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A World Currency for a World New Deal

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Abstract

The wars in western Asia and the financial crisis of 2007-2008 spelt the end of the American attempt to global supremacy. Global public goods such as security and monetary and financial stability are no more granted by the US. This opens up the possibility of cooperation among vast regional areas to establish a new world order, through the reform of the Bretton Woods institutions, the progressive institutionalization of the current governance instruments, and a democratic reform of the UN. The Dollar was from 1920s to 1960s the currency of a creditor country, and since the 1970s of an increasingly indebted one: it cannot be the world currency anymore. The positive spontaneous transition of the monetary system from the dollar standard towards a multicurrency/multibasket regime can produce instability if not governed towards the creation of a world currency, as it happened in the EU. The Chinese Central Bank Governor proposal to modify the IMF SDR (Special Drawing Rights) composition and to use them to that purpose should be supported by the Eurogroup, which on the contrary is even unable to decide for its unitary representation within the IMF.

Key-words:

Dollar, International monetary system, reform, Special Drawing Rights, SDR, world currency

1. The rise and fall of the dollar

Luca Pacioli's "double entry" accounting system[I], that of the "assets system" (before the "income system" provided the most skilled accountants, the most refined mathematicians, and the cleverest financers with the chance of passing off the destruction of capital as the creation of profit), has finally presented its arithmetical verdict after the end of the world supremacy of the dollar, which lasted for almost a century: committal for trial for fraudulent bankruptcy. As we wait for the markets and the Courts to render their verdicts, it might be useful to look at the recent history of this currency in its two lives: the currency of a powerful creditor country, from the 1920s to the 1960s, and the currency of an "empire of debt" (Bonner and Wiggin, 2006) from the 1970s up to the present day.

On four different occasions, Keynes made us able to foresee how it would turn out: as a young official of the British Treasury, he resigned in 1919 from the financial delegation at the peace conference to protest against the reparations imposed on Germany (Keynes, 1919); as an economist, in 1921 he introduced the distinction between uncertainty and risk, stating that only the latter can be measured, while the former justifies State intervention (Keynes, 1921); as a "practical visionary", in 1936 he integrated into economic science ideas such as animal spirits, state of expectations, liquidity traps, and other remarkable concepts corresponding to actually observable behaviours, capable of providing a theoretical explanation of long-term mass unemployment (Keynes, , 1936); and, lastly, as a plenipotentiary in Bretton Woods in 1944, old and infirm, he was defeated, together with the British Empire, in his last attempt to avoid, with his *Bancor*, the supremacy of the dollar (Keynes, 1980; Skidelsky, and Keynes. 2000)..

In the post-war period, Keynes's goal of creating an international monetary base linked to a non-inflationary development of the world, rather than to the needs of a single powerful nation, was pursued by Robert Triffin[II].

According to Hudson's outstanding reconstruction (Hudson, 2003), the supremacy of the dollar began in 1917, when the American government financed the war efforts of Great Britain, France, and Italy against the Central Powers, imposing the intergovernmental financing model instead of private bank loans and aids from allies, which had been adopted until then to meet financial needs arising from wars. The European states bought weapons from the ex colony to fight against each other, got into debt with the American government, and were not even able to win the war by themselves. The United States finally intervened when the appalling slaughter had taken its toll on European nations, thus turning the U.S. into the real winner of the war.

The problem of the inter-allied debt got intertwined with that of the German reparations. In Versailles, Keynes argued that Germany would not be able to pay reparations to Great Britain and France without selling goods and services to the winning countries, which however did not mean to make room for German products in their markets. At the same time, the "winning" nations of Europe would not be able to reimburse their debts to the American government without either collecting the German reparations or securing the required means through trade surplus. Keynes concluded that the reparations would eventually lead to a Second World War. As he was ignored, he resigned and wrote *The Economic Consequences of the Peace*. His prophecy was understood only when it came true, but at least it helped in managing the second post-war period more cleverly than the first.

Roosevelt, who had just taken office, was responsible for the failure of the London Economic Conference of 1933, from which Great Britain and France had hoped to achieve, as the Hoover Administration had hinted at, the writing off of their debts or at least a moratorium, hence the chance of coming to a transaction with Germany. The formal explanation offered by the Roosvelt Administration was that in 1917 the United States had not yet been an ally but just an "associate" in the war. The *New Deal*, which applied policies favourable to debtors within the U.S., adopted instead very rigorous creditor policies towards the European nations, together with protectionist measures. The debtor countries wanted to honour their commitment towards the United States but, at the same time, were prevented from resorting to exports. Hence, they demanded more and more pressingly that the German reparations be paid to them. This greatly favoured Hitler's campaign and triggered the chain of events that led to the destruction of Europe.

In 1936, Keynes published his *General Theory* and declared that he was in favour of Great Britain imitating the *New Deal*. Undoubtedly, the *New Deal*, launched a few years before, implemented for the first time policies to support monetary demand and direct public intervention in the economy. Keynes deemed these policies essential to ensure a stable level of income and almost full employment in the capitalist system, characterised by complex financial institutions whose instability was inherent in the methods adopted to finance investments[III]. The application of policies similar to those of the *New Deal*, hence *beggar thy neighbour*, by individual national states would, however, lead straight to another war. This contradiction might have been less evident to Roosevelt and to Keynes – due to the size and prosperity of the U.S. domestic market, in the case of Roosevelt, and the vast spaces of the British Empire, in the case of Keynes –, but, as for the other European countries, underestimating this issue was the most ruinous mistake of their economic nationalism. The British federalists saw this contradiction, denounced it and supported a new international order. However, the world had taken another path and, in the post-war period, Lionel Robbins himself stated that he regretted having opposed the reflation proposed by Keynes (Robbins, 1937)[IV].

