

The International Monetary System in Transition

by Robert Guttman*

1. The Contradictory Nature of Money

There are three distinct approaches social scientists have used to analyze money. The first, largely favored by the neoclassical orthodoxy dominating the economics profession (Friedman, 1956), is that of money as a good endowed with unique demand and supply functions. The second is the Keynesian vision of money as a financial asset satisfying the liquidity preference of economic agents (Keynes, 1936; Tobin, 1958). While these two alternative visions of money lead to different conclusions about its role in the economy and about the conduct of monetary policy, they are nonetheless similar in that they both put money into a rather narrow conceptual framework where its very presence is taken as a given and considered incapable of altering the basic laws of a market-based economy. These theoretical limitations are overcome by the third approach which views money as a social institution. That approach, first utilized by Marx (1867, 1894) and later to some degree even Keynes (especially Keynes, 1930), has been given a more complete treatment recently by the Regulationist School in France (1).

The view of money as social institution has the distinct advantage of analyzing the central role money plays in the organization of economic activities as both most liquid form of capital and sole representative of income. Emphasizing money as a man-made institution subject to its own historic evolution, this approach concerns itself with the institutional regulation of money and the complex modalities of its integration into the economy, two aspects of money's presence which the two standard approaches take for granted and thus tend to ignore.

One thing we must emphasize is that the modalities of money's integration into the economy are by no means to be taken as a given, but are rendered inherently complex (and subject to ongoing change) by a fundamental contradiction underlying money's existence as a social institution. On the one hand, money is a public good in the sense that its properly organized presence - ensuring its correct issue, smooth circulation, and stable valuation - provides such large social benefits to

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society that you do not want to exclude anyone from enjoying those benefits. On the other hand, money has at the same time always had the characteristics of a private commodity. This was surely the case earlier when it was still effectively represented in the form of a commodity, such as gold. And same is also true today when money gets created mostly by private agents, namely banks, for profit. This private-commodity dimension is just as much part of money as is its public-good dimension, because only in the dialectic interaction of both can money be simultaneously a social regulator of human interaction and private object of accumulation.

Yet money's private-commodity dimension, when allowed to dominate, is also likely to undermine its public-good dimension for two reasons: a) the inequality between those in a position to create money versus those unable to do same; and b) the recurrent instability caused by the overextension tendency that persists whenever the act of money creation is itself a source of profits. That contradictory dual nature of money has to be carefully managed, lest its tensions are allowed to explode into crisis.

2. Deregulation and Privatization of Money

Following the collapse of the gold standard in the early 1930s, the industrial nations constructed an alternative monetary regime which centered on private bank money in the form of checking accounts. Reforms of money and banking, undertaken first in the United States as part of Roosevelt's "New Deal" program (1933-35) and extended after World War II to Europe and Japan, provided a carefully crafted institutional framework in support of this new money form. That framework included monetary policy tools, financial regulations, lender-of-last-resort mechanisms with which to contain financial crises, and international monetary arrangements (2).

This postwar monetary regime, which we may characterize as one of state-managed credit-money, kept the contradictions of money's dual nature well in check (3). Banks and their money-creation activities were tightly regulated by the central bank controlling the nation's payments system and its cross-border flows with the rest of the world. Nation-states thus had the necessary tools with which to safeguard the public-good aspect of money and contain the instability inherent in its private-commodity existence. That same monetary regime also played a crucial role in the unprecedented global boom of the 1950s and 1960s by providing national economies with an elastic currency and relatively cheap credit. The combination of low interest rates and automatic monetization of debts allowed for continuous debt-financing of excess spending. Under these conditions it was relatively easy for governments to run chronic budget deficits in support of a

generous "Welfare State," for businesses to invest in expensive mass-production technologies ("Fordism"), for consumers to buy large-ticket items (homes, cars) with large multiplier effects on the rest of the economy, and for the world economy to grow faster because of orchestrated capital transfers from surplus nations to deficit nations - the four pillars of the postwar boom.

But this success was short-lived. The structure of the monetary regime in place began to disintegrate when the long boom gave way to a new structural crisis in the form of stagflation during the 1970s and early 1980s. With the collapse of Bretton Woods in August 1971, amidst massive speculation against an untenably overvalued dollar, the regime lost a key pillar that ultimately forced its slow-motion implosion in a series of crises.

