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new international financial architecture – vectors & constraints

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Abstract: This paper refers to organisms and international financial relationships, and deals with some recent contribution to the economic literature concerned to the financial crises. It identifies, in the conventional proposals of reordering the international financial architecture, the search for the same principles based on self-regulation, in contrast with the proposals that are based on the recognition of the intrinsic instability of the *de-ruled economy*. As a conclusion, the text points out some new vectors of a "new international financial architecture", not before detaching the main constraints imposed by a reality marked by the supremacy of the liberalized and de-regulated finances.

Key words: international financial architecture, international finances,
financial deregulation, de-ruled economy
JEL: E-44, F-3, G-10

Resumen: El texto se refiere a los organismos y las relaciones financieras internacionales, y trata de algunas de las recientes contribuciones de la literatura económica sobre las crisis financieras. Identifica, en las propuestas de reforma de la arquitectura financiera internacional adoptadas al pensamiento convencional, la búsqueda de los mismos principios basados en la autorregulación, en contraste con las propuestas que son basadas en el reconocimiento de la inestabilidad intrínseca de la economía desregrada. A modo de conclusión, el texto apunta algunos vectores que la institución de una 'nueva arquitectura financiera internacional' podría sostener, no sin antes destacar la presencia de algunos constreñimientos impuestos por una realidad marcada por la supremacía de las finanzas liberalizadas y desreguladas.

Palabras claves: arquitectura financiera internacional, finanzas internacionales,
desregulación financiera, economía desregrada

I. Introduction

The new international financial dynamics that has been settled after the rupture of the Bretton Woods monetary-financial pattern is marked by the strengthening of the speculative processes and by the increase of the financial instability through the largest volatility of the assets' price. Thus, at the time it increases the fragility of the financial institutions, the risks of rupture of the system are deepened. These risks are mainly related to the difficulties of an effective control of the institutions and on the operations that characterize the "global finances".

With the de-regulation and the liberalization of the reception and application rates, in an atmosphere of worsening the competition among the institutions, these last ones look preferentially for the financial operations growth. Since the institutions have concentrated their operations on deeds, an occasional widespread price decrease brings into question the system's solvability. The deeds' market behavior is also responsible for the "convergence risk" strengthening, in so far as the increasing resources' concentration in collective funds and the informational system development tend to reduce the diversity of expectations, making "lowers" and "highers" closer. Besides, as far as the assets denominated in different currencies depend not only on the interest rate but also on the behavior of the exchange rate, the free mobility of capitals tends to favor the convergence of the first ones, so that the differential of interests among the countries means risk-exchange. "Whenever the expectations are shared", reminds Guttmann (1996), "the speculators" concerted action may easily surpass the central banks' capacity to defend their currencies under attack, resulting in dramatic changes in the siege governments' economic policies. The currency's private good aspect is strongly expressed in this situation [...], as far as the banks and companies negotiate the currencies as goods and, in this process, they make short-run bets on the performance and policies of the National States." Besides, as far as the new financial instruments favor operations with different quality assets denominated in different currencies, at lower costs and individual risks, the speculation with exchange can be enlarged, breaking out speculative attacks that making the financial crises become exchange crises.

Concerning to that, Aglietta (1995b:139) sharply states that the "very accentuated volatility turns imperfect the capital mobility, since it is converted, by the assets' owners, in variable risk prizes along the time. Besides, it means that the expectations are precariously maintained, what constitutes the basis of the endemic instability and of the sudden speculative attacks." Davidson (1996) also argues that, in the context of the "global" finances, "not only the

speculative activities may be strong instability makers of future prices, but also the volatility of the spot future prices can bring expensive consequences to the aggregated real income."

Thus, the predominance of the de-regulated finances – whether manifested by high interest rates, or by unexpected exchange rates or volatile market conditions - places the system under a recurrent tensions' situation. In the absence of control mechanisms, except the "market mechanisms", some systemic crises can take place. Such crises, we know, are characteristics of the financial dynamics and are a permanent threat to the economy's growth and to the stability of the system as a whole, so much the bigger the governments' difficulties in effectively combat them. So, the "global finances" picture, that takes place after Bretton Woods, between 1975 and 1997, reveals that, for a group of 53 countries, there is nothing less than 158 exchange crises and 54 bank crises registered. The number of exchange crises in "emergent markets" is twice larger than the industrialized economies', and the bank crises are more frequent than the exchange ones, including high financial restructuring costs (30% of GDP) and high product loss (40% of GDP) in the most serious episodes and, on average, 4.25% of the production, what represents still larger costs in "emergent markets." (IMF, 1998a)

After Bretton Woods, successive exchange crises take place, beginning with the escape of capitals of the peripheral countries, in the end of the 1970s and beginning of 1980s. The second half of 1980s and, especially, the 1990s, are characterized by a sequence of critical episodes, among which is the Stock Exchange crash, in 1987; the Real Estate Markets crash, in 1989; the collapse of the Tokyo Stock Exchange, in 1990; the turbulence in the European Monetary System, in 1992-1993, culminating with the abandonment of the exchange mechanism by Italy and England; the crisis in the American market of bonus, in 1994; the Mexican exchange crisis, in 1994-1995; the instability of the New York Stock Exchange, in 1996; the free decrease of currencies and Asian Stock Markets, in 1997; the collapse of the Russian economy, in 1998; the crisis of the LTCM (Long-Term Capital Management) speculative fund; and the Latin-American countries' crises, between 1997 and 1999, including the speculative attack against the Brazilian currency.

This succession of financial crises, an obvious eruption of the system' tensions, makes explicit the exacerbation of the tendency of intrinsic instability of the de-ruled economy and reveals the strengthening of the difficulties in sustaining an exchange rate in face of speculative movements that result from changes in the international financial dynamics in direction to the supremacy of the liberalized and de-regulated finances. Then, another succession takes place: the reordering of the international monetary and financial system.