The financial instruments that the U.S. government adopted to support the Allies before and during the Second World War (*cash and carry* and *lend-lease*) added a new, unsustainable burden to previously existing debts, allowed the Americans to force Great Britain to renounce its imperial status, permanently strengthened the position of the Unites States in the world, and ultimately led to the U.S. replacing Great Britain as hegemonic power. Consequently, the divisions existing among European national states handed the entire continent over to the United States.

The Bretton Woods Agreements – with the adoption of the White Plan (a *gold exchange standard* based on the convertibility of the dollar into gold at the price of 35 dollars an ounce) and the rejection of the proposal put forth by Keynes (an international currency called *Bancor*) – marked the complete success of the American plan for unilateral rule over the Western world. The establishment of the dollar as international currency, the American power of veto at the International Monetary Fund, the use of the World Bank to promote an international division of labour favourable to American exports, and the double standard that became the GATT rule in trade matters made up the framework of an economic system corresponding to the American hegemony.

The U.S. obtained Europe's final renunciation of any colonial ambitions at the time of the Suez crisis (1956), when it demanded of the IMF to support the pound only on condition that the Anglo-French troops withdrew from the Canal. As illustrated by Hudson, the Americans had aimed at taking over the British Empire since the first intergovernmental loan of 1917. The crisis of the pound in 1956 was caused, above all, by the conversion of the *sterling balances* into dollars. These were the debts Great Britain had contracted with its Colonies for the supply of foodstuffs to the United States, which was Britain's major economic contribution to the war. At Bretton Woods, Keynes had asked for a bilateral *clearing* of these "deposits" between Great Britain and its Colonies, so that it would be possible to pay them back gradually, thanks to revenues coming from exports, but the United States had demanded and obtained, together with the relinquishing of Britain's imperial status, the multilateralisation of said debts.

On more than one occasion (when referring to the loan of 1917, to the London Conference, and to the Bretton Woods Agreements), Hudson wonders about the reasons behind Britain's acquiescence to the American demands and proposes a number of different answers. First of all, Britain was driven by the belief that it had to respect the creditor policy by honouring its commitments, although it had now moved to the role of debtor. This was because said policy – just like private property – was one of the pillars of capitalism, and the British governing class of that time, which also included some supporters of fascism and Nazism, feared Soviet communism above all things. Hudson also conjectures that Great Britain was most likely resigned to handing over its role to the United States, in order to achieve – through the U.S. – the spreading of the English language and culture (i.e., their "race") throughout the world. Both explanations highlight significant aspects, but it should not be forgotten that Great Britain did not actually have any other choice: the divisions among national sovereign states and their wars essentially delivered the whole of Europe into the hands of the United States.

The acceptance of the dollar as international currency during the "golden years", between 1946 and 1965, when the United States was in a leading position, is therefore understandable. The Bretton Woods monetary system had reorganised the "free world" around the dollar, just like the British Empire had been organised around the pound. The United States accounted for more than half of the world's gross product, held almost all the gold reserves, and was the only nation capable of financing reconstruction and economic recovery during the post-war period. It carried out this task in an exemplary way, due to the obvious correspondence between post-war reconstruction and the American national interest, or raison d'État, but also thanks to steps forward in the way the economy was thought of (a quarter of a century had passed since *The Economic Consequences of the Peace*), and perhaps out of idealism too (this is true, at least, for a minority group which has always been present in American history). However, the United States has managed to prolong the international role of the dollar until today, forty years after the end of the convertibility into gold (which was limited to central banks in 1968 and, then, completely abolished by Nixon in 1971). The power exercised by the United States as creditor is evident, but the power it has continued to exercise as debtor requires further explanation. As Triffin rightly guessed, the adoption of the dollar as international currency might lead to two opposite situations (*the Triffin dilemma*): a shortage of international currency if the American balance of payments is positive, and an excess of dollars in the opposite case. As expected, the situation shifted from *dollar-shortage* in the 1950s to *dollar-inflation* during the wars in Korea and, above all, Vietnam. After the declaration of inconvertibility of the dollar into gold, the *gold-exchange standard* became, also formally, a *dollar standard*, which allowed the Unites States to finance a long series of export balance deficits, almost uninterrupted up to the present day.

Until 1982 these deficits were due to capital flows: the United States ran into debt to buy foreign companies all around the world, made high profits and *capital gains* on investments, and paid low interests on its *Treasury Bills* and *Treasury Bonds*. The balance of current payments did not display any imbalances. In this phase, the main financers of the U.S. were Europe and Japan. However, from 1982 onwards, the deficit has affected the balance of goods and services (*current account*) and it has progressively increased to a ratio of 5-6% of the GDP, which is not very sensitive to fluctuations in the dollar exchange rate (also because the dollar has devalued vis-à-vis the wrong currencies: too much vis-à-vis the euro and too little vis-à-vis the renminbi). Military expenditure, which has been constantly increasing, has been financed through foreign debt without a corresponding increase in tax rates, which have instead been reduced for the higher income classes. The Government has thus avoided having to ask the Congress, and the American people, to bear the expenses of wars. The “deficit without tears”, against which De Gaulle and Rueff had fought in vain, has basically made it possible to finance cannons without giving up on butter.

Europe avoided the danger of being in the same situation with the creation of the euro, a process that lasted for thirty years. In this second phase, the main financers of the United States have been oil-exporting countries and Asian countries exporting industrial products (characterised by intensive exploitation of low-cost labour without social contributions and environmental restrictions, and with strict state control over exchange rates). The export revenues of these countries, deposited with American banks and mainly reinvested in U.S. Treasury bonds, have turned the United States into the major world debtor. The accumulation of deficit has made debt unsustainable.

