetary system from the one followed by the United States.

Salvatore is basically in agreement with Fratianni and believes that, however you look at it, the objective of changing the rules of the IMS is not easily (and perhaps not at all) attainable. The only alternative is therefore to improve the current system (or nonsystem), which he defines as "hybrid," through the imposition on the part of the authorities of a greater degree of transparency of operations to better inform the markets. Salvatore believes that private operators should accept a higher cost due to their behavior in terms of moral hazard. In other words, they should not be bailed out. Also, emerging countries should receive greater financial assistance to help them in their development and not simply to be able to fend off an unstoppable speculative attack. This same theme is taken up by Oppenheimer, who, in more traditional language, emphasizes that three instruments should be reviewed: "last-resort lending, moral hazard, and the form and extent of prudential capital requirements."

Fratianni thinks that the origin of monetary crises does not lie with the authorities but rather with the banks that commit too many errors in evaluating credit risks. This theme is taken up at greater length in the paper written by David T. Llewellyn, who concentrates on the characteristics of the regulatory regime under which banks operate. Llewellyn believes that the external regulatory bodies, such as central banks and the agencies that supervise banking, have a decreasing influence in governing financial systems. Instead of trying to exert more control, they should create incentive programs that can convince the banks to adopt more appropriate mechanisms of internal control. Without such incentives, he adds, any hope of improving the way banks are managed by reducing their exposure to risk is doomed to failure; Casas-Gonzáles gives authoritative support to this view.

On the basis of recent experience, Llewellyn's opinion is that the regulatory regime necessary to face crises should be strengthened in all its six components: regulation, monitoring and surveillance, incentive structures, intervention, market discipline, and the rules of corporate governance.

Llewellyn's paper offers an extensive and penetrating analysis of the problem areas involved in each of the six components that make up the regulatory system and that also provide a tool for measuring its effectiveness. He indicates that he has faith in the virtues of self-regulation among market operators despite the negative results of their most recent actions, which he attributes to the operators having found themselves involved in a process of transition toward a deregulated system for which they (and the authorities) were insufficiently prepared. The regulatory regime that was in force at that time did not provide incentives either for a proper management of risk on the part of bank executives or for an increase in competition, since the authorities were fearful of weakening the stability of the system.

Shafer dissents from this approach. His point of view is that the instability of the global monetary and financial system is the result of structural factors, not transitory ones, and that this is the price that needs to be paid for benefiting from the advantages of a system of free movement of capital, which he regards as unquestionably useful. Sharing in the unanimous viewpoint of all the conference participants, he rejects as illogical any curbing of the freedom of action of market operators. He also thinks that the shift of surveillance systems, from external ones to ones within the banks and the markets, can be effective only in a very limited way and at any rate should not be tried in developing countries where the institutions are still imperfect. Shafer proposes a tradeoff between the choice of voluntary systems of control and the simplicity of rules imposed by the authorities. If those rules are easy to interpret and if they can easily be adapted to innovations generated by the markets, they function better.

Shafer's skepticism about the ability of bank managers to interpret the dynamics of markets and consequently to be able to govern themselves and to govern the international monetary system is even more striking when one considers that he is not only an expert on these problems but also a leading operator in the global market. It should be noted that even Saccomanni, Aliber, and Fratianni recall that the most forceful criticism of the *laissez-faire* philosophy adopted these days by the authorities that govern IMS—if one can speak of governing—and of the line followed in the construction of the new *international financial architecture*—have come precisely from operators of the calibre of George Soros, Henry Kaufman, and Paul Volcker. In the 1999 New Task Force Report promoted by the U.S. Council for Foreign Relations, these three illustrious financial experts insisted very strongly that the authorities should take an active role in curbing the speculation in currencies, for without such controls the reform of the IFA would be, like "watching *Hamlet* without the Prince."

Barry Eichengreen (1998), who made a significant contribution to the study commissioned by the Guido Carli Association on the international monetary system and presented at the first conference of 1998, notes that it took half a century for countries in Europe to arrive at the euro and concluded that it would be "fantastic to think that this process could be replicated on a global scale in a few years."