II. In search of the Same Principles

In so far as the international economy has been subject to successive financial crises after Bretton Woods, revealing deep changes in its nature, the conventional literature creates three generations of models to explain the speculative attacks, as suggests Krugman (1998c). In the first, considered "classic", there would be some unsteadiness between the monetary expansion and the exchange savings that support the country's anchor, usually due to public deficits. The rational anticipation of the fixed exchange break, by the agents, would provoke the capital escape and the speculative attack, leading, unavoidably, to the anchor's rupture. In those terms, associating the speculative attacks to the reversion of the agents' expectations concerned to the monetary authority capacity in sustaining its commitment with some exchange parity by the unrestricted savings' sale, that interpretation - looking for explaining the peripheral countries' exchange crises, between the end of 1970s and beginning of 1980s - assets that the fiscal unbalances are the reason that would move the agents to anticipate future monetary expansions, provoking a capital escape until the monetary authority decides for the exchange anchor's rupture, depreciating the local currency due to the incapacity of sustaining the parity. It is very usual for the first generation's explaining patterns to propose the fiscal discipline as an economic policy to guarantee the equilibrium of the balance of payments, through which the fundamentals would be maintained in balance.

To interpret the crisis of the European Monetary System (1992-1993), a second generation of models shows the existence of a growing cost of the anchor's maintenance - in terms of unemployment or other factor - what would favor the speculative attack, once that cost would create some pre-disposition of the monetary authority in rupturing the exchange anchor. It happens because the process of formation of the agents' expectations would be informed not only by the operations with the exchange values practiced by the monetary authority, but also by the interest rate used to reach the exchange goals and to regulate the savings' level. As any increase in the interest rate, to sustain the exchange goal, results in a recessive cost on the employment level, then the agents would consider not only the fiscal bills in their expectations, but also the employment compromising degree to sustain the exchange parity. So, according to their perception, regarding the disposition of the monetary authority of sustaining the parity, the agents should anticipate future depreciation, looking for to denominate their assets in exchange value. Thus, the occurrence of exchange crisis would not

be necessarily related to significant fiscal unbalances. The attacks against the pound and the lira, in the beginning of the decade of 1990, happened in a world of larger mobility of capitals and demonstrated that the crisis does not affects only the peripheral economies characterized by fiscal and monetary "negligence." So, the interpretation of the crisis, that is common to all the models of second generation, explores the dilemmas of economic policies: to maintain a high interest rate to sustain the exchange commitment versus to reject the recessive cost resulted from the first option, reducing the interest rate and abandoning the parity.

When the crisis reaches Asia, from 1997 on, the previous models are no longer able to explain it, face to the favorable economic and financial conditions of the Asian economies: relatively balanced monetary and fiscal policies, non-existence of expressive fiscal deficits; high levels of growth and employment; and inflation under relative control. Reaching an Asia with balanced fundamentals, the crisis no longer fits in the explanation of the previous models. So, for the third generation of models, the speculative attacks result from an excess of local agents' external indebtedness. In the absence of an appropriate financial supervision and in the presence of some faith on implicit insurance, offered by the government in face of financial crises' situations, the exchange anchor would make the super indebtedness attractive. Thus, the moral hazard associated to the agents' faith that there would be the sustenance of their opening positions by the governments, the contagious effect and the financial systems' fragility are incorporated to the explanation of the speculative attacks in the Asian economies, and it is also recognized that the exchange crisis results from the capitals' markets crisis. It doesn't mean, however, that the conventional perspective admits to be the financial instability inherent to the way of operation of the de-ruled economy.

For the International Monetary Fund (IMF, 1999a), the changes in the financial crises' nature reveal an element that distinguishes the recent crises from the last ones, that is, there is larger possibility of contagion between the disturbances' sources and the international economy. According to the typology suggested by the Fund, some "economical or financial crisis" may brake out as "exchange crises"; "bank crises"; "systemic financial crises"; or as "external indebtedness crises." The exchange crises would result from speculative attacks against the external currency's value, forcing the monetary authorities either to practice the currency depreciation or to defend its parity, what requires to face the dilemma: stock sale versus interest rate increase." The second kind of crises, "bank crises", would be broken out due to bankruptcies that should induce the banks to suspend their liabilities' convertibility. These crises should also take place due to the assistance afforded by the monetary authorities to the system, through the injection of resources in large scale. The third kind of crises, "systemic

financial crises", would result from the bank ones, due to the incapacity of the financial system to accomplish, satisfactorily, the resources mediation, affecting seriously the productive activities. Finally, the fourth kind of crisis, "external indebtedness crises", would be typical of a situation of incapacity of any country to honor its external commitments, and would be directly related to its institutions and fundamentals' frailties, resulting in larger ruptures' risk so much the more accentuated the unbalances and the frailties are and lesser the "credibility" of the adjustment policies is.

It can be noticed, therefore, that according to the Fund, the crises have common origins, as far as they are explained by the "unsustainable economical unbalances" and by the "non-alignment in the assets' prices or of the exchange rates", in context of distortions of the financial system and structural inflexibility. In these circumstances, the Fund considers the crises a consequence of financial and economical disturbances when the economies suffer a high degree of vulnerability. For these reasons, the 1992-1993 European Monetary System crisis would be an exchange crisis, while the 1997 Asian crisis and the 1994-1995 Mexican crisis would be the combination of exchange and bank crisis. The exchange crisis of the Nordic countries, in the beginning of the 1990's, would contain elements of bank crisis. The episodes in Turkey and in Venezuela would be typically bank crises and the Chilean and Argentinean debt crises, in the beginning of 1980's, would be preceded of bank problems. In few words, the crises' typology used by the Fund reaffirms that the crises result from unbalances in the fundamentals and from institutional fragility, what would reveal that the affected economy doesn't practice a market-friendly economic policy and is not able to transmit transparency and trust to the market.

Resulting from that financial crises' view, the propositions of preventing crises policies, divulged by the Fund, emphasize the necessity of finding monetary and fiscal goals capable to balance the public and external bills and the relevant assets' prices, besides the strengthening of the institutions and rules capable to generate a "robust financial system." Alike, it is proposed an agenda of structural and political reforms of stabilization, for the peripheral economies, basically centered: 1) in the need of reviewing the supervision practices of the local financial systems and the practices of the information and data's supplying from private institutions; 2) in the deepening of the internal and external financial liberalization, as well as of the commercial opening; and 3) in the definition of the frailties in the fundamentals, through the fiscal and external bills' control and the monetary-exchange stability (IMF, 1998a; 1998b).