2. Dollar standard, fundamental imbalances and the crisis of the American hegemony.

The inversion in the sign of the U.S. balance of current payments (1982) coincided with the beginning of Ronald Reagan’s two presidential terms (1981-1989), which saw the dismantling of the framework of macroeconomic regulations and financial market rules, established by national States and international institutions controlled by the United States, that had supported the economic development during the previous “Keynesian” 30-year phase. In the same period, the “scientific production method” paved the way for economic globalisation (Lucio Levi, 2005, and for the creation of a “network society” (Manuel Castells, 1996), through an economic and social process fundamentally different from the previous two internationalisation processes, which had had a colonial nature. This process should have been steered at a worldwide level, as had been done first in the national States and then in the European Union. Instead, it was decided that the markets, capable of self-government – according to the ideology that was functional to U.S. hegemony –, should be the sole arbiters of globalisation, without any transition periods, without reaching common grounds, without legislative harmonisation, *homo homini lupus*, which was exactly what the United States needed to finance its current accounts deficit by draining savings from the rest of the world.

The U.S. deficit grew more and more, as it was financed by Asian countries and by oil-producing countries which reinvested their revenues in dollars (government bonds, financial activities, and real estate in the United States). The central role of currency asymmetry (thanks to which the U.S. can run into debt in its own currency and not in the creditor's currency) in creating and preserving these fundamental imbalances is evident, but too much has been written in support of two opposing but equally bizarre economic theories[V]: the theory according to which "fault lies with the Chinese because they save too much" (*the saving glut hypothesis* or *capital flows view*), and the theory according to which "fault lies with the Chinese because they keep the renminbi exchange rate pegged to the dollar to build up currency reserves" (*the "Bretton Woods II" hypothesis* or *trade flows view*). Dust has been kicked up to divert attention from the true reason behind the permanence of fundamental imbalances: the role of the dollar as international currency.

The Chinese save a lot because they are poor and enjoy no social protection (this is exactly why transnational companies set up their operations in *Export Processing Zones*). Moreover, owning large currency reserves has seemed desirable to emerging and developing countries only after the Asian crisis of 1997, to avoid falling into the hands of the IMF and having to abide by the policies of the *Washington Consensus* (Stiglitz, 2002; Stiglitz, 2006.). Until 2005 China kept the renminbi pegged to the dollar, then to a basket that included the dollar, the euro and several other Asian currencies. In 2008, it restored fixed parity with the dollar to face the financial crisis and, in 2010, it reverted back to the system introduced in 2005. The revaluation of the renminbi has, in any case, been significant if we do not only consider the nominal exchange rate to the dollar but also the effective (referred to all the currencies) and real (adjusted by the inflation rates differential) exchange rate. Krugman, who demands the free fluctuation of the yuan, under threat of duties and quotas, should consider that, if pure market logics were applied, the renminbi could not revalue at all, as the huge amount of Chinese savings might partially be moved abroad to meet the obvious needs of portfolio diversification. A much more reasonable analysis is provided by Ken Miller (Miller, 2010)[VI], who offers the following assessment: "*So far, China's financial foreign policy has been good for other countries and less beneficial for China itself than first meets the eye… A little bit of patience is in order. Policymakers in the United States should remember that China emerged as a financial power less than ten years ago. With a better understanding of*

China's domestic imperatives, Washington can encourage Beijing to project its financial power abroad in ways that contribute to the stability of the global economy".

The American government and the too many Authorities in charge of controlling the financial system are too busy trying to renew old debts and to place new ones, and they have certainly not concerned themselves very much with exercising stringent control or restraining the most daring financial innovations, with curbing the proliferation of financial institutions not subject to Fed regulations, and ultimately with limiting the *leverage* levels, which tend to approach infinity. On the contrary, the *de-regulation* approach started by Reagan continued with his successors, so much so that in 1999, right after the Asian crisis and at the same time as the rescue of the LTCC (*the Nobel Prizes crack*), Clinton abolished the *Glass-Steagall Act* of 1933, with which Roosevelt had separated and regulated the activities of commercial banks, investment banks, and stock exchanges. As illustrated by Minsky (Minsky, 1986.), instability is intrinsic to a capitalist system like ours (the real one, not that of the *Chicago Boys*' textbooks), because the physiological financing phases (*hedge financing*) generate an increase in profits, hence an increase in the value of *capital assets*, which leads to speculating on their price through *speculative financing* methods, which might then lead to resorting to new debts in order to finance even just the interests on previous debts (*Ponzi financing*). Crises have been following each other, growing in size and becoming more and more frequent. This is the path to bankruptcy. This explanation is different from that provided by Galbraith (Galbraith, 1961) or Shiller (Shiller, 2000), who irrationally expect the stock markets to continuously display an upward trend, since Minsky highlights the endogenous nature of instability. Even if all the operators behaved rationally, the sum of their rational behaviours would not be sustainable by the economy as a whole. The Federal Reserve could have opposed the formation of speculative bubbles but, on the contrary, the expansive monetary policy pursued by Greenspan (and approved by Bernanke) encouraged their formation to attract capital into the United States, trying to make easy money in order to finance the current account deficit. But, then, it "parted the fools from their money" by raising interest rates, which is a clear warning sign that the party is over (the same happened to the real estate sector, to the *dot-coms*, to Enron, to the securities that, through several clever steps, had *sub-prime* mortgages as collaterals – and everything leads to believe that it is not over yet).

