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ANALYSIS OF THE INTERNATIONAL MONETARY SYSTEM: PLANS ON A GLOBAL CURRENCY

This paper deals with the problem of sustainability of the monetary system consolidated at the Jamaican Conference in 1976. The paper focuses on the economic side of the issue and does not consider in depth other factors influencing the international monetary system. Meanwhile the limitations of the paper do not allow dealing with the issue of gold and its role in the modern economy, the paper examines three major reserve currency issuers and their role in modern economy. It is also supplied with some practical recommendations related to the reforming of the International Monetary System as well as considers possibility of creating a global currency.

Key words: globalization, the international monetary system, accumulation of foreign currency reserves, reforms, a global currency.

Introduction

There are a lot of shocks and crises in our world today, and uncertainty has become a norm of our daily life. Due to globalization process, nations are becoming closer connected with each other affecting all of us in both a positive and negative ways. In earlier times when Adam Smith wrote *The Wealth of Nations,* a crisis breaking out within the bounds of one country did not spread over to other countries. Today this has dramatically changed, and one cannot speak of a separate economy only as all the economies (maybe with an exception of very few closed economies) are interdependent forming a global economy. As might be seen, the topic of this paper was not chosen accidently; on the contrary, the authors believe that the problem the world faces nowadays is a great challenge to humanity. Solving the problem of financial stability and partnership means partial fulfilling the eighth goal of the millennium.

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The methodology used in the paper includes the cross-country comparison of the statistical data drawing conclusions from the inductive method. A theoretical background of the research comprises the workings of two prominent economists, the Nobel Prize winners, Robert Mundell and Milton Friedman.

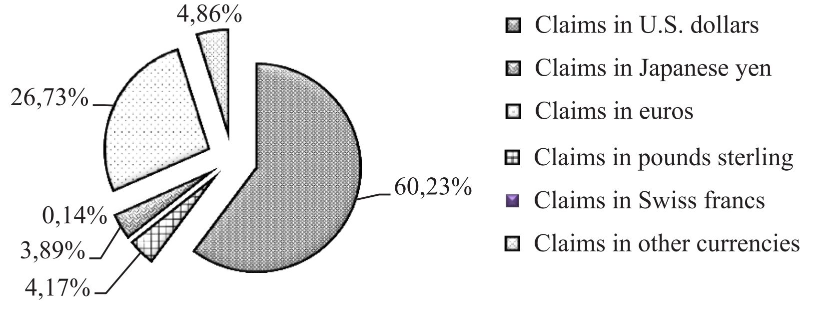
1. An overview of the major currency issuers

The international monetary system has stridden a long way until it took its modern shape. In this section, before dealing with the main issuers of the worldwide spread currency reserves let us first have a look at how the International Monetary System took its modern form. We begin our historical review with the period from the post-war period in 1944. It is important to note that they never create a new monetary system, but an already existing system finds official recognition, either naturally or at the high-level conferences, and this is evident on the example of the United States. In 1944, at the Bretton Woods conference, there was no country other than the United States able to serve as the international lender of last resort, having then also the most of gold reserves in the world. The Bretton Woods system of fixed exchange rates meant the currencies were pegged to the US dollar, which in turn, was pegged to gold. The United States took the commitment to convert dollars into gold when needed. The new exchange rate system allowed countries facing economic hardship to devalue their currencies by up to 10% against the dollar.

Just before the end of the Bretton Woods era, the key role of the dollar became obsolete. Along with persistent trade deficit because of wars the United States waged emerged a parallel market for gold where the price soared above the official US mandated price leading to speculators running down the US gold reserves. Nothing of that added to confidence in the dollar. Even when convertibility was restricted to nations only, some of them, notably France, continued building up gold reserves at the expense of the United States, eventually causing President Nixon to close «the gold window» on 15 August 1971. This marked the beginning of the system of flexible exchange rates officially confirmed at the Jamaican conference in 1976. The main features of the modern monetary system are as follows:

- The system of flexible exchange rates;
- Enormous presence of currency reserves;
- Neoliberalism as a prevailing economic paradigm;
- Absence of Capital Controls
- Absence of the «fallback» value;
- Widely diversified financial instruments including a great number of derivatives.

