DIFFERENT APPROACHES ON CONTEMPORARY INTERNATIONAL MONEY

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Abstract

Two theories do regard the today international money, (1) international monetary system (IMS) and (2) optimum currency area. The previous stays more related to presumable postwar international monetary order, i.e. stability, whereas the latter rather relates to the European integration process and even more interesting is that not only European scholars involved in such research undertakings. Interestingly, once more, the two thinking areas keep similarities and differences of particular significances. And that will be seen here below in a comparative analysis.

Key concepts: *money representative, fiat, neutral, international, barter, international monetary system, common currency, optimum currency area, price system, market, monetary policy.*

Jel classification: *E4, E5*

There are international monetary system (IMS) and optimum currency area (OCA) to debate about in this text below. Both are postwar theories of money and these are not so simply dealing with its representative-fiat definition duality either. These theories appear as pretty the same age and interestingly encounter each-other since regarding the international money topic. Also the differences between are rather significant and the first one sees their sizes.

1. International monetary system (IMS) is a concept regarding inter-States monetary mechanisms which were assumed to be, one after another, Gold Standard (1870[1]-1933[2]), the Bretton Woods international

[1] Davies (1994) here finds the 1850-1931 interval for Gold Standard.

[2] In 1931 Bank of England gave up the gold convertibility of its pound sterling. First, some people might think that such a measure wasn't unprecedented, but all Napoleon's wars and World War One had brought similar events. But not only this was forever, but two years later the monetary authorities of France and US came to do the same with their national currencies. All agree now that the big economic crisis of 1929-1933 was the Gold Standard's terminator. But even this did not end the crisis

agreement (1944-1971[1]) and later on the *European Monetary System (1979-1999).* As in theory, IMS[2] shapes as in Box1 (Triffin, 1973). The *unique reference value* expression tends to be larger than here assuming just an individual national currency freely used internationally, as in the restricted views of fiat money and OCA theories. In facts, it is the *metal* (i.e. *gold*) *money* reference to talk about and this is found as 'neutral' among all member States forming the System (IMS). Reciprocally, national currencies are admitted to compete for such a privileged position inside the IMS.

Box 1

The international monetary system (IMS)

De iure	a ***unique reference value*** for all money and their State issuers, as member States of the System
	a remaking ***balances of payments (BP)' equilibrium*** *mechanism* for all the IMS' member States
	member States' equal *legal commitment* for the System
De facto	***fixed exchange rates***, as compulsory
	biasing ***money parity***

Remaking mechanism for the individual States' BP is basically supposed to be a job done by might-be different contextual *instruments*. And the last might develop between presumably *automatic mechanisms* that was the case of Gold Standard and *international financial institutions* assigned by the System to manage the inter-States flows equilibrium, primary through watching on all such imbalances. *Financial institutions* as such were claimed for the Bretton Woods IMS, i.e. the *International Monetary Fund (IMF),* and for the EMS, i.e. the *European Monetary Institute (EMI)* (McKinnon, 1993). As in detail, these institutions were

auspices, but another crisis was immediately following – that was the post-IMS international monetary disorder that lasted up to the next World War.

[1] 1971 was an interesting year case. The Bretton Woods IMS' working collapsed resulting into exchange rates' entering high floating – actually, it was the US$ strongly depreciating against all the other national currencies and the last appeared to differently floating against each-other. In reality, the US$ had been the IMS' reference value up to that event, so what the gold metal had been for its former IMS. Or, the dollar did depreciate when its IMS collapsing, unlike gold that never did, but something else came up very similarly between 1931 and 1971 (at forty year distance). In 1931 Bank of England was giving up its gold convertibility of the pound sterling that then started floating; in 1971 it was the turn of the other Bretton Woods IMS to do the same with dollar floating consequence. London and Washington had both been centers for Gold Standard and Bretton Woods IMS, as respectively, in 1931 and 1971. Collapsing from its very heavy center so seemed to be another IMS's working rule that was rather skipping to its proponents.

[2] i.e. unlike national and federal State's monetary systems.

supposed to work with their own *account money*[1] against their flows equilibrium aimed.