Thus, besides the recurrent recommendations of macroeconomic adjustment policies and of institutional reforms in the "emergent" countries, the Fund (IMF, 1999c) proposes the development and the diffusion of "good practice codes" and the improvement of the "special data dissemination standard" - instituted in 1996 to make public the economical and financial data of the member countries. As far as the "strengthening of the international financial system's architecture must guarantee that the potential benefits resulted from the globalization affect the member countries", the Fund defends the transparency and the "commitment with the accountability", especially regarding to the information about international reserves and foreign debt of the economies. Consequently, the Fund has been insisting on the adoption of international patterns, either in the areas under its direct responsibility – such as the dissemination of data, transparency of the monetary, fiscal and financial policies - or in the area of bank supervision – particularly in association with Bank for International Settlements (BIS). For the Fund, the transparency of the economic data and of the countries' macroeconomic policies result in trustworthy information regarding the intern economic situation of the economies, so that the private agents' decisions can be better analyzed.

The Fund also stimulates the dissemination of the "international principles of good behavior", intending to establish solid financial systems, what demands the strengthening of the financial systems and of the market supervision practices. Therein, together with the World Bank, the Basle Committee on bank supervision and the supervision organs' members of several countries have been encouraging, since 1998, the review of the practices adopted by the national authorities responsible for the supervision and regulation, as well as the review of the basic principles of bank regulation by the Basle Committee. The "Forum for Financial Stability" and the "Committee on Relationships of the Financial Area" are newly created organs addressed to the multilateral cooperation strengthening.

The Fund pleads a larger involvement of the private sector in the prevention and resolution of the crises. The private sector is considered as of fundamental importance to guarantee a better ordered adjustment process, to limit the moral hazard, to strengthen the market discipline and to assist the emergent markets' debtors to protect themselves against volatility and contagion. In fact, the Fund suggests the implantation of contingent lines of private credit, a time extension of the inter-bank credit lines, through the introduction of call options in the contracts, the emission of structured notes, and official guarantees, besides the negotiated prorogation of the foreign debt.

The recognition of the need of preventing financial crises encouraged the Fund to approve, from 1999 on, new "Contingent Credit Lines" for the countries with healthy macroeconomic

situation but subjects to future problems of balance of payments resulting from the contagion effect. The concession of those credits depends on the implantation of policies considered consistent by the "developing" countries, annually evaluated by their economic behavior and by their performance according to the international patterns. To have access to these credits, the country must develop "constructive relationships" with the private creditors, must be ready to reduce its external vulnerability and must present an economic and financial program according to the Fund's orientations.

The Fund suggests larger caution in the liberalization order of the capital account, recognizing the validity of temporary controls on the entrances capitals, in the meantime the macroeconomic adjustment and or the strengthening of the institutional atmosphere are not attained, because it believes that these controls tend to improve the entrances' profile: "the controls on the influxes can be justified in prudential bases, in the situations in which the institutional domestic economic and regulatory atmosphere is fragile, and as a way of dealing with the external pressures of the markets." Since the Fund believes that the fixed rates' regime stimulates the external indebtedness and underestimates the exchange risk - while the regime of flotation rates doesn't avoid, by itself, the excessive assumption of risks - the institution suggests the adoption of "appropriate exchange regimes."

The World Bank (World Bank, 1999) also gives its opinion about ways to prevent crises, recognizing that the volatility of the exchange and financial markets, in the end of 1990s, was directly linked to two modalities of flows of capitals: the foreign inversions of portfolio and the shot-term bank loans. It also recognizes that the reversion of the flows, associated either to speculative attacks or to contagion effect, should have perverse effects on "robust financial systems." The World Bank suggests a set of financial reforms that, in its point of view, would guarantee to the "developing" countries, the stability maintenance and the absorption of the benefits of the integration in the international markets of capitals. In that sense, it recommends a improvement on the regulation of the domestic financial systems; the adoption of an appropriate sequence in the liberalization of the capital account - whose objective is to increase gradually the tolerance of the national financial systems to the external rupture - emphasizing the need of development of the stock markets: transparency, accurate information, legal codes about the shareholders' rights and disclosure rules, as far as it believes that the developed markets attract foreign investors and contribute to the stability of the flows of capitals.

For the World Bank it is important that the countries stimulate the attraction of the long term external investments, by the settlement of a "healthy economic atmosphere", what requests

not only investment in “human capital”, but also the decrease or even the elimination of the distortions in the domestic markets, a commercial liberalization and a creation of a stable investors' regime of rights and obligations (privatization, commitment with the rules of the World Trade Organization, etc.). Besides, the World Bank defends a larger international and regional cooperation in the implementation of macroeconomic policies (monetary, fiscal and exchange) and in the area of bank regulation, which should motivate the constitution of regional nets of prevention and resolution of crises in face of the potential contagion inside the regions.

It deserves remark the fact that, in face of the critics on its rules’ inflexibility and intransigence, but still believing that the integration in the world market of capitals is an indispensable financing source for investment, the Fund emphasizes the consistence of the policies that justify the control or the opening of the finance markets. At the same time that the Fund intends to show that it no longer consider as an anathema the incidental and temporary control of the external capital, it as well admits that “it should not cause surprise that the recent financial crises in the emergent markets have led to a new exam of the merits of the capital controls as far as in some countries there was a too fast liberalization of the capitals’ account” (IMF, 2001).

So, the Fund has to consider the peculiar and specific conditions of the process of financial opening of each economy, such as in the cases of the crisis of Thailand, Korea, Indonesia and Malaysia: an efficient national system of financing, appropriate norms of supervision and prudential regulation, good management of risks in the businesses and great transparency and market discipline. The new pragmatism of the Fund intends to review the “board of commandments” that has to be precisely followed by the economies and to respect the national peculiarities. In this re-evaluation of the dilemmas associated to the choice and administration of the different types of exchange regime, the Fund observes that - concerning to the relationships among the three principal currencies – dollar, Euro and yen - the recent creation of the Euro restores the interest for proposals of exchange band, but in an international atmosphere still against the exchange stabilization models, exactly as have been verified after the collapse of the system of fixed rates established in Bretton Woods. If it is a fact that, “realistically, there is no alternative to the flotation of the exchange rates among the three principal currencies”, it is due to the non synchronism of the real movement of the economies in a context of strong short run integration of the financial markets. Indeed, because of the conjuncture particularities to whose each national economy is subject, the central banks can not but conduct the monetary policies according to the national objectives.