Therefore, the main issue is that a national currency plays the role of an international currency: with the American government busy placing its debt and the monitoring Authorities willing to turn a blind eye, bankruptcy certainly comes as no surprise[VII]. Market fundamentalism, *deregulation*, privatisations/expropriation of public goods and natural monopolies – the whole set of Chicago guidelines mentioned by Reagan and his successors – has had no other purpose than to cover up the debtor's ruthless policy according to which: debts are *not* to be paid.

The use of wars by the United States to export democracy and import oil has made the world a less safe place. Nuclear proliferation is encouraged by the example of the oldest nuclear powers and by the American policy of using a double standard towards other nations, which are seen alternatively as friends or scoundrels[VIII]. Tax havens ensure the trouble-free recycling of huge sums, thus representing the biggest incentive to global organised crime, and they are used by terrorists, too. The refusal to ratify the Kyoto Protocol and the threat of retaliation against some "client" nations that wished to commit to it have dangerously delayed the adoption of much needed environmental measures at a global level. Inequalities increase within States and among States. The refusal to ratify the Treaty for the establishment of an International Criminal Court greatly hinders the practical implementation of supra-national law. International monetary stability is more and more severely threatened by the role still played by the dollar within the worldwide financial system, which is disproportionately big when compared to the importance of the United States in today's world-economy and undermined by the constant growth of the issuing country's foreign debt. In all these fields, the United States no longer sets the example, does not contribute to the production of world public goods, at times hindering their availability or even encouraging their destruction. The course correction begun by Obama should turn the U.S. into a *player* like all the other ones and not merely restore good manners.

These phenomena could never have taken on the characteristics of a reactionary phase on a worldwide scale and would not have led to a worldwide crisis if, in 1991, the Soviet Union had not ceased to exist. Few remember that Gorbaciov only needed 12 billion dollars (one tenth of the sum recently given to Greece), but his request was turned down because the United States preferred Eltsin's adventurism, with all it entailed, to *perestrojka* (Gorbaciov, 1987). The end of the Cold War and of the division into two opposing world blocks (bipolar equilibrium) favoured the development of new regional powers and redistributed the economic weights on the world scene. Unfortunately, as strange as it might seem to our common sense, this also favoured the U.S. attempt to take advantage of the situation and establish a unilateral world government (or "empire"). The outcome was disastrous, above all for what concerns the availability of world public goods, such as peace, security, lawfulness, energy and environmental sustainability, equality in distribution, and monetary stability. The United States has lost its hegemony (from both the Gramscian/cultural and the realistic/strategic points of view) in all of the above fields[IX]. The failure of the three trillion dollar war against Iraq (Stiglitz's estimate) and the 2008 financial crisis have made the whole world realise that the U.S. does not supply – and actually puts at risk – the two fundamental public goods that might have perhaps justified its "exorbitant privilege": security and financial stability. The world's gendarme and the world's banker have both failed.

3. Globalisation, de-dollarisation and creation of Regional Currency Areas

The replacement of a hegemonic power by another and of a national currency by another, as last happened when Great Britain handed over its role to the United States and the pound was substituted by the dollar, does no longer correspond to the distribution of economic power around the world and to the needs of the global economy. At the end of the Second World War, the United States alone accounted for over half of the world's economy, owned most of the gold reserves, and was the only country capable of financing the reconstruction. Nowadays, NAFTA, the EU, and "ASEAN+3"[X] each account for 25% of the world's gross domestic product (the purchasing power being equal).

It is no longer possible for one (super-)power to rule the entire world and, as it lacks shared guidance by the main economic groups, the globalisation process is suffering from a malady that compromises its continuation. Those against the global spread of a type of capitalism without rules draw their arguments and gain increasing support from the growing perception of out-of-control risks and injustices that cannot be opposed[XI]. The negative effects of globalisation actually derive from the contradiction between the world dimension of the most important issues and the fragmentation of power among national sovereign States. The powerlessness of the States, which is becoming more and more manifest, is the true cause of the citizens' distrust, of the crisis of political parties, and of the devaluation of democracy.

The effects of the economic globalisation amplify and speed up the phenomena leading to the breaking up of the international economic order, deriving from the decline of the U.S. hegemony and from the disintegration of the Soviet Union. National States – even the United States – and intergovernmental bodies are not able to face global problems, for which a suitable level of government has not yet been created. It is plainer and plainer to see that the states are powerless and this is corresponded by the spreading of a sense of insecurity, which manifests itself in the volatility of the markets, in xenophobic or micro-nationalist reactions by groups that feel threatened, and in the creation of new protest movements at the world level. Even the Unites States is no longer capable of keeping the most worrying issues under control, which do not only concern the economy but also:

- the nuclear proliferation;
- the environmental unsustainability of globalised development through the currently available energy sources and technology;
- the economic and moral failure in the distribution of wealth among and within States;
- the blow dealt to insurance, redistribution, and welfare state stabilisation mechanisms by the "law" of competitiveness imposed by transnational enterprises on national states;
- the lack of any other laws which grant the power to oppose global oligopolies, major tax evaders, and new organised crime;
- the supremacy given to freedom of trade over any other consideration concerning environmental sustainability, food security, health protection, financial lawfulness, and stability. This supremacy is ensured by the judicial and sanctionary power enjoyed – alone among all the international institution – by the World Trade Organization (WTO), which is not subject to any democratic control.
- lastly, the monetary disorder, the progressive disintegration of any control and protection network for the financial markets, and the inexistence of a world lender of last resort.

The need to face these emergencies has led the States to strengthen regional cooperation, following the example of the European Union, and to extend participation in world *governance* bodies. The Bretton Woods Conference was a G2, with Keynes and White as protagonists and the Allies as spectators. Then, there have been a G7 and a G8, and now a G20. Nevertheless, the UN is the only legitimate forum in which it is possible to make decisions that affect all the States in the world (Levi, 2005; Stiglitz et al., 2010).