Today the foreign exchange reserves have reached their peak. Uncertainty of what exchange rate will be tomorrow has put many countries to stock enormous reserves held in firm currencies such as the dollar or the euro. However, the overwhelming majority of reserves are held in the short-term treasury securities denominated in the US dollars. The biggest holders of the official reserves are China and Japan, who hold around $1.73 trillion and $885.9 billion respectively, which makes around 61% of the world's allocated currency reserves[1] by the beginning of 2012. The distribution of reserves by currency is given on fig. 1.



Source: The IMF statistics.

Fig. 1. Currency composition of the official foreign exchange reserves in 2011

[1]These include reserves reported to COFER database – an IMF database that keeps end-of-period quarterly data on the currency composition of official foreign exchange reserves. They do not include holdings of a currency by the issuing country.

Talking about the euro, it contains around 27% of the world's allocated currency reserves. Since introduced, the euro started to grow very quickly, nevertheless still amounting to less than a half of the amount held in dollars. Some supply-side economists laid big hopes on the euro, indicating that one day it would become the global currency. In order to clarify this point we will now to a more detailed consideration of two largest economies whose currencies compound more than two thirds of the global FX reserves.

2. The United States in the International Monetary System

By the end of the World War II, the United States accumulated more than two thirds of gold reserves. Through the Bretton Woods agreement in 1944, the dollar was officially made the single reserve currency convertible into gold. The first decade after the World War II signified the Bretton Woods system working smoothly. Europe and Japan were rebuilding their economies, and the United States enjoyed a period of a rapid expansionary policy, both economically and politically, leading to the soaring expenditures of the US and huge trade deficits. The outstanding claims in Europe on the dollar reached $1 trillion in 1970. Despite that fact, the United States continued to promote the dollar as an international exchange currency. To facilitate the outstanding claims the United States had to devalue their currency by printing out more US dollars, thus devaluing the nominal price of gold. The doubts about whether the United States is able to meet the claims it was outstanding, along with unwillingness of Europe to be dependent on the dollar multiplied the claims to convert dollars into gold. Under current circumstances the US gold holdings dwindled ominously, resulting in the «Nixon shock» in 1971, when President Nixon declared delinking the dollar from gold and ended the Bretton Woods system of fixed monetary currency convertibility. This issue was identified by Belgian-American economist Robert Triffin in the 1960s. He argued that there is a difficulty reserve currency issuer faces trying to achieve simultaneously its domestic monetary policy goals and meet other countries' demand for reserve currency.

Even though, the significance of the United States cannot be played down. The main positive impact of the United States onto the world, according to some economists, was in taking a burden of the hard task to serve as a donor, helping both developed and developing economies recover and advance, when no other country could afford that. As evident, before 1970s the United States was the world's largest creditor, investing in Europe, Japan and some other countries. It has been the world's largest consumer of the Chinese goods boosting the Chinese economy. Nevertheless, the price for the US service is also extraordinary. Resulting in huge political and economic influence of the United States in the world along with its devastative military campaigns that took lives of many thousands innocent people, the United States has been living far beyond its means.

Starting with administrations of Jimmy Carter and Ronald Reagan, loans regulations virtually ceased to exist under Bill Clinton's administration. Domestically, at that time all restrictions on money supply in the US were gradually removed, meaning that the Federal Reserve by means of printing new dollars could have financed any deficit under the US expansionary policy. Without these regulations, known as «selective credit controls,» lenders started making a flood of loans without minimum down-payment requirements, and eventually without even requiring a statement of income of individuals for many loans. Adjustable interest rates and hidden balloon payments made these loans inherently more risky [1]. In 1995, the US subprime mortgage market reached $90 billion, only to double in 1998. By 2007, the subprime mortgage market was worth around $1.3 trillion.