As a result, the selective interventions come up to reduce the volatility of the exchange rates and the non-alignment risk. So, the central banks operation should not only intend to reduce short run flotation, but also avoid periods of persistent over and under valorization of their currencies - the exchange non-alignments. So, it is not prudent to fix the exchange rate, to adopt exchange bands or to assume explicit commitment concerned to the external value of a national currency, if there is no way to establish fixed parameters in a context of deep and fast changes and flotation. Not for less, from the crisis of the Asian economies on, some exchange favorable conditions has taken place, exactly because it concedes larger independence to the monetary policy and larger maneuver margin to react against external shocks. However, to adopt the regime of flotation rates doesn't mean that the countries are free of making difficult choices, especially when confronted with expressive international movements of capital.

In fact, despite the Fund and the World Bank accept the deep changes in the international financial dynamics - reorienting and or qualifying their prevention proposals and resolution of the financial crises, as well as admitting that they do not result only from “developing” countries internal factors - the two multilateral institutions admit that the persecution of solid fundamentals and the strengthening of the bank supervision and regulation are still key elements in their policies proposals. In addition, the Fund and the World Bank, together with the BIS, stay as the principal locus of elaboration of policy propositions to reorder the architecture of the international financial system. But it is not the only one, because, as well states Eichengreen (1996), “the fact of Asia, the last stability bastion, to succumb to the exchange problems that afflicted the rest of the world, remarks the universality of the current pressures addressed to the international monetary system transformations.”

III. In search of New Principles

To recognize that the finance markets are intrinsically unstable, and that the imposition of the market discipline means an imposition of instability, is something that marks an important difference of the contributions and proposals of reordering the international financial system non aligned with the conventional thought. The crisis of the Asian countries replaces, more vigorously, the central concern about the systemic risk and about the mechanisms of financial disturbances' transmission. These considerations result in a series of proposals that try to reinvent the public and private ways of coordination, because, after Bretton Woods, the world economy operates in the absence of an effective international monetary system, in a context of

deep changes in the international financial dynamics addressed to the supremacy of the liberalized and de-regulated finances that manifest in increasing difficulties to support the exchange rate in speculative movements.

By understanding that the explicit public policy's objective is to preserve the stability in the finance markets, Soros (1998) proposes the establishment of an international credit insurance company and believes that this warranty model would reduce significantly the loans' costs taken by the interested countries. Soros points out that this new scheme would become part of the International Monetary Fund that would establish the loan limits that each country should take. The debtor countries would pledge themselves to supply data about all the loans, public or private, insured or not, so that the authority should establish the maximum values that would be inclined to insure. Up to these limits, the interested countries would have access to the markets of international capitals and to the preferential interest rates, added of a small extra amount. It is obvious that the establishment of the limits would consider the macroeconomic and structural policies adopted by the different countries, as well as the international conjuncture. Soros recognizes the political difficulties of making the proposed institution feasible. It would work as an international central bank and, in that sense, would reach the interests of the market's fundamentalists, contrary to any intervention, especially coming from an international organization. In fact, it is important to register that the Soros' proposal detaches an important aspect. If private agents are engaged in risk activities that generate negative externalities – that include not only the emergency operations' costs, but also the costs of larger vulnerability to financial crises – these agents' activities must be rated.

In order to interrupt, or at least to lessen, the speculative flows, Tobin (1978) had already proposed a tax (0.5%) on all the shot run operations of the exchange spot market, including contracts of future and of options, at least in the countries that hold the main currencies of international circulation and in the Euromarket. The remaining industrialized and "developing" countries, that have their currencies linked to a key-currency or that are integrated to a monetary area, should have some exemption under the International Monetary Fund approval. Tobin believes that the addition of a marginal tax, besides contributing to the macroeconomic stability in the industrialized countries, may help to stop the escape of capitals, in so far as it would increase the social costs until they coincide with the social benefits, in a way that the private decisions should become socially excellent. It would be established a special fund with the resources obtained by that rate, administered by the International Monetary Fund or by the Inter American Development Bank, to provide credits to the "developing" countries, compensating the reductions in official loans and bilateral

transfers of the industrialized countries. Besides, the taxation should soften the process of over valorization of the "developing" countries' currencies, due to the liberalization policies that stimulate the entrance of external capitals.

Addressed to the restriction of the short run capitals' movements, the Tobin's proposal leads to a controversial subject, either in terms of its effectiveness, or in terms of feasibility.

Davidson (1996:09), for instance, ponders about its effectiveness, because, according to his opinion, the taxation would be "unable to solve the problem when the speculative portfolio flows become big and significant conflagrations, while they cause high and permanent private costs for real international commercial flows."

Plihon (1995) calls Tobin's proposal as unrealistic, in so far as it would be efficient if all the finance places practice it, what is not feasible. Garber & Taylor (1995) also question whether an exchange transaction rate would be feasible to stop the speculative flows. Kenen (1995) relates the difficulties, in the current conjuncture, to adopt the capital control mechanisms and suggests, as alternative, that the International Monetary Fund encourages the constitution of reserves by the countries that have already experienced high entrances of capitals in return of additional extra credit advantages.

It is necessary to define the cases in which the special facilities would be granted. It is also necessary to define the additional volume of resources requested to provide this kind of contingence.

Generally speaking, the resistance to implement initiatives such as the Tobin tax is due not only by its inefficacy to contain the speculative flows, but also by its inefficiency in the allocation of resources – given the difficulty of separating these flows from those that answer to the economic principles. Another argument is that the Tobin tax would increase only marginally the speculation cost and, so, would stop only the really small exchange movements, with possible negative impacts on the international trade. Besides, its effectiveness to restrain the speculation in the international finance markets seems to depend on a much higher aliquot than the proposed 0.5%, what is, in the current circumstances, politically unlike. However, Tobin and the defenders of this proposal plead that the regulations and restrictions to the financial flows and transactions would be complementary initiatives to the macroeconomic policies, more than their substitutes.