The disintegration of the monetary regime after 1971 played itself out as a progressive deregulation and privatization of money, with all the destabilizing consequences that such an evolution was bound to bring about. We must not forget that the bankers, creators of money in its modern form as private bank money, will always try to evade the regulatory reach of the state which they view as a barrier to the pursuit of profit in acts of credit extension and money creation. Governments, in turn, will try to catch up with the circumvention efforts of banks by extending their regulatory reach accordingly. Hence there exists a sort of "regulatory dialectic" (Kane, 1977) in the relation between banks and government regulators which shapes the evolution of monetary regimes.

Already in the early 1960s we see massive innovation by US banks to create new sources of funds ("reserves") for money creation beyond the control of the Federal Reserve, such as the introduction of commercial paper, repurchasing agreements, Federal funds, and negotiable certificates of deposit. All this was potentially containable by the Fed. But then the banks introduced a truly stateless form of money operating beyond the reach of any central bank, so-called Euromarket deposits and loans. That globally integrated banking system dealt in money outside the country of its issue and thus beyond the control of any central bank. Organized as a tightly woven inter-bank network, it came to operate its own privately controlled payments systems, called SWIFT and CHIPS, to assure central bank exclusion. This innovation, evidently a major step in the privatization of money, became a perfect conduit for massive movements of funds in and out of different currencies and countries. In that capacity it played a major role in organizing the sustained attack on the US dollar that brought down Bretton Woods in August 1971 and forced the adoption of market-determined (i.e. "flexible") exchange rates in March 1973.

Once exchange rates had ceased to be fixed by state fiat, it was only a question of time before the deregulation of money's prices would be completed with the end of government controls over interest rates. Keynes himself had already understood the connection between exchange rates and interest rates and warned that governments needed to set fixed exchange rates if they wanted to

have a chance of controlling interest rates and keeping them low. In October 1979, after a series of domestic credit crunches triggered by negative "real" interest rates and yet another massive run on the dollar, the US central bank (the "Fed") decided to abandon its long-standing low-interest policy and let those rates be determined by market forces instead. Since then "real" (i.e. inflation-adjusted) interest rates have been extremely high across the world, keeping inflation in check while setting a very stringent performance standard for all kinds of investment projects.

Market-regulated exchange and interest rates have proven very volatile. Such price volatility in turn has prompted massive speculation and hedging, two related activities that have become much easier to conduct since the introduction of financial futures contracts (e.g. currency futures) in 1981. The deregulation of money's prices has also encouraged banks to offer variable rates for deposits and loans, a system that allows for better management of yield spreads but carries greater risk as higher-cost funds have to be matched with higher-yielding, and correspondingly riskier, investments. The increased risk bias in banking operations, further nourished by the moral-hazard problem that arises with guaranteed government bailouts in case of failure, has resulted in a lot of sick banks across the world (Guttman, 1997).

As part of their movement to a variable-rate regime of financial intermediation, banks have also wanted to offer their customers cash-like instruments carrying money-market rates to replace the traditional zero-interest checking accounts and fixed-rate savings deposits. They have for that reason introduced a variety of "near money" deposits with check-writing privileges (e.g. money-market fund shares, NOW accounts). Those deposits are held not only for transaction purposes, but also investment purposes. The latter motivation is determined by interest-rate anticipations and yield-curve switches in the relation between short-term and long-term interest rates. But, unfortunately, the interest-rate elasticity of demand concerning these new deposits is highly variable, depending on whether the precautionary or the speculative motive for money demand prevails. Whenever price elasticity changes, the rate at which those cash deposits turn over also changes. The proliferation of new forms of interest-yielding bank money has thus led to much greater instability of money's velocity, just as switches of funds between different bank deposits - a common practice given today's predominance of integrated multi-deposit accounts in banks (so-called "sweep accounts") - cause the money multiplier to vary. With neither money multiplier nor velocity any longer stable, central bank after central bank has had to abandon the Monetarist prescription of targeting the money supply at a modest rate of growth. This is another clear example where the private-commodity aspect of money undermines its public-good dimension.