As for the member States' *commitments against the IMS* in place, they filled a dimension also provoking some misunderstandings in the topic area the way that some supporters here restrict to inter-States agreements form to be admitted – i.e. and so the famous Gold Standard finds itself as nearly excluded from the IMS concept. On the contrary, Andrei (2011a, pp. 151-154) explains that Gold Standard was all over benefiting from States' *monetary laws that were naturally harmonized amongst* – no need for international agreements in this case[2] since equally those agreements rather couldn't prove able to shape stronger IMSs than the other cases (i.e. this is about the same Gold Standard, as unique case of an IMS missing corresponding international financial institutions of management[3]).

On its *de facto* zone of the IMS, *fixed exchange rates* look not being an aim in itself[4], but properly resulting from either Gold Standard's and Bretton Woods IMS' environments – i.e. the latter IMS was as such since its fixed parity settled for the US$ in 1944, the date of the international agreement done[5]. *Money parity* looks biased by IMS up to the date of the other EMS that is the case of *fixed exchange rates without parity*[6], but reclaimed by particular price systems' development throughout *economic integration* process. And this is the aspect arguing that *fixed exchange rates* truly overpass the *parity* environment[7].

Criticism on the IMS might notice that, limiting to some rules explained, here including the rule of IMS's birth under legal States' commitment, the theory sees neither the IMS in its usual declining

[1] i.e. *special drawing right (SDR)* for the Bretton Woods IMS and further on money of the IMF; *European Currency Unit (ECU)* for the EMS as respectively, see McKinnon (1993).

[2] The author here has a longer explanation about, related to the metal's monetary place in the ancient history of money and in the pre-money barter system; a history that equally included non-modern monetary systems based on gold, e.g. the Roman Empire's and Middle Ages' moneys. Shortly, Gold Standard, besides its fixed exchange rates and price stability, was equally exemplary for its law expression that was highly convenient for all State, organizations and citizens.

[3] Though not to be omitted that the *Latin Monetary Union* (1865-1927) did expressly mention Gold Standard, as its basic working monetary system. That remains the lonely ever official mention of Gold Standard .

[4] Here also see the OCA theory in detail that is the case of fixed exchange rates aiming.

[5] Also see paragraph 2., above for money parity circumstances.

[6] That in practical terms means foreign exchange market *interventions* of the monetary authority (i.e. central bank), as part of its *monetary policy*. Recall from above that monetary *policy* and money *parity* rather exclude each-other, but the very problem of this fiat money aspect lays in the number, amplitude and so costs of these market interventions that actually are selling-purchasing different moneys in short and very short periods (i.e. everyday). On the contrary, when money parity, fixed exchange rates stay natural issue and properly work as such.

[7] Note that Triffin (1973), the IMS basic theory's supporter, did not express about the EMS case.

perspective all over, nor how much of international monetary order would ever be covered by IMS[1].

Fact also is that beyond all the above three IMSs examples, Gold Standard seems to have been reversed by a fiat money subversive motion in the international market area and then the Bretton Woods IMS met a deeper story of the same kind when being founded as a *representative-fiat money mixture* shape. As for Gold Standard, it had required rather international monetary and economic homogeneity, similar to nowadays economic integration, whereas authors claim at least a '*center-periphery'* difference as a reality (Officer, 2010, pp. 96-107). Then, apparently this system proven once more stronger when the British Empire took it under its power support (Andrei, 2011a), but this initiative equally did establish the *central bank versus commercial banks* system, specific to fiat money. Finally, Gold Standard did collapse when *Bank of England* was equally the same as the IMF for the next following Bretton Woods IMS[2].

As for the last, it was contradictory design since 1944, i.e. whereas its *unique reference value* at the time was the US$ and it was claiming its 35 dollars per troy ounce price and fixed exchange rates against the other member States' currencies. The System also was typically established by *inter-States agreement,* in which actually IMF was founded as *financial management institution* support.

The EMS (1979-1992) case looks apparently different than the IMS' general rules, as seen from its European founders. The System has been designed as transitory, i.e. aiming to find and test the real exchange rates of its European member States' currencies at the delayed time of its turning into the *unique common currency*. On the contrary, as seen from outside McKinnon (1993) confirms a structure that is the same as for the other precedent IMSs[3].

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[1] i.e. how could the IMS theory explain and qualify the global exchange rates' relative stability after 1985, the year after the 'La Platza-Louvre' event, as international conference , when no any more IMS, in such a view, asks once more McKinnon (1993, p.32) ?