For Eichengreen, Tobin and Wyplosz (1995), in so far as the governments allow unrestraint flexible exchange markets, high real potentials costs of unbalanced speculative activities may take place, what make the exchange markets the privileged locus of a series of speculative attacks against the main currencies. For this reason, they defend the establishment of either

compulsory deposits free from interests or other capital demands as a way of discouraging short run adventures. It is worth to remark the authors' concern about the strong possibility of the flows of hot money portfolio to produce vastly disturbing effects on the economy. It is exactly the possibility of speculative changes of portfolio that makes the social costs of freely-flexible exchange rates overcome the social benefits, demanding some kind of government intervention in the exchange market.

For understanding that the variations of the exchange rates are not the result of an adjustment process to balance the current cash flows of the trade balance, but are caused by the volatility of the preferences for monetary assets, McKinnon (1988:87) defends a new monetary system based on fixed exchange rates among the main currencies (dollar, yen and German mark) and proposes that the central banks of the respective economies adhere to a common monetary pattern, trying to equal the conditions of the three monetary areas through the parity of the purchase power in the three currencies. According to the author, with nominal exchange rates for an undetermined period of time, the process of international arbitration and the monetary coordination would assure the convergence of the inflationary levels, after what it would be established a common monetary pattern. In the face of this situation, "the central banks of the three countries would adjust symmetrically their internal monetary supplies to maintain, concomitantly, the levels of the exchange nominal rates and of the national inflation rates close to the internationally trading goods", reaching fixed nominal and real exchange rates, whose permanence along the time would discourage the speculation and would eliminate the instability of the international preference for monetary assets.

A variant of the proposals that defend the establishment of a monetary union is presented by Cooper (1987), who proposes the creation of an unique currency for all the industrialized countries, with a common monetary policy and a common Bank of Issue, responsible for the management of this policy. His proposal (pooling of monetary sovereignty) tries to face the instability of the portfolio decisions, instability itself that comes from the flotation of the exchange rates that would be eliminated by the issue of an unique currency, of intern and international circulation. The national currencies of the industrialized countries would be substituted by this unique currency, whose issue would be in charge of the Bank of Issue. The idea is that, if the monetary administration is under a supranational instance responsibility, it is possible to avoid an abusive use of the seniority power in favor of the international currency's issuing country. Besides the monetary control, it would fall to the Bank of Issue the practice of "lender of last resort" and of regulator of the financial system. It is worth to register that the own proponent recognizes the current difficulties to create a bank of global

issue; however, the proponent considers possible "to assert in a Bank of Issue related to a group of democratic countries that would constitute a core of an international system."

Sachs (1995) suggests the formation of an international bankruptcy court, with similar authority of a national court, like the chapters 9 and 11 of the Code of Bankruptcy of the United States, what is also endorsed by Chari and Kehoe (1999) and recommended by Unctad (1998).

Garten (1998), in his turn, proposes a central bank with the responsibility of supervising a new global currency, and Kaufman (1998) recommends the creation of an unique global regulator instance for markets and financial institutions, composed by professionals of the private sector, that would inspect both the banks and the financial intermediaries. For Fischer (1999), the improvement of the system demands a multilateral organism able to hold the main functions of a "lender of last resort", even if not allowed to launch a currency.

Mishkin (1994) and Meltzer (1998) also propose an international institution that plays the role of "international lender of last resort." In such proposals, the International Monetary Fund should grant a new line of emergency credits to assist the countries that accept to adopt the demanded economical policies. The existence of those credit lines should inhibit the disposition to speculative attacks or, at least, to delay them, in the same way that the deposits' insurance in the United States intend to reduce the bank incidents. But the obstacles for an "international lender of last resort" are not few. Nowadays the Fund has loans resources around 200 billion dollars, less than the fifth part of what it had, in proportion to world GDP, at the time of its creation. All the evidences show that the G-7 is not prepared to supply the necessary resources to avoid the speculative attacks in the "developing" debtor countries. Besides, it can be stated that the existence of an "international lender of last resort" would encourage the banks of the industrialized countries to take larger risks. In fact, the implementation of an "international lender of last resort" must consider the fact that the main regulatory power would still remain close to the national authorities. The creation of that international organism would certainly induce the national authorities to relax their surveillance, in so far as if the national banks have problems, part of the costs will be transferred to other countries through the international "guarantee." Although this problem can be solved with the introduction of a based-risk system, in order to any country have access to the contributions of the international lender, it is not possible to affirm a priori that this system will be effective.

Williamson (1987) proposes a kind of agreement among the three principal industrialized countries (United States, Japan and Germany) concerning to some rules and goals that limit

the flotation of the exchange rates, claiming a more effective commitment of the monetary authorities regarding to the ad hoc coordination experiences implemented in the 1980s. His proposal (flexible target zones goes exchange rates) suggests a structure of exchange parities, negotiated among the three currencies, and that reflect an effective rate of equilibrium for the respective countries. Established the structure of exchange parities, the basic commitment of the countries would be the management of the macroeconomic policies in order to limit the deviations of the rates of exchange of the agreed goals, as well as to impede that they surpass the interval (about 10%) around the objective. The set of basic rules of the administration of the macroeconomic policies would consist in: handling of the medium level of the interest rates, according to the behavior of the nominal income's aggregate growth in face of the goal sum of that growth to the member countries; revision of the interest rates among the countries in order to limit the exchange rates deviation from the established goals; and redefinition of the national fiscal policies according to the growth rates of the established nominal income. As observed, the coordination of the economic policy defended by Williamson is essentially based on a monetary policy, through the handling of the interest rates. The fiscal policies would be used for a compensatory adjustment when "alterations in the monetary policies would threaten the internal balance." The revision of the goal of the structure of parities of the effective real exchange rates is expected, as a way of settling the impact of the structural changes on the prices, letting the nominal rates subject to adjustments according to the inflation behavior in the three countries. So, it is a system of flexible-but-agreed exchange rates, from which is expected a "capacity to restrict non alignments and to open a way for the political coordination, since it would demand an agreement around the flotation margins, what would demand some mutual comprehension degree about the economic policies goals."

From the point of view of Williamson, this system would be more feasible than the regime of fixed or floating exchange, at the time that, through the flexibility, it would allow the exchange rates to fill out their four genuine social functions: to harmonize different inflation rates; to facilitate adjustments of the balance of payments; to allow an independence degree for the anti cyclic monetary policies; and to absorb speculative shocks. Despite the possibility of progresses towards the flexible target zones proposal, it is convenient to register, however, that before all it would sanction the current operation of the international monetary relationships, instead of becoming an effective international monetary reordering.