In a further move toward entirely deregulated money, multinational corporations and transnational banks have successfully pushed for the abolition of capital and exchange controls by

governments. Such liberalization of capital flows across borders was forced upon governments by the growing presence of the private Euromarket which enabled banks to reorganize the foreign-exchange market beyond the control of central banks. Capital controls and exchange controls have thus become much more difficult and cumbersome than previously when all foreign-exchange transactions were still routed through the central banks' payments systems. In the end governments have had to forego this weapon, once they realized the costs and sanctions involved (4). The final step toward global and complete liberalization of cross-border capital flows is currently being negotiated between the United States, the European Union, and other industrial nations under the framework of the Multilateral Accord on Investments (MAI) and its planned subsequent adoption by WTO members in the next round of global negotiations, the Millennium Round (5).

So in the last 25 years we have witnessed the introduction of the Euromarket, the deregulation of money's prices, the proliferation of new forms of private bank money, and the abolition of controls on cross-border capital flows. These steps have led the private-commodity aspect of money to come to the fore, as perhaps best crystallized in the currency market where on average \$1400 billion a day get transacted in the search of speculative gains from exchange-rate and interest-rate fluctuations and where money is treated as if it were just another commodity like soja beans. Currency traders place daily bets on national economies and their management by governments in power which affect both tremendously. In light of these developments it is fair to say that the international monetary system has become dominated by the private-commodity aspect of money and its inherently destabilizing logic. The pronounced tendency of this privatized and deregulated system toward instability is perhaps best illustrated by the series of devastating credit-over extension and currency-speculation crises we have witnessed over the last quarter of a century: the dollar-oil crises of 1973 and 1979; the debt crisis of the less developed countries 1982-89; the global stock-market collapse of 1987, the near-disintegration of the European Monetary System in 1992-93, the Mexican peso collapse of 1994-95, and the Asian Crisis of 1997-98.

3. The Turbulence of Global Finance

In the current period, certainly one of transition from one level of capitalist development to another, the international monetary system is subject to both centripetal and centrifugal forces which create their share of tensions. Centripetal are the forces driving an accelerating globalization process, most notably: a) the growing importance of trade and foreign investments for most countries;

b) the transformation of multinational corporations into global production networks, fuelling an explosion in intra-company trade and the centralization of cash-flow management accompanying the decentralization of production;

c) the global integration of finance, propelled by the centralized cash management of industrial giants, global investment portfolios of institutional investors, and the growing interconnection of once-separate financial markets.

These forces of globalization, while each going through their own highly specific monetary circuits, all pass at one point through the world's foreign exchange market where money gets transferred from one currency to another and moved electronically across borders. Their convergence feeds the enormous transaction volumes, averaging \$1400 billion per day, in that market. Currency trading has, in effect, become an independent profit center for numerous financial institutions and industrial enterprises whose highly leveraged trading strategies yield potentially high returns, but are also correspondingly risky. As long as the anticipations concerning interest- and exchange-rate movements are spread more or less evenly across a broad spectrum, the foreign-exchange market will be relatively stable and highly liquid. But, as is inevitably the case given the mimetic nature of humans facing uncertainty in collectively shared fits of greed and fear, when the anticipations become widely shared in one direction, the markets can create sudden and massive price movements which force governments into action lest those movements become a cumulative spiral spinning out of control.

One can regard such currency crises from a variety of angles. Conservative defenders of the current market-regulated system view these events as efficient market responses to underlying imbalances which governments are thereby forced to address. That view admits to the market agents' tendency towards overshooting in both directions, but discounts such destabilizing behavior as the necessary price to be paid for the benefits of rapid, necessary, and stabilizing adjustments. One can see currency crises, however, in a rather different light, namely as illustration of the loss of sovereignty experienced by the nation-states in their conduct of economic policy. Those crises are moments when the agents of privatized and deregulated money impose the policy priorities of financial capital on reluctant governments. The currency traders, representing the financial managers of industrial enterprises, the bankers and fund managers, as well as a growing proportion of the population turning from passive savers to active investors, favor a program benefiting the accumulation of financial capital through high returns and expanded market opportunities. They emphasize low inflation, high "real" interest rates, overvalued currencies, shrinking budget deficits, deregulation of business, and privatization of state enterprises.