In 2008, the collateralized debt obligation (CDO) bubble blew in the United States, transmitting the disaster from the United States to financial institutions around the globe. This signified the beginning of the global economic meltdown.

The same situation was with the stock market bubble. Absence of proper regulatory controls of the over-the-counter derivatives meant the overheating stock market. For instance, the size of the credit default swap market currently amounts to nearly $45 trillion, which authors of the paper consider as the next potential bubble to blow.

The second huge wave hitting the US dollar was the so-called debt-ceiling crisis. On February 12, 2010 the debt ceiling reached its peak of $14.294 trillion. In 2011, it rose again. The Congress granted the President another $400 billion space, making the debt ceiling to $14.694 trillion in total. Meanwhile, $239 billion were spent during the day – the largest one-day bump in history [2–3]. For the first time since the World War II the US debt reached 100% of GDP.

On August 5, 2011, the Standard & Poor's credit rating agency downgraded the long-term credit rating of the United States, from AAA to AA+, for the first time in its history [4]. With the rising debt ratio the value of the dollar falls[2]. Paying the debt back with cheaper currency could cause investors (including other governments) to demand higher interest rates if they anticipate further depreciation of the dollar. Soaring deficits, the falling value, higher interest rates, and lack of trust would cause domestic growth in the United States to go down.

3. The European Union in the International Monetary System

After 1974, Europe started to think of its own stable and efficient common currency. The euro was established with regard to the provisions of the Maastricht Treaty in 1992. It is important to mention that the formation of the European Union and advent of the euro, by its nature, was something new that has never been seen before. Therefore, there exist different opinions amongst economists about the outcome of this attempt.

The Euro was introduced in its non-physical form on 1 January 1999 at midnight, when exchange rates of national currencies were locked in, taking a physical form on 1 January, 2002 when old banknotes and coins ceased to be used as legal tender. Today the European Union comprises 27 member states, with 17 of them being in the Eurozone. The Euro is one of the most traded currencies. Its share in international currency reserves is about 27% (see fig. 1). The European Union is an important player in global politics.

Some economists argue that the Euro is a tool by which Europe stepped toward unification. The economic theory behind the Euro lies in the «Optimum Currency Area», the term firstly invented by Robert A. Mundell, the Nobel Prize Winner in 1999 for *«his analysis of monetary and fiscal policy under different exchange rate regimes and his analysis of optimum currency areas»*. An optimum currency area is a geographical region in which it would be the most beneficial, from economic perspective, to have a single currency. In his model of international risk sharing, R. Mundell argues that the Optimum Currency Area would allow dividing the possible risks (as well as benefits) among countries-participants, that otherwise would have to be borne by themselves alone, if they used separate currencies. This, in turn, would accelerate an aggregate economic growth. «Rather than moving toward more flexibility in exchange rates within Europe, the economic arguments suggest less flexibility and a closer integration of capital markets. These economic arguments are supported by social arguments as well. … If instead, the European currencies were bound together disturbances in the country would be cushioned, with the shock weakened by capital movements» [5].

Let us now proceed to define the main features of an international currency as identified by R. Mundell, and see how the euro fits in them. The first characteristic is the *size of transactions domain*. In this prospect, with over 332 million Europeans and another 175 million people worldwide (in countries that

[2]In 1940s, the value of the dollar amounted to 56% of its initial value in 1774 when it was introduced. By 1970, it fell by 20%, only to plummet in 2010 to the lowest point in its history – just 3%

pegged their currencies to the euro) using the euro, the euro seems to be the second most important currency in the world.

The second characteristic is *stability of the monetary policy.* Here Mundell argues that no currency has ever survived before as an international currency with a high rate of inflation. He says that the lower the rate of inflation, the lower the cost of holding money balances, which results in more stability of the currency. Historical data reveal that the inflation rate in the Eurozone fluctuated indeed, however did not soar more than 4% at the time of the financial crisis in 2008.