Volcker and Gyohten (1993) suggest the restoration of a system of fixed exchange rates, with specific nominal values and with the rules under the rigid control of an international

organization - "a modernized Bretton Woods." They remark, as an alternative, the creation of a World Bank able to issue its own boundary and to claim the execution of the agreed rules.

The authors recognize, however, that is very difficulty to apply these dispositions in the current context, because the sovereign governments would hardly transfer such authority to a supranational central bank, giving up their autonomy concerning the monetary policies. In this way, they believe that it is viable to extent the experience of the European Monetary System to maintain fixed exchange rates, since "it was successful when put in operation, during more than one decade, a fixed exchange rates' system... [Due] to the existence of a dominant economic potency and a predominant boundary – West Germany and German mark." Volcker considers that the difficulty of this system is in the dependence of the remaining countries on the policies and decisions of only one country (Germany) and of only one Central Bank (Bundesbank), but considers correct the orientation of the European Community members regarded to a collective responsibility concerned to the decisions that affect not only the interest rates, but also the monetary and economical policies of the European region as a whole. It is worth to notice that both the constitution of a regional central bank and the adoption of a common currency demand a coordination of national policies that, in some degree, demands to go beyond the agreements about the exchange stability within pre established margins. Besides, each national government would have to contribute through accepting goals for a common variable (either interest rate, that is a monetary aggregate, or a price index of marketable goods, etc.). Otherwise, all the involved countries would harmonize their monetary policies instruments "to maximize" the common objective – what would demand from the governments the abdication of their sovereignty at a too high political cost when compared to the benefits promised by the cooperation.

In his reflection on the reordering of the international monetary system, Aglietta (1995b) recognizes and underlines the privatization of the monetary-financial relationships with the strengthening of the speculative processes and the increase of the financial instability through a larger volatility of the assets price. He proposes the constitution of independent central banks in the ambit of the G-10 economies. Under cooperation, the banks could deal with the volatility of the exchange rates, allowing the governments to maintain only the decision power concerned to the exchange regime. Instead of an international nominal anchor, given by the price of gold, he states that the best would be a group of compatible national nominal monetary anchors, and that, instead of looking for a matrix of relative monetary values, the currency characteristic of public good must be found in its intrinsic value as good's purchase power. Therein, he proposes that the new international monetary institution is an institutional

and ideational atmosphere that isolates, insofar as possible, the monetary administration from the political pressures, and that, from the intensification of the independence of the central banks on, the monetary regime result in a negotiation and administration process of the monetary rules in the ambit of these banks. There is some risk, as states Goodhart (1995), that these kind of proposals lead to a merely legalist solution, because, to make the central banks independent to avoid political interference is always something precarious, in so far as there is no guarantee that there won't be any changes in the agreements that, for their own nature, are incidental and transitory. Finally, Aglietta, in his proposal, destines to the International Monetary Fund the role of supervision of the exchange rates in an international level, once he considers necessary the presence of an international regulator for the currency."

Davidson (1992-3; 1996) proposes the constitution of an international stable and regulated reserve currency ("international money clearing unit") in order to avoid the processes of accumulation and of the private agents' speculation. So, he suggests a new international monetary order based on the institution of a system of payments and of international clearing according to a series of adjustment rules previously set by the members of the system with possibility of control of private capitals by the national central banks, through which it should be possible to reduce the asymmetries of the economical-financial situations among the respective economies. As far as this currency would operate as unit of account and exclusive reserve asset in the generation of the international liquidity, only the central banks would be authorized to trade and to retain it. Its access would be prohibited to the public. Likewise, the central banks would guarantee the convertibility of the international currency to the national one, only with the remaining central banks and with the International Clearing Agency, avoiding the drainage of reserves of the system and putting under control all the private international transactions, since they would be compensated through the international currency. Regarding to the exchange rate between the national currencies and the international one, Davidson affirms that each country, according to the effective parities would praise it. It is important to notice that the proposal supposes an international institutional character for the Clearing Agency, which would stay free from particular interests of each country - what, although desirable, seems to be not much feasible, as the own author recognizes, in so far as it would demand a "total planning" of the relationship rules among the countries, which, by their time, would result in the control of the movements of capitals and in the definition of adjustment mechanisms. Anyway, the proposal of Davidson worries, appropriately, about the capital movements in an international level and about the economies' indebtedness, calling attention to the impacts of the short run and, especially, speculative flows of capitals.

Eichengreen and Wyplosz (1993) state that the successful international monetary arrangements present three common attributes, such as, capacity to absorb relative prices' adjustments, that is, their capacity to harmonize shocks of prices; adhesion of all the participants to the robust monetary rules, what presupposes credibility of the government authorities in the management of their economic policy according to the established international rules; and ability to stop market pressures, what depends, in the short run, on external financial support in face of unbalancing pressures of a determined exchange rate and, in the long run, is conditioned to a wider international cooperation, in financial terms and in management of an economic policy, what may demand even administrative controls to restrict certain movements of capitals. Besides, the absence of one or more of these attributes would reveal the deficiency or fragility of a monetary arrangement.

If, by one side, the reference to such attributes represents an important step to establish an analytic basis to discuss the proposals of reordering the international monetary system, by another side, it is imposed to recognize the current difficulties for its operation. Those attributes, exactly because they lead to structural conditions, are not evident among the principal developed poles; they even are not in the center of the debate about the international monetary system reordering.

Although it has not reached the statute of the consents, there is more and more understanding about the need of new regulation policies. The non-regulation and the financial liberalization make the speculative finances very fast, making them increasingly disconnected with regard to the productive investments. In so far as the financial operations run away of any control, the systemic risk becomes higher, as the free derivative markets demonstrate, whose "irrational exuberance" represents the rationality of the speculative logic of capital valorization. Once the markets don't have self-regulation capacity, it is necessary to have public control and regulation of the financial markets.

However, there are some constraints among which we detached the following that, to our judgement, are the principal.