Yet the foreign exchange market, arguably the nerve center of global capitalism, is also subject to centrifugal tendencies which represent disintegrative forces of regionalization. The United States, having lost its absolute dominance of the world economy with the catching-up of Germany and Japan during the 1970s, now has to contend with challengers to the world-money status of its dollar. The world has thus evolved into a tripolar system ("triad") centered on the United States, Germany, and Japan. Each of these powers has created a bloc it dominates through regional trade regimes, capital transfers, and imposition of its currency as the monetary standard in the "zone of influence" - the Germans around the European Union, the Americans with NAFTA and its possible extension into a Free Trade Area of the Americas, and the Japanese more informally with an aggressive expansion in the Pacific Rim during the 1980s.

The competition between the three blocs in the triad has taken the shape of large currency-price swings moving in cyclical fashion, accompanied by huge capital flows in and out of the three key currencies. In that multicurrency system each of the leaders is tempted to extend its zone of influence, not least by trying to tie in new emerging markets. In that regard the Americans are focusing south (Latin America) and west (East Asia), the Europeans are looking east (towards the former Soviet empire), and the Asians are eyeing each other. The international monetary system has, after all, always had as one of its principal roles the organization of international economic relations in hierarchical fashion as relations of power and unequal exchange between nation-states. If the system is a multicurrency one, then you will get antagonistic and expansionist blocs created around the key currencies as a new form of inter-imperialist rivalry.

In addition, as is often the case when the private-commodity dimension of money has been allowed to dominate, there is today also a heightened discrimination between those that have access to money creation and those that do not. Many countries are excluded from the global economy's commerce and capital. These countries find themselves in a deepening spiral of external exclusion and internal strife, triggering eventually supra-national conflicts that condemn entire regions to systematic impoverishment (e.g. Balkans, Central and South Asia, the Middle East).

The triad may soon give way to a more polarized duopoly. With the Asian crisis and Japan's inability to play a positive regional leadership role, the Asian bloc faces disintegration and greater dependence on US capital. China is emerging as a new regional leader, capable of challenging the dominance of Japan and even the United States in the Pacific Rim. In light of this triangular battle it is difficult to foresee the restructuring phase of the crisis when national economies are being transformed by structural adjustments and reforms while the zone's internal power hierarchy is reshuffled. The disintegration of the Asian bloc is accompanied by potentially greater cohesion in Europe. The European Union, besides preparing the ground for a massive eastward expansion, is in

the process of creating a single currency, the Euro, which could within a few years become a powerful challenger to the world-money status of the US dollar. This is especially likely if and when the overvalued dollar comes under pressure in response to exploding US balance of payments deficits or because of isolationist tendencies gaining the upper hand in the United States (6).

Whether the triad continues or gives way to a bipolar system based on dollars and euros, the presence of several alternative key currencies requires exchange-rate management among the leading nations. This has been put into place with the Louvre Agreement of 1987 establishing target zones for the exchange rates of the leading currencies, managed by regular consultations, flexible adjustments of the currency-price ranges permitted, and coordinated central bank interventions. While moderately successful in stabilizing the price swings of dollars, yen, and marks, the target-zone experiment has suffered from a lack of policy coordination among the leaders which - as a prerequisite of convergence in economic performance - is necessary for the underlying stability of exchange rates. As part of their experiment with Economic and Monetary Union (EMU), the Europeans have shown that such policy coordination toward convergence, albeit difficult, is possible.

In any case it is probably a good idea to stabilize exchange rates across the board through a variety of monetary arrangements linking currencies, such as adjustable pegs, currency boards, and target zones. Market-determined exchange rates have proven too volatile and destabilizing. Private market forces of speculation are prone to overshoot first upward and then downward. And the J-curve effect feeds this overshooting by aggravating speculative pressure on a currency when a devaluation initially worsens trade deficits (7). Yet these inevitable and pronounced currency-price cycles carry high social costs, such as higher investment risks, larger transaction costs, and tougher external constraints on entire national economies.