Despite the criticism directed at European Monetary Union, Watson declares that he has more faith in the ability of the system of European central banks to serve as an agency promoting international monetary coordination or at least to serve as a blueprint for a mechanism that can guarantee a greater stability in the world's financial system. Swoboda goes further, saying that "the euro is the manifestation of the erosion of the hegemony of the United States and the dollar. Although the dollar does remain the dominant currency, it is a role that is now being challenged." Pointing to the step-by-step "convergence" that led to Eurolandia (in other words, the 11 countries that are part of the EMU), Watson concentrates on the conditions that will have to be met for emerging countries or those in transition to be able to participate successfully in the process of their own integration into the European and international financial system, exploiting forms of exchange-rate stability that can also be achieved through official interventions in the market. To protect themselves from asymmetrical shocks, they will have to meet several requirements usually identified as "fiscal sustainability, the subordination of monetary policy to the anchor, sound debt management, and adequate wage-price flexibility." In other words, they need to "put their house in order."

The need for European countries to satisfy certain requirements of the European Monetary Union, in fact, has a wider validity. We can see that Italy, for example, which is already part of the euro zone and therefore has a currency that is protected from external attacks, has an economy that lacks this protection. In the event of external shocks hitting the system in an asymmetrical manner, such countries can continue to enjoy a habitat of financial stability while at the same time finding themselves dragged into a whirlpool of real instability consisting of a fall in production and in jobs.

Watson also recognizes, as Aliber and other scholars point out, that there exists a problem of financial vulnerability on the part of emerging countries or those in transition that is due to the erratic movement of capital and that this problem can be faced (as Italy did, in fact) only by entering into a regime of common defense of exchange rates accompanied by steps "to put one's house in order." Salvatore believes that the right policy is the currency board—that is, a policy of making a currency balance managed in a regime of fixed rates responsible for modulating the creation of money. He admits that this can be reasonably accomplished in the arena of EMU only by countries that wish to become part of it, on the condition that the countries forming part of Eurolandia give them precise guarantees that their currencies will be protected.

In conclusion, a corrected system is still far from being implemented. It is reasonable to accept the point of view of Saccomanni and Salvatore that we will continue to live for a long time under a hybrid international monetary system that will contain several kinds of regimes of exchange rates and banking and financial regulations and that capital will allow to be essentially free to move where it wishes. This will therefore create well being but also a chronic instability that can be partially or periodically reduced through increased transparency on the part of operators and through banking, financial, and company regulations that are more stringent than the present ones, whether self-imposed or imposed by the authorities. There remains the question of what level of competition the system of intermediaries should reasonably work under so as not to be driven to a struggle of the fittest and, therefore, to forms of moral hazard in the choice of risks. This is a point that Oppenheimer raises (as he himself affirms) as a provocation to remind everyone that money is a "unique" good that cannot be treated like any other good.

In the opinion of this author, until the creation of traditionally defined money and its substitutes is brought under the control of the authorities, the market will continue to play the role of *dominus* of the international monetary system. The quantity of money will maintain its endogenous characteristics, currency and financial crises will continue to break out, and the world will remain seated on a monetary powder keg. There is only one way to correct this situation—to coordinate national economic policies and, to turn the coin over, not to pursue policies of autonomy exploiting flexible exchange rates. Such a strategy makes sense if the belief in the global market's virtues, so widely touted, is more than just lip service, and if a real desire exists to reinforce it at the political level. In the global market, real growth and inflation respond to the logic of a closed market where monetary conditions have a significant impact. Every attempt to escape from that logic using flexible exchange rates to create the conditions for dichotomous movements away from the overall trend signifies an interruption of the benefits of the global market and the appropriation of these benefits on the part of the strongest and most able national economies.

This conclusion is apparently the same as Swoboda's, but it stresses the importance of going to the source of instability (endogenous money creation) instead of trying to control the outcome (the financial crisis). This author shares Swoboda's conclusion that "we should not have the illusion that we can build a crisis-proof system" because the historical fight between official authorities and market operators will continue in the future. We are not at the end of the monetary history; perhaps we are at the beginning.