[2] Let us just make the distinction that the latter authors here cited argue that it was the British Empire who admitted Gold Standard as an international monetary order to be supported and internationally managed during its whole life existence. That is why a good number of scholars prefer to see the same IMS as actually the one of the British pound. Unlike them, Andrei (2011a) argues that the Gold Standard's roots are historically much deeper than thought so far. In other words, the same as primitive money had been coins stamped by authorities on metals previously winner of a special market competition as market equivalents, in the 19th century the British Empire, under its glorious Victorian era, might have taken over Gold Standard as something previously market confirmed. In other words, once more, the British Empire didn't ever invent or design the Gold Standard IMS, as possibly understood by this System's opponents of such a group.

[3] See details in the next following paragraph.

2. Optimum currency area (OCA)

As in all our previous contributions to this issue – i.e. in which concomitantly talking about IMS and OCA –, our top reference remains McKinnon (1993). The last actually argues about two IMSs – i.e. the Bretton Woods IMS (1944-1971) and the EMS (1979-1999) – similarly working since structurally similar due to claiming OCA as priory to IMS. And actually McKinnon here has just a completion made to the large *OCA theory*[1], the one called *Nominal Anchor theory.* Box 3 keeps a brief description on the last.

Unlike the IMS theory, the *nominal anchor* explains not only about its internal mechanism and rules – i.e. there are entirely different rules to talk about for the IMS' and OCA's cases --, but equally about how the same anchor is born and then dies, here emphasizing that all *OCA is limited life*. Then, nominal anchor and OCA dislike all about *formal* and *law* terms, unlike the IMS theory, once more. No any mention about external balance of payments' controlling mechanisms from the nominal anchor view either.

There is something that finally appears similar between the two theories, and this is about two issues, be they inter-related. The one is *nominal anchor* itself that directly corresponds to the 'unique basic value' for all prices in the area of IMS. The other is the *fixed exchange rates* aspect. The difference is that what was very 'natural' and so an assumption for the other theory, for the nominal anchor and for OCA as a whole stays a wish to be fulfilled in the multi-country region, a target, a stake or a bet – i.e. besides, the two theories stay found of fixed exchange rates as both yet prove unable to accept the money floating of any kind.

It is equally interesting that nominal anchor sees *fixed exchange rates* without parity corresponding – i.e. this theory repudiates all parity and '*unique basic value',* except for a *national currency that gets internationally free usable.* This really is *fiat money* that the nominal anchor theory stays captured by, similarly as the IMS one for the other *parity* (i.e. metal standard) related stuff.

In another development, equally to be noticed for the nominal anchor's theory its being captured by what can be called '*hegemonic motor'* – i.e. no international monetary order in the absence of a strong anchor country; plus, this is supposed to be just one in the area.

[1] Mundel (1961) is the unanimously recognized parent of the OCA theory. Mongelli (2002) has, in our view, the most appropriate, i.e. exhaustive contribution on the OCA theory's description, as a whole, unlike our lines that won't have any of this, except for the McKinnon's nominal anchor theory.

Box 2 The nominal anchor theory
• The *nominal anchor* is assumed to be the national currency issued by the *anchor country.*
• The *currency area* is a multi-country region to which the *anchor country* and its *nominal anchor* national currency belong
• The anchor country ensures the *free movement of its own currency issued* (i.e. the nominal anchor) within the region, i.e. this currency freely lives its own issuing country.
• This last above idea actually means *unrestricted imports and payments abroad from the anchor country* and of course directly in the nominal anchor currency.
• Whether these last above imports and payments abroad are not entirely free, the same country is still admitted as anchor country whether keeping *the less restricted national (individual) currency movement* within the whole multi-country region.
• The whole picture of the above ideas is the one of the anchor country's non-*intervention* -- i.e. no any kind of intervention, be it monetary, trade or other policies -- on its own balance of payments' problems.
• And consequences of this are of two kinds are: (a) creating *imports market* on the anchor country's territory (virtuous evolving); (b) creating premises for the nominal anchor's international *depreciation* against the other national currencies in the region (vicious evolving); (c) especially since these other currencies do remain backed by their State issuers' monetary policies .
• The result of all these above facts is the *nominal anchor's bankruptcy* within a horizon while.
• Then, the symptom of *searching for a new nominal anchor* in the region area.
• Except for the anchor country and its nominal anchor, there are *no other special regimes for the rest of countries and their national currencies* in the region area (McKinnon, 1993).

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