The first and more general is the paradox established by the liberalization of the finances after Bretton Woods, that is, the contrast between the gigantic dimension assumed by the markets of capitals globally integrated and the national character of the regulator institutions (except the multilateral institutions – International Monetary Fund, World Bank and BIS) and their limited power and intervention capacity. The constant ad hoc interventions in the critical episodes already mentioned, are very illustrative, what means that there is no stability guarantee for the system that is more and more fragile regard the serious pendent risks.

Except the relative success of the intervention of American Treasury in the Mexican crisis, in 1995, the interventions in the crises of Asia, in 1997, and of Russia, in 1998 failed. On the other hand, the Fed's intervention in the Long Term Capital Movement speculative fund crisis, in 1998, was extremely difficult, as well as the interventions of the International Monetary Fund in Brazil, between 1998 and 1999 and, more recently, in Turkey and in Argentine.

Second, the discussions about the key questions around the monetary regime are circumscribed to the interests of the triad of the capitalist organic nucleus (United States, Europe and Japan). In every definition towards the reordering of the international monetary-financial system, there is no way of disrespecting a concrete reality composed of different political views of each one of the economies and or economical blocks.

Third, and not less important, deals with a reality in the which the United States, through their financial power, impose the predominance of their currency, so that the financial markets seem determined to accept, in spite of the dollar values' flotation, that the United States have, within quite flexible limits, the privilege of the international "seniority". To say that is to state that the reordering proposals of the international monetary-financial system must consider the fundamental role of the United States in the management of the financial "globalization", because the function of universal value reserve, practiced by the dollar, comes fundamentally from the American finance market characteristics and from the double role performed by the American State, that is, of debtor and of lender of last resort. It deals with, finally, a financial "globalization" hierarchically organized according to the American financial system.

Fourth, even though the multilateral organisms recognize the deep changes in the international financial dynamics, reorienting and or qualifying their proposals of preventing and solving financial crises, the objective is to avoid longer range initiatives, such as the control of the movements of capitals and the organization of a world creditor of last resort. That is explained, to a certain degree, by the fact that the exporter countries are benefited by the liberalization of the movements of capitals. It is also explained by the premise that the tensions can be isolated and controlled, so that an effective regulation of the international flows of capitals, as well as a deeper rearrangement would just make sense if there is a more serious crisis in the system, that put the economies of the capitalist organic nucleus in risk. It is convenient to consider that the tensions eruption - manifested at the end of an expansionist cycle of the American economy and in an apprehension about a "forced landing" of the hegemonic capitalist potency - seems to disapprove the maintenance of the premise that informs the multilateral organisms.

Fifth, the International Monetary Fund and the World Bank, together with the BIS, stay as the principal locus of propositions to reorder the architecture of the international financial system, which are more subject to the market than to the strengthening of effective supranational instances. So, they announce the development and the diffusion of "good practice codes" and the improvement of the "special data dissemination standard", in order to increase the international capacity to monitoring the national macroeconomic policies, specially concerned to the financial system and to the monetary, fiscal and exchange policies, so that the countries have to adapt themselves to the norms of an integrated world financial system without an international creditor of last instance, maintaining the flows of capitals free, with some mechanism internationally agreed to deal with the new deadlines and moratoriums that threaten the "developing" countries. They also announce that the countries need a strongly capitalized bank system, with prudential supervision controls, with rigorous systems of accompaniment of liabilities and assets in foreign currency, high volume of international reserves, solid fiscal position, low inflation rate and exchange rate with a reasonably free flotation margin, with the financial system and the monetary policies playing a role of world gendarme.

Sixth, as an evolution of what was previously described and inside the widest discussion around the international monetary-financial reordering, carried out by the multilateral institutions, the problems of the "developing" countries have been dealt according to the predominant conception, that is, it emphasizes not only the orthodox economic policy but also the market-oriented policies as a way to promote the macroeconomic adjustment. Besides, these economies' financing question is considered solved, due to their increasing access to the international financial market. So, the policies of the Fund focuses on the management and supervision of the short run economic policy, while the World Bank addresses its financial support specially to the private sector, in detriment of the public sector of the "developing" economies. But, the experience of subordinate international insertion of these economies to the "financial globalization", as states Braga and Cintra (1999), are not able to overcome the crucial problems, such as relative economic stagnation, social crises and threats to the democracy, in so far as the factors responsible for the instability remain: the speculative movements of capitals, the exchange volatility, the short run financial perspective, the non existence of an "international lender of last resort" that acts preventively, the precariousness of the national and supranational mechanisms of supervision and regulation. It means that "the development perspectives for these economies request national and supranational intervention on the current pattern of "financial globalization", in order to establish limits not

only to the international predatory competition - that destroys national productive capacities through criteria of mere profitability – but also to the exacerbated desire to accumulate for accumulating, what characterize the current world monetary-financial movements."

IV. A Proposal by way of Conclusion

According to what was exposed, it seems demanding that the proposals to reorder the international monetary-financial system result from the identification of their intricate connections with the real and financial assets' markets, as well as with the National States economical policies. In other words, it means that the reflection concerning the necessary requirements for the referred reordering can not be out of the knowledge that "the practical and conceptual difficulties met by the studies about the international monetary problems result from the own nature of the currency. The currency, as a basic and vital social link of the modern societies, plays a role of crucial cohesion for the economical system. But it is, also, politically determined. The currency may be a motive of rivalry or of peace in the political order. In the field of the international monetary relationships, the rules that have been mutually accepted may happen to be rejected because they become unjust and inefficient." (Aglietta, 1995b:127).

In fact, we hope that the proposals consider the objective reality of an international monetary system, as far as its operation is developed in a context of uncertainties, inside imperfect and of sub-optimum economic policies markets. And in addition, as well as stated Kenen (1988), is not a matter of comparing failures observed in determined monetary-financial system with idealized alternatives. The asymmetries, dysfunction and disturbances of a determined real system have to do with the concrete reality in which it develops, what requests the consideration that the international monetary-financial system's reordering should not look for an optimum system, but to obtain a development and the preservation of a viable monetary regime, according to two precise senses. First of all, is does not mean to look for ideal and perfect alternatives, and, second, it must be able to protect the currency utility as a public good. Thus, we defend that the reordering of the international monetary-financial system looks for the balance between the public nature of the currency and its dimension of private wealth, in order to minimize the deleterious effects of an autonomous financial capital that could give support to the industrial capital growth in a stable way. It demands a monetary

regime able to articulate the handling of the monetary supply and of the credit conditions; the regulation of the institutions or finance markets; the contention of financial crises; and international monetary agreements referring to currency's prices, capital transfers and payment obligations among countries.