According to its neo-liberal supporters, the liberalisation of the capital market should have been capable of self-government and it should have favoured the financing of real investments, but it has achieved the opposite result: by increasing volatility and uncertainty, it has caused negative effects on long-term investments, which are crucial for structural transformations and development (UN DESA, 2010). Such exaggerate freedom and such ill-placed trust in the self-government of the markets has not brought any benefits to the U.S. investments but rather to its consumptions, its wars, and its financial as well as real estate bubbles. The last decade – in which the deficit of the American balance of payments constantly increased and the U.S. foreign debt rose so much that most scholars deemed it unsustainable – coincided with the first ten years in the life of the euro, and with its extraordinary success. Hence, a process leading to the diversification of public and private currency and portfolio reserves has become possible – and this makes the financing of the American deficit through the exaggerate privileges of the dollar somehow less "automatic". Already before the financial crisis, several countries whose currencies had been pegged to the dollar depegged from it completely or initiated a *de-linking* process (Argentina, Brazil, China, Russia, etc.). In most cases, the dollar was replaced by a basket of regional currencies and by economic and monetary agreements at the regional level. This corresponds to the needs of infra-regional trade, which is growing much more than inter-regional trade and demands that exchange rates be kept as stable as possible within each area, so that internal competition and the strength of an individual country in comparison to that of other countries in the area are not distorted. It also ensures pooling together at the regional level when facing external risks, it allows responding to crises with adequate resources, and it lends more bargaining power when participating in international meetings, in which macro-regions will be represented more and more as individual units.

The European Union has provided a model for all the other regional integrations. The euro was an undeniable success: it made it possible to preserve the unity of the internal market, to keep inflation at bay (it did not go above 2% for ten years), and to create 16 million jobs from when it came into being until the American crisis exploded and its metastases spread throughout the world. Above all, as foreseen by the European federalists as early as 1972 (Albertini, 1972), the Euro was the needed pretext to progress in political integration, since the contradiction of a currency without a State would necessarily require steps forward towards the objective of a European Federation. It has been proven, also through the so-called debt crisis, that the value of the euro is not linked to the fate of an individual country – as is the case for the dollar – but to the fate of the Economic and Monetary Union, and that the ECB truly is a federal institution in which monetary sovereignty is shared. It has also been made clear that the emphasis placed by the ECB on the goal of currency stability corresponds to the need of steering globalisation together with other major currency areas, already existing or currently being created, which are responsible for the value of their currency towards their domestic markets as well as for the well-ordered development of the world economy. The future will mostly be shaped by the prospect that the United States and the dollar area, under Obama's leadership, will be included in this group. The speculation on Greek debt made the EMU take another difficult leap forward, an ability which Europe has always displayed in the most difficult stages of its creation. On the 9th of May 2010, the European Council of Heads of State and Prime Ministers decided that financial support should be provided, if needed, to Greece and other States that might be affected by speculations. This decision marked the beginning of a practice (if not the actual introduction of a principle) that implies financial solidarity among the Economic and Monetary Union member countries. It is a form of solidarity as complex as the interdependence among EMU States. Once the institutional innovations introduced by the Treaty of Lisbon had been implemented and the new representation bodies had been set up, the Union was able to manage the repercussions on its weakest regions of the devastating crisis triggered by the monetary privilege and financial irresponsibility of the United States. As always in the history of the European integration process, the first stage of intergovernmental interventions is followed by institutional consolidation. Among the most interesting issues are:

- the chance that the already existing *European Stabilisation Mechanism* (ESM) might issue *eurobonds* for 60 billion euros;

- the creation of the *European Financial Stability Facility* (EFSF) of €440 billion, provided on the basis of each country's share in the ECB (only Slovakia refused to pay its share), whose managing board comprises representatives from all the member states and whose technical aspects are dealt with by the European Investment bank and by the German debt agency;
- the chance that the ECB might intervene with purchases on the secondary market in case of speculative sales of government securities issued by Eurozone member states;
- assigning the power to monitor systemic risks to a body made up of the Governors of the national Central Banks and presided over by the President of the ECB;
- the institution of three European Supervisory Authorities covering, respectively, banks, insurance, and the financial markets;
- introducing a procedure (the European Budget Semester) by which, before approval by individual national parliaments, each member state's budget must be approved in Brussels through collective consultation-monitoring under the supervision of the Commission;
- the adoption of two policies: the *Stability and Convergence Program*, for the stability of public finances, and the *National Reform Program*, for the competitiveness of the European economy as a whole.

The EU has so far undertaken many initiatives, but one issue still has not been addressed: a substantial increase (to twice its size) in the limited "federal budget" (at present, just 1% of the European GDP) for the effective management of EU measures to stimulate development, so that the European economy can move from the current energy-consuming and consumerist model to a sustainable regime. This sustainable regime should be compatible with: the fact that most of the world population thus far excluded from wealth is progressively gaining access to it, the physical limitations imposed by the resources of our planet, and the climatic challenge posed by an exponential growth in the use of fossil fuels. It will not be long before we all realise that the economic and monetary union, thus far achieved only for what concerns a EU currency, must be brought to completion if we truly want the member states to put their efforts into solving domestic budget problems (the German position) *and* we also want the efforts to develop a new industrial model to be shared by all member countries, so that they can be efficient and effective (the French position). Now that the taboo concerning the issuing of *euro-bonds* has been broken, also the one about euro-fiscality is doomed to fall. *Carbon tax* and *Tobin tax* are the most coherent hypotheses with the priority objectives that should be financed at the European level (economic re-conversion and financial stabilisation).