Any such exchange-rate stabilization will have a better chance to succeed if we contain the huge hot-money flows in the foreign exchange market. The so called Tobin Tax is in this regard a serious proposal, because it is elegantly designed to hit highly leveraged and rapid-turnover speculation hard while barely constraining the slower and less leveraged activities of trade and direct investment abroad.(8) In the absence of such a radical measure, one can find other ways to constrain speculation by reducing its leveraging or raising its transaction costs, such as higher margin requirements for currency futures or reserve requirements on Euromarket flows.

Such regulatory initiatives usually only come about in the aftermath of a crisis. It is therefore not at all surprising that the Asian crisis, a serious one by any measure, has triggered much discussion regarding ways to improve the current system. The G-7 decision in May 1998 to introduce a new global financial architecture aims to prevent or contain such crises in the future by:

- a) demanding of borrower countries more timely and precise data on budget deficits and currency reserves to assure greater openness in the conduct of economic policy;
- b) increasing cooperation between the International Monetary Fund, the World Bank, and the Bank for International Settlements in supervising economic policies in developing countries;
- and c) ensuring that private banks and investors assume a greater share of the risk when investing in emerging markets to reduce the moral-hazard problem.

These reform measures - from Louvre Agreement of 1987 to the Basle Accord of 1988 enforcing uniform risk-weighted minimum capital-asset ratios for banks as the first measure regulating the Euromarket to the creation of a new global financial architecture in 1998 - are first steps in the direction of reregulating the international monetary system toward a better balance between private-commodity and public-good aspects of global money. But they are only a beginning, and many more initiatives will be necessary to assure a more stable and better balanced world economy. In the end we will need much more radical reform approaches, since no system based on national currencies as world money can function well in the long run. Such a system gives the country issuing the world money a decisive advantage, a global seignorage benefit that arises automatically when a country can pay for its purchases of goods, services, and assets abroad in its own currency and have its balance-of-payments deficits financed continuously by any foreigner holding its currency as reserve. It is too tempting for that country to abuse this benefit eventually, triggering in the process a crisis of confidence in its currency as happened with Britain in 1931 and the United States in 1979. Because of this structural deficiency of national currencies as world money, we need to return the radical proposal by Keynes (1943) for a supra-national form of world money ("Bancor") issued by an international monetary authority, albeit in a modernized form (9).

4. The Emergence of Electronic Money

I think that, ironically, the utopian idea of a supranational form of world money embodied in Keynes' Bancor proposal is in the process of becoming more realistic. This is because of the imminent appearance of a qualitatively new form of money, namely cybercash. Such electronic money will mark the last and final stage in the ongoing movement toward denationalized and deregulated money. The contradictions unleashed by this ultimately private form of money, in terms of instability, erosion of state power, and inequality of access, will be such that the state's monetary authorities will be forced to recapture their management of money by designing an official payments system and imposing it on all monetary transactions. Such a payments system will have

to be global in nature, since electronic money transcends physical boundaries as much as temporal ones like no other money form of the past and present. Yet the emergence of cybercash, circulating in a global computer network (the Internet), will in time also create conditions facilitating the imposition of a single supranational monetary standard.

People are very habituated concerning money. Payments become routine and are structured in recurrent patterns, while the modes of payment become deeply anchored in the social psyche because of their repetitiveness and their dependence on societal acceptance. Given that habituation, it will take a while before electronic money becomes dominant and its transformatory powers fully evident. Yet its eventual rise is inevitable as a logical extension of the privatization and deregulation trends concerning money. In that process money has itself become the object of innovation, and in this innovation process technology has come to play a major role. Radical advances in computer and communication technologies have penetrated banking, the locus of money creation. And this penetration has created new innovations in the payments system which together provide the infrastructure for the appearance of cybercash as a fully institutionalized money form replacing paper money and coins.