Resulting from what we have just argued, it seems to us precarious the insistence in the self-regulation of the risk by the banks, to be attained through the improvement of the transparency and of the quality of the data and information about the financial positions of the countries and institutions - especially because the "financial globalization" drives to less heterogeneity in the regulatory marks. As we know, the institution of a "new international financial architecture" could hold:

i) Public mechanisms of supervision, control and intervention in the financial markets - of credit, of exchange and of capitals - in order to disable the financial dominance that characterizes the current pattern of capitalist accumulation to the world scale, in which the speculative financial gains discourage the wider and more innovative productive investment decisions;

ii) The institutionalization of the coordination among the principal central banks - in order to face the maneuvers that become feasible through the different private agents' high liquidity - able to brake out speculative attacks to the different currencies. Under cooperation, the central banks could hold the function of "lender of last resort", without the bureaucratic obstacles and the remarkable interests of the dominant countries that characterize the actions of the multilateral organisms, especially the Fund;

iii) The creation of a global exchange band to soften the excessive flotation of the three principal currencies;

iv) The imposition of severe limits to the practices of debt lever, especially in the markets of derivative, exchange and Stock Exchange;

v) The reinforcement of the capacity of intervention of the International Monetary Fund, with some change in its ineffective and excessively conservative orientation regarding to fiscal matter;

vi) A reform in the World Bank and in the great regional banks, with reorientation of criteria and mechanisms of concession of the financial supports;

vii) The support to the regional integration among the "developing" countries, including the creation of regional currencies;

viii) The admission of controls of capitals, as well as the formation of an international bankruptcy court, with powers similar to the national courts, according to the chapters 9 and

11 of the Code of Bankruptcy of the United States, according to Sachs (1995), endorsed by Chari and Kehoe (1999) and recommended by Unctad (1998); and

ix) The creation or the reinforcement of the protection mechanisms of the prices of the commodities exported by the "developing" countries.

It is obvious that the viability of the reforms demands appropriate instruments; strict commitments between the national authorities and the multilateral organisms with the international monetary-financial system; appropriate regulation for capital applications and mechanisms of compensatory financing, without what the bases to a stable international order are neither settled nor supported. We have also pointed out that the practical and conceptual difficulties related to the international monetary problems result from the own nature of the currency, since it is the basic social and vital link of the modern societies; it plays a role of crucial cohesion for the economic system and is politically determined. We do not consider, as well, the existence of problems to define the credibility of the currency value, which result from its own nature.

The hierarchy of currencies in the international monetary-financial system, as we know, determines different conditions to the national economies, especially in the current circumstances in which the American currency prevails in the international financial operations. We have seen that the function of universal value reserve, hold by the dollar, are not limited to a classical monetary pattern (Tavares and Melin, 1997), once its value results from the capacity of the United States in maintaining their public debt as warranty of the global financial system. We have also seen that the American interest rate, as reference for the growth of the global financial transactions, induces the denomination of the financial and commercial operations globally practiced. It refers to a currency that establishes hierarchical relationships between monetary rules and financial behaviors and among the several currencies in operation in the markets, besides "administering" the systemic liquidity and risk. It results in severe consequences to the mobility of capitals, to the behavior of the finance markets and to the national macroeconomic management, since they regard to the concrete conditions of the currency that holds the function of international currency.

In retrospective, it is exactly the incapacity of the international currencies in accomplishing satisfactorily the expected functions that makes the maintenance of stable parities among the several currencies not viable, resulting in extremely exacerbated flotation and exchange volatility. Besides, the monetary-financial system becomes fragile and the competition between areas or monetary zones increases, making the systemic instability reappears. Due to that, the emphasis in the credibility and in the mechanisms capable to sustain it are not

enough to answer to the necessary requirements to the establishment of a new international monetary-financial architecture. It is necessary to consider that the changes that take place in the system, especially after Bretton Woods, result in accentuated unbalancing impacts, as shows the sudden non existence of a limit supply of monetary assets under national monetary authorities control. We have seen that the elimination of the exchange controls and the proliferation of the financial innovations are responsible, to a great extent, for the current monetary-exchange instability, so that the behavior of the markets of assets has been incompatible with the stability of the exchange rates and of the international monetary system. It means that the global and de-regulated finances, that mark the de-ruled economy, don't match with flexibility and pre visibility of the macroeconomic policies, accentuating the external vulnerability of the economies, increasingly exposed to shocks and to speculative attacks.

The expressive and de-regulated mobility of the capital is a real fact of the economical and financial life in the beginning of the 20th century, which demands from the governments the subordination of the other economic policy's objectives to the stabilization of the exchange rate. The economic history puts in evidence, as Eichengreen (1996) reminds us, that, after Bretton Woods, there are great efforts to rebuilt a system of fixed but adjustable exchange rates, drawing a history of repeated failures, what must be attributed to the ineluctable escalade of the international capital mobility, that makes the exchange anchors fragile and makes the periodic adjustments difficult, whose common lesson is in the perception that limited initiatives do not succeed in a world of limited mobility of the capital.

The defense of a reordering of the international monetary-financial system according to the vectors here pointed out, doesn't mean, however, to ignore that monetary agreements established by international negotiation are exceptions and not rule; and that, frequently, result from unilateral decisions of countries in defense of their interests. They are, consequently, organizational commitments that change along the time, according to the correlation of forces among the economies. It means, further, to recognize that "the fundamental fact is not that the capitalism no longer works as it did in the Gold Age, but that its operations became out of control" (Hobsbawm, 1995) and that the contradictory nature of the money demands careful control (Polanyi, 1944), in so far as its purpose is the enrichment, that is, the valorization of the value (Marx, 1863), not existing something like investment liquidity to the community as a whole (Keynes, 1936). After all, it deals with a world that has been governed by the laws of finances, in which we see an unrestrainable flood of a logic of abstract wealth valorization in the economy; a world in which the victory of the "global"

private finances and the reduction of the capacity to discipline the economy, social and politically, are the more remarkable characteristics of the de-ruled economy.

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