The IMF's participation in the rescue plan for Greece (with a further €250 billion), which many have negatively interpreted almost as an insult to the European honour, should, in my opinion, be seen in a different light. The Eurogroup is in a position of strength, as its public accounts are in order, its balance of payment is substantially even, its foreign debt is more than sustainable, and its private savings are capable of financing investments and most of the public deficit. This strength makes it possible to show without fear or hesitation that Europe does not consider itself a "closed fortress" but a part of the world system currently being created. Accepting the IMF rules has set a precedent that will eventually lead to the application of international financial regulations to the United States too.

4. The cooperative solution

The international monetary system is at a crossroads between two paths that look very similar but might produce very different outcomes. Following the decline of the international role of the dollar, the creation of the euro, and the growing tendency towards diversifying official reserves and private portfolios, the *dollar standard* has turned into a *multicurrency foreign exchange regime*. As the most severe effects of the financial crisis progressively spread, this currency regime too is subject to tensions that seem incompatible with the preservation of consensus towards globalisation.

On the one hand, actions by individual States and the stipulation of international agreements, mainly on a regional scale but also at an interregional level (see the BRIC countries), are gradually turning the *multicurrency* regime into a *multibasket* system. On the other hand, the global objectives – rebalancing fundamental imbalances, financial stabilisation, and implementation of a cycle of investments for sustainable development – seem difficult to achieve without acknowledging, both symbolically and practically, cooperation as the "raison d'État" of globalisation. A world currency would provide such a symbol because it would no longer "bear the mark" of a sovereign but of a world institution, not of strength but of right; and, if properly looked after, there would be substance to it, since it would rest on a rather reliable base, the world's wealth. The first, spontaneous course of action would not be incompatible with the second one, steered at a global level, if the two were consciously made to go hand in hand. Conversely, the result would be the creation of monetary blocks not linked to one another, with the risk of frightful currency disturbances along their borders, if the regional solutions were implemented haphazardly, trying frantically to look for an alternative to the dollar, or in a situation of panic, when everyone seeks a way out, thus causing the ruin of all.

In short: the international *multicurrency/multibasket* monetary system, which is spontaneously being created through regional integration processes, is a step forward compared to the asymmetric monetary system based exclusively on the dollar, but the volatility of exchange rates among the major currencies does not fulfil the need for a public good, i.e. currency stability, which is necessary for a globalisation that works. We are still in a non-system which leaves the door open to new ruinous crises, which does not eliminate the need to sterilise resources for the preservation of currency reserves, and which does not sufficiently cut down on transaction costs and premiums for coverage of risks deriving from the volatility of exchange and interest rates.

At Bretton Woods it was necessary to reconcile three principles that were incompatible, thus renouncing one of them: national monetary sovereignty, fixed exchange rates, and free movement of capitals. The last of the three was sacrificed and the system worked until 1971. Then, Europe chose to sacrifice the first one, monetary sovereignty, within the Union in order to achieve fixed exchange rates, a single currency, and the free movement of capitals.

Today, globalisation presents us with three new principles (Rodrik, 2007), one of which will have to be sacrificed: national sovereignty, democracy, and globalisation. Renouncing globalisation (autarchic model) would be incompatible with the development of the production forces, made possible by the scientific revolution. Sacrificing democracy would allow countries to preserve their sovereignty and to participate in the world market (authoritarian market model). Yet, we would like to see democracy in China rather than authoritarian regimes in the West. There is only one viable solution, that of sharing a part of national sovereignties – the portion needed to guarantee world or continental public goods that individual states are not capable of ensuring – at a supranational level (federalist model).

This is not a crisis like the others, but just a little more serious; it is the last convulsion of the international role of the dollar. Without radical reforms it is impossible to plan the world's economic recovery and to avoid falling back into authoritarianism, protectionism, and war. The need for a reform of the international monetary system, towards a supranational, symmetric, equal, and stable system, was included in the agenda of the European Federalist Movement well before the early warning signs of a crisis (Iozzo-Mosconi, 2006; Iozzo and Mosconi, 2006). More recent federalist studies have further described the steps needed to complement the government of the currency with that of the economy within the Eurozone (Iozzo-Maiocchi, 2010; Montani, 2010). Here is a summary of the main proposals:

1. completing the European Economic and Monetary Union with a budget policy financed through own taxation and the issuing of *euro-bonds*;
2. spreading the EMU model to other macro-regions around the world (five or six currency areas);
3. creating a *world currency unit*, a basket of 5-6 world currencies, with functions similar to those of the *European Currency Unit* (*ECU*) prior to the establishment of the euro;
4. entrusting the world's economic and financial supervision to the IMF, which should become a Council of the UN's ministers of economy (corresponding to Europe's Ecofin), as already proposed by Jacques Delors;
5. creating a world's central bank (possibly by modifying the purposes of the Bank for International Settlements - BIS);
6. entrusting the ECB with banking and finance monitoring functions within the Eurozone and the BIS with the same functions at a worldwide level;
7. establishing independent *Authorities*, at the European and/or worldwide level, having the same duties now given to Rating Agencies, thus solving the problem of conflict of interest;
8. establishing a world public insurance company for the coverage of global risks;
9. committing to a common fight against illicit capital flows, which make drug trafficking, crime, and terrorism possible as well as lucrative, also in tax havens;
10. using the World Bank to pursue objectives such as human development and fighting against poverty, rather than for purposes that are often mostly functional to the interests of rich countries;

11. urging the WTO to comply with the obligation, included in its Statute but so far disregarded, of combining the pursuit of free trade with the adherence to social and environmental norms and standards.