The technological transformation made possible by electronic banking has advanced in all components of the payments system, an institutional construct of great complexity with which to guarantee the proper creation, circulation, and valuation of money. Inter-bank fund transfers have become electronic, conducted over computer networks that are run by automated clearing-houses which banks set up. Automated teller-machines (ATMs) have replaced bank tellers in retail transactions with bank customers, forcing the latter to become used to interacting with machines rather than humans when dealing with money. The debit cards operating the ATMs are now becoming "smart." Tiny microprocessors radically enhance the information-processing capabilities of debit cards and thus turn those smart cards into the access key for a globally integrated network of financial services. The widespread use of credit cards has prepared the stage for the era of smart debit cards. In the meantime retail outlets are hooking up with banks through electronic "point-of-sale" terminals to extend precisely such a network beyond its inter-bank component. Finally, a growing number of households and business people have in recent years gotten used to conduct their financial operations via personal computers by means of increasingly sophisticated financial-services software. With the successful introduction of the Internet, a new way of buying and selling has emerged in the United States (and soon elsewhere) which will spread rapidly due to a number of advantages accruing to each side of the transaction (10). And it is precisely here, with the spread of electronic commerce, that we can locate the take-off point for cybercash.

Already today we can see an amazing proliferation of experiments in cybercash, involving the leading banks (Citibank, Chase), the credit-card duopoly (Visa, MasterCard), the leaders of the computer industry (Microsoft, IBM), and a number of small start-up firms (e.g. Mondex, DigiCash, CyberCash) developing the components of cybercash such as the financial software, the encryption software for coding of messages to assure the privacy and safety of cybercash transactions, the smart cards, and electronic purses. The technological race currently under way is engaging the leading computer firms who see electronic commerce as a huge profit opportunity for their software products. It will soon spread on an equally massive scale to the telecommunication firms. Eventually there will probably be a single standard for cybercash transactions, as the best systems establish their dominance and drive out less popular alternatives. But it is also quite likely, given the flexibility and innovation pace of electronic technology, that there will for a long time be a battle for market share between different cybercash systems managed by different combinations of firms. Private money has always been highly differentiated and heterogeneous money, as witnessed in the US banking system of the 19th century. The new private-money system of cybercash will be no exception.

As long as all cybercash systems are routed through the banking system, one could argue that such electronic money is nothing but a technologically improved version of traditional private bank money which does not fundamentally alter the nature of credit-money. Even then I think that money will be a different animal than when it was tangible paper involving a complex web of human interaction. I am, for example, convinced that people relate to money differently when dealing with a human teller than a machine. The frowns of a sceptical teller would keep cash withdrawals in check and favor fewer withdrawals (implying more careful planning) while no such restraints exist when people can access money at any time from an ATM. So people have with the use of ATMs become less careful in terms of budgetary planning and more inclined to spontaneous buying, just as happened when they succumbed to the instant-cash incitation of credit cards. There seems to me also a colossal difference between having the circulation of money regulated by man-made institutions (the so-called check clearing mechanism organized as a monetary pyramid) or having it done through machines. The human interaction necessary for the circulation and validation of paper as money will be replaced by encryption software coding and scrambling the computer entries that make up the substance of cybercash. The potential of such high-tech money is today still unimaginable (e.g. the possibility of earmarking cybercash for specific uses only), but what we can imagine is that such money is in the end lightning-fast and essentially untraceable. Devoid of spatial constraint and material presence, such money is not only untraceable, but also truly global. How will central banks and the tax authorities be able to follow these flows unless they can have access

to encrypted messages or, even better, have all transactions routed through a payment system that they control?

This question will surely become relevant when cybercash creation moves beyond the banking system to industrial enterprises operating the electronic money networks. Given the huge profit opportunities from royalties and user fees, what is to prevent a Microsoft or AT&T to try and gain income from creating cybercash for spontaneous buying on the Internet? All these companies need for such an activity is a system of credit lines from financial institutions, and they could keep cash needs from those lines to a minimum through netting facilities where credits and debits are cancelled out continuously. The distinction between lines of credit, that can be activated at will, and actual money being created when banks loan out excess reserves has already become entirely blurred by the extensive use of credit cards in day-to-day retail transactions of consumers. Cybercash is just another extension of that trend. Given the heavy involvement of credit-card companies and computer firms in the early development phase of cybercash, it is quite likely that future cybercash providers may include partnership combinations that exclude banks, thus moving money creation outside the banking system - a radical departure from the basic laws of money's evolution.