The third characteristic, which R. Mundell considers, is *the fallback factor.* Modern currencies are different from great currencies of the past, which were made of gold or silver, and were convertible into one another at the fixed ratio. These currencies had a fallback value, namely if the state collapsed, currencies continued to be in circulation and thus survived. Today, however, currencies are not made of or supported by precious metals; they cease to exist once the state collapses, as they are no longer in demand (take, for instance, the Soviet Union ruble). «In any great political emergency, and especially one that threatened the durability of the EU, there would be a run on the euro that would not be mitigated by any fallback value» [6].

By and large, R. Mundell is one of the founders of the Euro and he is strongly convinced that the European Union would make an efficient and growing economy, where political integrity of Europe arises from economic integrity. He believes that the Euro would be able to give a lot to the international monetary stability.

Let us now proceed to the opposite view of the so-called euro-skeptics, who do not believe the Euro will ever perform as good as R. Mundell predicted. One of the key economists in this respect was M. Friedman, the Nobel Prize Winner in Economics in 1976 for «*his achievements in the fields of consumption analysis, monetary history and theory and for his demonstration of the complexity of stabilization policy*». He is seen as the founding father of the modern Monetarism. Unlike R. Mundell, Friedman did not think the Euro to materialize at all, and even if it would, it would not survive for a long time. In his dialogue with R. Mundell, he argues that the Euro would only be able to unite Europe politically if it is successful economically. «If the existence of the euro induces a major increase in flexibility, the euro will prosper. If not, as I fear is likely to be the case, over time, as the members of the euro experience a flow of asynchronous shocks, economic difficulties will emerge. Different governments will be subject to very different political pressures and these are bound to create political conflict, from which the European Central Bank cannot escape» [7].

In order to assess how far the views of these economists go, the authors of the paper made a short analysis of the current situation in the European Union. As already mentioned, the European Union has no predecessors in the past. Therefore, one cannot say with confidence what would be the results of such an attempt of unification in the future. With regard to the R. Mundell's prediction, by 2010 the GDP of the EU would be 10-15% bigger than that of the US making the EU a very important international player, which has proven to be correct.

Along with all benefits the optimal currency area provides, such as social mobility, mobility of capital and finance, convergence of interest rates and the absence of speculation on exchange rates among the member states etc., there are evidences of some imbalances as well, which have become particularly acute at the time of the financial crisis in 2008. It seems the M. Friedman was also right saying that it is highly unlikely that independent countries standing at different levels of development would ever succeed in creating a stable monetary union, requiring a tight monetary discipline from its members. The current so-called debt crisis is a confirmation to that fact. In this respect, the problem turned out to be the most acute in the «periphery» of the Eurozone, i.e. in Portugal, Italy, Northern Ireland, Greece and Spain. In all the cases, to our mind, the common feature is the lack of prudent government control. Deregulation and neoliberalism are the main principles of the so-called Reaganomics, which the United States has been pursuing over four decades, since the second half of 1970s. This set of policies is also strongly supported by the International Monetary Fund. Among the main requirements when providing a financial aid is trade liberalization and absent to minimum government controls.

4. Reforming the International Monetary System

Having considered the major units of account in the modern monetary system, we will now move to another part of the paper, which offers some practical recommendations regarding the restructuring of the International Monetary System. We believe that there are two basic steps that could be undertaken in order to bring some more balance into the system. They are as follows:

- Shifting the economic approach
- Restructuring the International Monetary Fund

Shifting the economic approach. As mentioned before, the nowadays-economic theory is widely affected by neoliberal views. As we have already discussed in *The United States in the International Monetary System,* many of the so-called mainstream economists of the late twentieth century and early twenty first century used to say that one should minimize government intervention so that economy performs smoothly. However, we have seen that deregulation in the United States was one of the main reasons the financial crisis in 2008. In addition, some international institutions even today continue to advise policies, such as financial sector deregulation and capital market liberalization, which are now recognized as having contributed to the creation and rapid diffusion of the crisis in many countries, especially in the least protected ones. According to the report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System, «many developing countries have been required by international financial institutions to adopt restrictive policies in times of slow growth or even recession. These policies are markedly different from the counter-cyclical policies adopted by the advanced industrial countries and increase the risks faced by investors in developing countries relative to those in developed countries…More broadly, developing country dependence on IMF financing has constricted their ability to adopt counter-cyclical policies and other counter-cyclical measures» [8]. Indeed, it is evident that in many cases, countries like Zambia suffered a lot from too strong foreign competition and unbearable conditions set by the international institutions, such as the World Bank or the IMF, causing their domestic industries to fall down producing high tension in the society [9].

In this respect, we agree with the authors of the report, who believe that some more freedom in decision-making should be given to the countries-recipients of the international financial aid. For instance, this could be their running bigger deficits while rescuing the economy from the crisis as long as the short-term speculative practices are better supervised. Liberalization of trade should be performed under a tougher observation of the government so that domestic industries do not lie down being unable to compete with strong multinational companies.

Let us now have a look how prudential supervision found its practical realization in Nordic countries. Opposite to the United States, Nordic counties offered a different approach of handling the financial crisis. After the banking crisis in 1991–1993, occurring because of financial deregulation and liberalization that overheated their economies, Nordic countries learnt how to deal with the crisis. Such countries as Norway, Sweden, Denmark and some others used as remedies nationalization of the biggest banks and more strict monetary policy. After the crisis, the Norwegian Financial Supervisory Authority adopted the «active risk-based supervision» approach and a closer tripartite cooperation with the Ministry of Finance. Norwegian model in this respect is considered as one of the best and it was implemented with some adjustments in other Nordic countries [10].

In 2007–2008, Nordic countries again performed relatively better avoiding devastative effects of the crisis. In Norway, for instance, government bought many of the companies' shares from all over the world when the prices went low, and sold part of them when the prices grew again [11]. In Sweden, on the other hand, banks were not given just some guarantees from the state or bailed out (as was in the case of Northern Ireland). They were told to write their losses down first, and only after that, they could rely on the government support. This strategy kept banks responsible and turned the government into an owner. When distressed assets and were sold, profits flowed to taxpayers again smoothing the effects of the crisis [12]. This lesson underlies the importance of supervisory of the financial authorities. Tougher measures saved Nordic economies from collapse and, therefore, the authors consider these measures should be adjusted at the international scale bringing about a more coordinated development.

Restructuring the International Monetary Fund. Created in 1946, the International Monetary Fund (IMF) was assigned to be the core institution to keep the balance of the newly formed Bretton Woods system of fixed exchange rates «working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty».

Countries contribute to a pool through a quota system from which countries may borrow funds temporarily. However many critics argue that the IMF main policies depend in a high degree on the policies of the United States, both domestic and foreign. For instance, because the United States has been contributing the biggest share to the pool, it still holds the biggest number of the voting rights meaning that it is in the position to veto any changes to the IMF Charter. Besides, the IMF is based in Washington and staffed largely by the US economists; there also has been a constant exchange of personnel between the IMF and the US Treasury.

Therefore, we offer some steps to be implemented regarding the restructuring of the IMF. Apart from the main body of the IMF, it might be more efficient to create subdivisions responsible for each of the main economic regions. We believe they should equal to five as follows: the North Atlantic region (the NAFTA area), the South Atlantic region (all countries in Southern America), the European region (the EU area plus other European states), the Afro-Arabic region (Africa plus Arabic states), and the Asian region (Russia, Asian countries plus Australia). These five subdivisions will be then subordinates to the main body of the IMF. This sort of restructuring could make the monitoring easier and solving the problems quicker.