After the crisis, the *governance* of the World and of Europe has taken two extraordinary steps forward: the world's economic guidance has been moved from the G8 to the G20 (which actually limits the power of the U.S.) and the financial government of Europe has been shifted from the 27 member countries, as initially requested by Germany, to the 16 countries of the Eurogroup, as decided in the end (actually limiting the influence of Germany, which will no longer be able to rely on the support of other countries not included in the Eurozone in the management of financial solidarity actions decided after the Greek public debt crisis). The recent proposal made by Germany – that the U.S. should renounce its power of veto within the International Monetary Fund in return for Europe decreasing its representatives in favour of emerging countries – confirms this trend, which will lead to unitary representation of the Eurozone countries within the IMF.

Despite these steps forward and the availability of all the necessary intellectual and technological tools, it will most likely be impossible to prevent the crisis of the dollar (*soft-lending* scenario) within the field of *governance* and the American Right will not agree to the international cooperation needed to achieve this goal, at least as long as the dollar is accepted as international reserve currency. In order to carry out the reforms needed to manage globalisation (plan for sustainable world development, macroeconomic control, financial regulations, abandoning the theory and practice of market fundamentalism and a-social capitalism), it will be necessary to wait until the crisis of the dollar has actually occurred (*hard-lending* scenario). Paradoxically, the bad news about the American economy (heavily negative balance of current payments, increasing unemployment, deep real estate market crisis, etc.) has not caused the expected failure of the dollar, since the dollar still is the currency "that can buy anything all over the world". But the purchasers of *Treasury Bonds* have now been reduced to three: China (and other Asian countries), the Saudi Monarchy (and other oil exporters) and the Fed. They have different, peculiar and precarious reasons for purchasing U.S. Bonds.

China, which has already invested 2/3 of its official reserves in the dollar (amounting to 2.6 trillion dollars) is not likely to invest any more of its surplus in the American currency. In fact, there has already been a significant reduction (around 10%) in the amount of China's dollar reserves. In the short term, China wishes to keep the value of the dollar stable for as long as possible, above all because oil and several other raw materials are paid in dollars. In other words, China's attitude depends on Saudi Arabia's decisions. But China's long-term objective is strengthening its financial system and achieving the convertibility of the yuan, thus leading to the creation of a world reference currency basket that includes it (starting from the Special Drawing Rights –SDRs- but, should this prove too difficult, the creation of a completely new world financial architecture will be preferable to reforming the institutions created at Bretton Woods).

The Saudis complain, but they have not gone as far as to seriously challenge the *dollar pricing* of oil because the United States guarantees their safety, from both their neighbours and terrorism. The war in Iraq has proven, on the one hand, that the U.S. is sincerely committed but, on the other hand, it has raised questions about the effectiveness of its protection. Moreover, the situation in Afghanistan will probably have a similar outcome and, despite the fact that military solutions have always failed, the American Right seems impatient to lose yet another war, this time against Iran. Obama should be able to rely on a much wider support in the U.S. as well as in the rest of the world to be able to keep the military-industrial mastiff on a tight leash. The rebellion of some commanders is more than emblematic. Within this conflicting framework, although they know that they would not last a single day without U.S. support, the Saudis try to pursue a more autonomous economic strategy, as shown by: the plan to create a Gulf currency (with consultancy provided by the ECB), an increase in the share of gold reserves, and an oil pricing policy which, despite being denominated in dollars, seems to aim at being more closely pegged to the Euro. For the Saudis and the Chinese alike, a world basket of currencies would be the ideal solution.

With Bernanke's speech delivered in August 2010, the Fed confirmed that it will not accept the role of last-resort buyer. How could it? The theory of the independence of the Central Bank was invented by the Americans only to be applied to the central banks of other countries. Despite constant references to deflationist mistakes made after the crisis of 1929, no one forgets that the other possible path was that chosen by the Weimar Republic.

So, the United States too is forced to drive with one foot on the brake and one on the accelerator, all the more so because, after a brief period of recovery, its balance of payments has once again hit record deficit. One might come to the conclusion that an *ECU-like basket* might be the best solution for the U.S. too, but no one can foresee who – and when and how – will be able to tell the Americans that their imperial dream is over, that the rules must be valid for everyone, and that in the long run one can only consume what one produces. To start off with, who could increase the price of petrol through fiscal policies without condemning oneself, at best, to electoral defeat? It is not wise to mess with the Right.

No actor in this tragedy can get out of this contradiction alone: using the brake causes a catastrophe because it brings the economy to a standstill and compromises social cohesion, whereas pressing the accelerator brings about the same result, since it disintegrates the value of the currency. The first solution leads the weakest debtors and their creditors to bankruptcy, through some sort of Darwinian selection. The second solution damages creditors and those who earn a fixed income, favouring debtors regardless of their merit. At the level of even the most powerful national States, no "third way" is available. Individual States must look after their own budget and leave the issue of development to the continental and world government levels.