It is, I believe, at that moment that central bankers will realize that they have finally lost the last shred of control over money. We should in the context heed the warning more than five decades ago by Polanyi (1944) not to let money become a private commodity. Polanyi stressed that the legitimacy and intervention capacity of the nation-state rests on its ability to control money. When cybercash reaches maturity, by the middle of the next century perhaps, nation-states alone will no longer be able to control money. They can only do so collectively. At that point they may create a monetary payments-system superstructure that routs all cybercash transactions in the Internet through a canal controlled by an international clearing union. The central banks may enforce such a rerouting by introducing collectively a new international medium of exchange for all cross-border transactions involving an exchange of one currency with another. In other words, they take control over capital flows by introducing a supranational form of money routed through an official payments system operated by a global monetary authority which replaces the Euromarket and foreign exchange. Only then will we finally have the missing link for the institutional grounding of a new monetary regime based on stateless electronic money. At that point we will have the possibility for an entirely new exchange-rate regime and effective capital-flow controls.

Notes

1) Among the many important contributions by Regulationists on the subject of money see in particular Aglietta (1976), Chesnais (1996), De Brunhoff, (1976, 1979), Guttmann (1994), and Lipietz (1979, 1983).

2) Roosevelt's monetary reforms consisted of the Emergency Banking Act of 1933, the Glass-Steagall Banking Act of 1933, the Securities Act of 1933, the Gold Reserve Act of 1934, the Securities Exchange Act of 1934, the Bank Act of 1935, and - in the international arena - the introduction of a gold-backed dollar standard at the Bretton Woods Conference in 1944.

3) We may consider the new money form replacing the gold standard as credit-money inasmuch as this money - whether government-issued currency or private bank money in the form of demand deposits ("checking accounts") - is always created in acts of credit extension. Banks, for instance, create new money when they loan out their excess reserves.

4) See, for instance, the decision of European Community in 1987 to remove such controls in its "single market" project.

5) The negotiations concerning MAI are currently stalled. The major stumbling blocks concerns a provision in the draft proposal that would give multinational corporations the same legal standing as states. The European Union has rejected the provision, strongly pushed by the Americans, according to which private firms would be able to sue governments in international arbitration tribunals for non-compliance with MAI provisions.

6) The isolationists reflect a long populist tradition in US politics which covers both ends of the political spectrum - right-wing nationalists as well as left-wing representatives of labor. Precisely such an odd right-left coalition in the House of Representatives has recently rejected reinstating fast-track authority for the President without which the United States cannot negotiate international trade agreements. That same coalition is currently also refusing recapitalization of the International Monetary Fund without which international financial crises will become more difficult to manage in the future.

7) The so-called J-curve effect was first noted by Magee (1973) as a fundamental characteristic of flexible exchange rates. This destabilizing effect refers to the initial worsening of trade deficits in the wake of currency devaluations caused by adjustments in export and import prices occurring much more rapidly than adjustments in export and import volumes.

8) Tobin (1978) proposed a globally uniform transaction tax on all currency trades. Even at the low rate of 0.5% proposed by Tobin such a tax would yield a lot of revenue.

9) See Guttman (1994, Chapters 15 and 16) for a detailed plan how a modernized version of Keynes' Bancor plan might work today.

10) Electronic commerce via the Internet restores a great deal of consumer sovereignty by giving buyers more information about products and prices while allowing sellers to reach a larger number of customers, finetune their marketing and product-differentiation strategies, keep better track of inventories, bypass intermediaries, and adjust prices more rapidly.

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Summary: The International Monetary System in Transition

The stagflation of the 1970s and early 1980s created a dynamic of financial instability and regulatory erosion which destroyed the postwar monetary regime of nationally administered credit-money. Since then the international monetary system has become increasingly privatized, deregulated, and globally integrated. That combination has created a new environment in which financial capital has become a dominant force in the growth dynamic of the world economy. This is an ominous development, since it threatens the public-good quality of money and the stability conditions conducive for long-term investments on a worldwide basis. Reform initiatives to stabilize the international monetary system have been lagging and need to be advanced in a more coherent fashion to deal with a rapidly evolving global-deflation scenario.