Also under the new structure, more equality in weighted voting could be achieved. We propose that the highest decision-making body of the IMF, the Board of Governors, to consist of the each region's representatives, and not of individual countries as it is now. It is then in the position to accept or decline the decision of veto, as the voting power is relatively equal. Apart from that, we suggest that voting power each country or region possesses, as a voluntary option, to be weighed with regard to its endowment into the world's innovation process. One of the possible indicators to take into account could be the Global Innovation Index, an average index including seven major pillars: Institutions, Human capital and research, Infrastructure, Market sophistication, Business sophistication, Scientific outputs, and Creative outputs. This action would enhance the significance of both developed and developing nations bringing more sustainability into the monetary system.

5. Plans on a global currency

Today more and more economists talk about a global unit of account. As Paul Volcker, the former Chair of the US Federal Reserve put it: «A global economy requires a global currency.» The idea of a global currency is not new. First attempts to create a global currency unit were made after the World War II. Two economists worked on the plan of the international stabilization, Harry Dexter White from the United States and John Maynard Keynes from Great Britain. International units of account proposed by them are known as «unita» and «bancor» correspondingly. Even though both of the plans were aimed at stabilization of the post-war world, they had differences connected with some specific features in methodology. Besides, they had different views as to the position of the representative countries. The result of the Bretton Woods conference was that the Keynes' plan did not pass because of the influence of the United States after in the after-war period. Frankly speaking, a similar fate waited for the White's initiative as well. However, some of it did survive. The role of the Stabilizing Fund took the International Monetary Fund, the US dollar substituted unita, and the US got a single right to veto any decision made by the Board of Directors of the IMF.

Later, after the collapse of the Bretton Woods system in 1971 talks advocating the creation of a global currency resumed once again. In this paper, we refer to the workings of M. Friedman and R. Mundell once more. Both of them underline the importance of existence of a global currency. However, they have different views as to the details. Meanwhile M. Friedman considers only a system of flexible exchange rates to be the most appropriate R. Mundell strongly believes that a system of fixed exchange rates would be the most efficient. R. Mundell argues that a fixed rate of the G-3 area, i.e. the dollar-euro-yen, would bring more stability and eliminate speculation just like in the case of the euro. Besides, he thinks that many developing countries are indeed better off with a fixed or pegged exchange rate.

Robert Mundell continues saying that a fixed-exchange-rate currency called the DEY (the US **D**ollar, the **E**uro and the **Y**en), would thus become the first step toward a new international unit of account, the Intor. In discussion with M. Friedman he explains that such a world currency would not be obligatory, but a voluntary choice, which would require monetary and fiscal discipline to maintain convertibility. Countries that could not cut the muster might well decide to opt out and suffer the consequences of higher interest rates and monetary instability. He says that such a system would be a great step forward for the bulk of the world. The main anchors of a new currency would be the basket of currencies composed of the DEY and gold. Today it is proposed to add the Chinese RMB into the basket of currencies as well. In this way, the world would gradually move toward a global unit of account.

His opponent, M. Friedman, strongly believes that it is impossible to have in practice exchange rates truly fixed. Based on the Margaret DeVries's report published in the IMF Staff Papers in November 1968, Friedman argues that in fact not more than three currencies had their exchange rates truly fixed; in other cases fluctuation could reach thirty percent or more [13]. In addition, he laid big hopes on electronic money, which started to develop intensively at the end of the twentieth century. Therefore, introduction of a global currency as R. Mundell proposes, M. Friedman sees as impossible in the nearest future. Furthermore, it would involve many political agreements, which do not seem to be reached very quickly. Hence, the only possible way is to allow currencies to float freely.

Now let us try to define whose view could be closer today to the truth. From a theoretical perspective, the Mundell's view about the fixed exchange rate system sounds pretty good, however, it would involve a lot of fiscal and monetary discipline as well as some political agreements. Therefore, to put this model into practice and maintain its stability might not be as easy, but possible in the long run provided that all participants follow the signed agreements. Furthermore, trust is required. Let us have a look at the evolution of the Bretton Woods System at the Table 1. While rebuilding their economies, most European and some Asian countries had to devalue their currencies in the 1950–1953, with strong economic growth accompanying only Germany, Norway, Sweden and Japan. Other countries, especially the United Kingdom, did not recover so quickly. Constant trading deficits and lack of confidence made it difficult to maintain the exchange rate stable.