The Federalists' interpretation was validated by the crisis, because only the federalist point of view makes it possible to complement the brake and the accelerator policies with other indispensable tools to deal with the first global systemic crisis: a clutch and gear stick, i.e. the government. The proposal of an *ECU-like* basket of currencies, put forward in 2006 as a first step towards a world currency and the government of globalisation, has its origins in the battle for the Euro and in Albertini's motto "unifying Europe to unify the world" (EFM, 1981). The crisis came in 2007-2008, then, in 2009, Zhou (Zhou Xiao-Chuang, 2009) proposed to replace the dollar with the SDRs, quoting Triffin. In 2010 the Stiglitz Report to the United Nations (Stiglitz et al., 2010) and even the IMF (IMF, 2010) acknowledged the need for a world currency and they only wondered how long it would take to implement it. In a document issued by its strategic department, the IMF summarised some main ideas to mitigate demand and diversify supply of reserves, as well as to stabilise the international monetary system. These proposals were presented in descending order of potential resistance and implementation times:

- near term: voluntary multilateral agreement to implement stabilisation policies; directive on reserve adequacy;
- near-medium term: monitoring capital flows; using COFER[XII] for reporting activities concerning the composition of reserves; creation of a substitution account;
- medium term: wider use of SDRs; directive on policies related to issuers and holders of currency reserves;
- medium-long term: multilateral agreement on capital flows; possibility to use the sovereign debt of emerging countries to obtain liquidity from a *pool* or from a lender of last resort (so that the need for reserves decreases);
- long term: penalties for imbalances in the balance of payments; system based on SDRs; *Global Currency*.

The IMF's strategic document (still dominated by the United States, the only country to have the power of veto with a share higher than 15%, as the quotas of European countries are still divided) lists the system based on the SDRs and the *global currency* among its long-term objectives, as they will be met with a higher level of resistance, but it does endorse this perspective and declare its superiority, also by asking its *Board of Directors* to pronounce on the above.

Only the European Union does not concern itself with this matter (an impromptu declaration by Almunia, during the first Barroso Commission, was against the Chinese proposal), as if the survival of the euro did not depend more on the great worldwide financial and currency game than on the events in Greece. The thoughts and actions of politicians are still limited all over the world – but especially in Europe where the size of the States should not allow it – by national *constituencies* and by methodological nationalism. However, fear sharpens the wits of central bankers: while Bernanke gives notice of a second "quantitative easing", Zhou asks for the dollar to be replaced by the SDRs, and Trichet goes too far ahead by calling for just one European seat at the IMF, even before the German proposal to the U.S. about reducing the weight of the EU (in comparison to the total number of European countries) if the U.S. is willing to give up its power of veto.

As Lucio Levi remarked (Levi, 2009), "Here lies the malady of Europe. Here lies the deepest reason for the citizens' disaffection toward the European institutions. By saying no to the Chinese plan, Commissioner Almunia has chosen to carry on with a policy of subordination to the U.S. at a time in which the world is evolving towards a multipolar order and the United States needs to be helped to share with others political and economic responsibilities that it can no longer manage by itself. It is a renunciative policy that has no justification. Thanks to the euro, the EU would have the power to break through the U. S. reserve and initiate the plan for the implementation of a world currency".

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I Fra' Luca Pacioli (Borgo San Sepolcro 1445 - Rome 1517), pupil of Piero della Francesca, was an Italian mathematician and Franciscan friar. He invented the "double entry" accounting system.

II Triffin's writings between 1935 and 1988 were translated into Italian and collected in the volume: *Dollaro, euro e moneta mondiale*, with a preface by Alfonso Iozzo, 1997. For the purpose of this article, we refer mainly to: Triffin, *Our International Monetary System: Yesterday, Today and Tomorrow*, Random House, New York, 1968.

III The introduction of financial instability is the most innovative aspect of Keynesian economics. Nevertheless, it was ignored by the neoclassical synthesis and trivialised by the neo-Keynesian models. A more in-depth investigation of the Keynesian theory versus its simplistic vulgate was made necessary only at the end of the golden years (1946-66), due to repeated financial crises of increasing duration and intensity. See Minsky's two major works: Minsky, 1975; Minsky, 2008.

IV About Robbins and Keynes, see Guido Montani in his Introduction to the Italian edition of Robbins's writings, 1985. About Robbins and the British federalists, see Levi, 2008.

V The whole affair is masterfully described in: Fiorentini and Montani, 2010.

VI Ken Miller, *Coping With China's Financial Power*, *in Foreign Affairs*, July/August 2010. Miller is CEO and President of the merchant banking firm Ken Miller Capital LLC, and a member of the U.S. State Department's Advisory Committee on International Economic Policy.

VII Among the promptest and most effective analyses of the crisis, see:Morris, 2008; Shiller, 2008; Attali, 2008; Attali, 2009; Posner, 2009; Bruni, 2009; Reinhart and Rogoff, 2009.

VIII The wars waged by the U.S. have been criticised from all political positions. Just a few examples are: Cooley, 1999; Chiesa, 2002; Chomsky, *Rogue States, The Rule of Force in World Affairs*, 2000; Romano, 2001. Vidal, 2001.

IX The theoretical analysis of the "cycle of empires", based on the law of diminishing returns (the economic costs to preserve the *status quo* tend to grow more rapidly than the economic ability to preserve the *status quo*), seems particularly useful in understanding the crisis of the American hegemony: Gilpin, 1981. Among the political analyses of the decline of the U.S.: Brzezinski, 1997; Ferguson, 2004; Garrison, 2004; Ikenberry, 2002; Kupchan, 2002; Nye jr, 2002; Wallerstein, 2003; For an analysis focusing specifically on the role of the military-industrial apparatus and on its power over the world order and American democracy, see: Johnson, 2004.

X The abbreviation "ASEAN+3" indicates the ASEAN member countries (Brunei, Cambodia, the Philippines, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand, and Vietnam) plus China, South Korea, and Japan.

XI On the neo-liberalist globalisation and its malady: Amin, 1997; Gallino, 2000; Gilpin, 2000; Held-and Mc Grew, 2000; Paul Hirst and Grahame Thompson, 1996; Rodrik, 2007; Stiglitz, 2002; Touraine, 1999. Among the many scholars who believe that we should "let the markets decide": Wolf, 2004.

XII Cofer – *Currency Composition of Official Foreign Exchange Reserves* (IMF database)