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International monetary regime

Vladan Hodulák

Introduction

- **Definition** – a set of international monetary and financial rules (both formal and informal) that govern interactions between actors and that create their expectations
- **Fundamental attributes of the regime**
  - What are the rules for balance of payments adjustment?
  - Who and how provides liquidity in the system?
  - How is confidence in the system maintained? (legitimacy)
  - Who and how exercises governance in the system?
  - How are the rules adjusted?
  - What is the normative purpose of the regime?

Balance of payments adjustment

- **Sustainability of balance of payments deficits**
  - Borrowing or reduction on savings/assets
- **Mechanisms for BoP adjustment**
  - Change in relative prices (external devaluation × internal devaluation)
  - Administrative controls
  - Other
- **Transitional costs of adjustment**
  - The cost of the change itself – economic crisis, inflationary pressures, redistribution, political instability
- **Continuing costs of adjustment**
  - Costs prevailing after all change has occurred – lower absorption (relative × absolute)

International monetary power

- **Monetary autonomy × monetary statecraft**
- **Power to deflect**
  - Derives from fundamental economic variables – mainly the degree of openness and the degree of adaptability of the economy (ability to quickly and easily realocate factors of production, availability of resources etc.)
- **Power to delay**
  - Derives from financial variables that determine each country's international liquidity position – total amount of reserves, availability of credit, international standing of domestic currency
- **Surplus × deficit countries**
- **Active and passive mode of monetary power**

Development stages of international regimes

- Inspired by Kuhn's life cycle of paradigms
- Period of **perceived stability**
  - The regime is considered legitimate, the rules reflect the prevailing balance of power, economic reality meets the normative expectations, distributional consequences are not challenged
- Period of **stresses and transformations**
  - Increasing political contestation of the rules and distributional consequences, distribution of power changes, there are more frequent and serious anomalies, these are explained away and addressed by ad hoc solutions, entrenchment of ideological positions
- **Crisis** stage
  - The consensus around prevailing policies and interests falls apart, various actors search for viable alternatives, there is an ideological and power related struggle regarding the new rules of the game

Typology

	1. Hegemonic	2. Cooperative	3. Consortium
Monetary regime	Dominant national currency	National currencies and ad hoc mechanisms for the creation of international liquidity	Supranational currency
International institutional requirements	None	Rules (formal or conventional) for the division of tasks between national and international authorities	Supranational central bank; legal and political legitimization mechanisms
Limits	The reaction function of the authorities in the hegemonic country does not incorporate international variables; Triffin's dilemma	Slow response in the face of unexpected developments; low resistance to macroeconomic shocks	Need for supranational institutional capital (limits on national sovereignty); tension between monetary and fiscal authorities over decentralized state budgets
Examples	Mediaeval currencies; the dollar standard	Original Bretton Woods system; European Monetary System	European Monetary Union; Communauté Financière Africaine (CFA)

Gold standard

- Inception and development of the regime
- 1821/1873-1914/1931
- **The fundamental attributes of the regime**
  - Adjustment – the price-specie flow mechanism (theory), interest rate adjustment, domestic economic policies
  - Liquidity – limited by the available gold, de facto provided by the Bank of England
  - Confidence – idea of gold being real money, power of the British Empire
  - Management – informal cooperation among central banks
  - Rule change – no rule adjustment mechanism/unilateral decisions of nation states
  - Normative purpose– laissez-faire, economic liberalism, free trade
- Collapse of the regime

The Bretton Woods regime

- Inception and development of the regime
- 1945/1959-1971/1976
- **The fundamental attributes of the regime**
  - Adjustment – fixed but adjustable exchange rates, short term relief by the IMF, capital controls
  - Liquidity – gold, IMF credit, de facto USD
  - Confidence – gold as real money, US hegemony, multilateral cooperation (IMF WB)
  - Management – multilateral via IMF, Articles of agreement, but mostly US dominance
  - Rule change – multilateral conference coordinated by the IMF, US unilateralism
  - Normative purpose – domestic economic autonomy, full employment, stable system to promote international trade
- Collapse of the regime

The post Bretton Woods system

- Inception and development of the regime
- 1974/1979-2008/?
- **The fundamental attributes of the regime**
  - Adjustment – deficit countries adjust by external or internal devaluation, debts have to be paid in full, de facto partial debt relief
  - Liquidity – IMF credit, in systemic crises FED
  - Confidence – US hegemony, network dependence on USD, no viable alternative
  - Management – IMF (Articles of agreement), G7, G20, BIS, eurozone, US unilateralism
  - Rule change – G7/20 meetings, BIS rules – Basel I-III, EU summits, US unilateralism
  - Normative purpose – price stability, protection of creditors interests (investment)
- Collapse of the regime?

The current regime and future prospects

- Great financial crisis
- Rising Chinese economic powe
- **The fundamental attributes of the regime**
  - Adjustment – mounting pressure on surplus countries?
  - Liquidity – enhance the role of SDR, regional hegemony of USD and RNB?
  - Confidence – multilateral agreement or regional hegemony?
  - Management – multilateralism, od regional spheres of influence?
  - Rule change - ?
  - Normative purpose - ?