After 1971, the four mentioned above currencies rose in value, while the value of the pound sterling fell signifying a relatively bad economic performance. Because within the Bretton-Woods system the pound sterling acted as the second reserve currency, 35 countries of the sterling area (which almost

Table 1

Historical evidence on the Bretton Woods Performance in 1950–1971

Economic Miracle, revaluation/appreciation of the currencies after the Bretton-Woods collapse			
Wirtshaftwunder	Economic miracle	«Golden Years» + oil discovery	Fast economic growth
	1965-1980	1955-1973-	
Western Germany (DM)	*Japan (JPY)*	*Norway (NOK)*	*Sweden (SEK)*
d[3]1953-1960	d1953-1970r	d1950-1970r	d1950-1970r
r[1]1961-1962-1968r			
Moderate economic growth, revaluation/appreciation of the currencies after the Bretton-Woods collapse			
Austria (ATS)	Belgium (BEF)	Switzerland (CHF)	
d1954-1970	d1950-1970	1948-1970	
Little to moderate economic growth, devaluation/depreciation of the currencies after the Bretton-Woods collapse			
United Kingdom (GBP)	France (FRF)	Denmark (DKK)	Italy (ITL)
d1950-1966d	d1959-1968d	d1950-1966d	d1951-1957
			1961-1970
Finland (FIM)	Spain (ESP)		
d1951-1956	d1961-1966		
d1958-1960d			

Source: UNCTAD Stat.

mirrored the Commonwealth) held their foreign reserves in pounds, and were entitled to buy and sell it in order to maintain stability of their own currencies. In short, when countries acted to stabilize their own currencies, this had a destabilizing effect on the pound. Otherwise, as it appeared to happen with many European currencies (e.g. Italian Lire, Spanish Peso, or Danish Krone) they devalued as well. For that reason, we may conclude that under such conditions a monetary system proved to be inefficient and prone to imbalances. Furthermore, we believe that such a system existing during the Bretton-Woods era is only applicable under particular circumstances, in the mid-term, in presence of a superpower, such as the US, and absence of a rapid economic growth of other member states. In addition, the solvency of the Triffin paradox is required, which might not be that easy to achieve. The fact R. Mundell considered himself when he analyzed great currencies of the past and the present, is that a country having a great currency is not willing to give up its supremacy if not only for the sake to reinforce its position in the new system. This happened with Great Britain in the nineteenth century, the United States in the twentieth century and the would-be superpower in the twenty first century is likely to follow the same suit.

We assume that it could be the so-called BRICs states able to facilitate the emergence of a new currency. As evident, the GDP they will be producing together will exceed that of the G7 taken together in roughly 12–15 years from now provided the same pace of economic growth. However the amount of reserves in dollars and the euros is still significant, and some time will be needed to strengthen their currencies and make them truly global. Therefore, in the nearest 20–30 years, a global currency seems to be more a theoretical model than a practical reality.

On the other hand, the system of flexible exchange rates as proposed by M. Friedman has also its pros and cons. The authors of the paper agree with the report made by the Commission of Experts of the President of the United Nations General, which states «the inadequate responses to the last global crisis in 1997–1998 led to a change in policy

[3]The letters «d» and «r» refer to the devaluation and revaluation of the currency after the collapse of the Bretton-Woods system onwards.

frameworks within many developing countries that induced them to hold increasing levels of reserves, which contributed to the large global imbalances whose disorderly unwinding was widely feared as an additional source of financial instability». [8] Indeed, the reserves conserved could be invested at home, creating job places, stimulating domestic demand and accelerating a more rapid development. Now, there are around $ 4.7 trillion in the US treasury securities that give around 1% per annum to its owners, compared to an average rate of return at 11% under traditional investment the world could gain around $470 billion annually. This significantly increases disproportion between the aggregate demand and supply in the world. If this tendency continues, it could lead to another major crisis that will affect global economy dramatically. Instead, this money might be put in financial help to the poorest countries, resolving partially or even completely some of the goals of the Millennium such as poverty and hunger. In this way, we could realize the first principle of economics: economy for people, and not people for economy.

Conclusions

The world is increasingly changing nowadays. The economies that used to be the motors of the economic development are losing their positions gradually. The Western capitalism in its modern form of ultraliberalism is likely to become obsolete in the nearest future. Its place will take a more advanced capitalism where more emphasis will be given to prudential state regulation, which is a matter of time only. Successful government policies can be clearly seen on an example of many Asian, some EU and Nordic countries, which currently perform really better than those considered to be liberal, the so-called «the top of the mount».

Even though changes occur rapidly, the authors believe that in the nearest 15–30 years the system of flexible exchange rates will continue to exist. A global currency of the twenty first century could appear in the mid of this century. A new global unit of account might have some of characteristics of the R. Mundell's Intor, based on the fixed exchange rates. Because the BRICs will be producing around 35–50% of the gross world product in 25 years, and the role of their national currencies will be intensified dramatically, we believe that it could be them who will sign then an inter-regional agreement on the common unit of account in international transactions. Other countries from the rest of the world would join it thus creating a truly global unit of account. However, the stability of this monetary system remains to be unknown at the moment. Currently we see that a would-be superblock is the BRICs, where China is likely to take a leading position, and the Triffin paradox is applied to it as well. At the same time, to identify if the BRICs are indeed in the position to take the leading role in the world, we need some more research, which includes not only purely economic analysis, but also social, political, cultural and spiritual peculiarities that build mentality of the nations. On the assumption of the Maslow pyramid indicating that when the basic needs of people are satisfied, the need of self-realization becomes actual, and this could be an acute issue for China that has a very strict political regime, where people's rights are so often undermined at the moment.

Another issue is the degree of government supervision. It is practically impossible to identify the degree of regulation suitable to all countries; therefore, we should consider concrete examples to proceed the research in this direction.

Furthermore, the role of gold is still a question mark. We assume that provided a low confidence in the reserve currencies without a *fall-back* factor more emphasis is likely to be given to gold again as there is no other substitute standardized and universally accepted by all countries. This point clearly illustrates the growing demand on gold of many central banks around the world stocking their reserves with precious metal. After nearly 33 years of rest, gold seems to be back on the scene, signifying the ever-functioning law of periodicity. On the back of this, the importance of scholars dealing with the issue of the «blood» of financial markets is increasingly growing; whose research could bring more progress to the economic thought and humanity by and large.

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Статтю присвячено аналізу проблем стабільності грошової системи, встановленої Ямайською конференцією у 1976 р. У статті акцентується увага на економічному боці проблеми й не розглядаються в деталях деякі показники, які впливають на міжнародну грошову систему. Оскільки обмеженість розмірів статті не дозволяє глибоко проаналізувати роль золота у сучасній економічній системі, фактично проаналізована емісія трьох спеціальних резервних валют та їх роль у сучасній економіці. Обґрунтовано кілька практичних рекомендацій, які стосуються реформування міжнародної грошової системи, а також розглянуто можливості створення глобальної валюти.

Ключові слова: глобалізація, міжнародна грошова система, накопичення іноземних валютних резервів, реформи, глобальна валюта.

Статья посвящена анализу проблем стабильности денежной системы, установленной на Ямайской конференции в 1976 г. В статье акцентируется внимание на экономической стороне проблемы и не рассматриваются в деталях другие показатели, влияющие на международную денежную систему. Поскольку ограниченность размеров статьи не позволяет глубоко проанализировать роль золота в современной экономической системе, фактически проанализирована эмиссия трех специальных резервных валют и их роль в современной экономике. Обосновано несколько практических рекомендаций, относящихся к реформированию международной денежной системы, а также рассмотрены возможности создания глобальной валюты.

Ключевые слова: глобализация, международная денежная система, накопление иностранных валютных резервов, реформы, глобальная валюта.

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