A NEW INTERNATIONAL ECONOMIC ORDER. CHALLENGES FOR FUTURE THEORETICAL AND PRACTICAL DEBATES

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Abstract: *Globalisation requires a transition based on an agenda of national priorities consistent at a world level, and the new international order should take over projects related to the planet. Since the lessons of history are always forgotten, no matter how much they are being debated in times of tensions just like now, one should take from the past at least the propensity of political leaders of the past for accuracy in any reasonable approach.*

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Financial economy – A threat to real economy

Financial economy has reached a level hard to express in figures, and its proportions - as amount and geographic extent - seem to have no limits. Its penetrability, owing to free movement of capital, the capital capacity to rise and fall at the high speed provided by IT, the incredible capacity to insert intro the system trust and aversion to risk have become threats to real economy.

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Owing to the above-mentioned, financial economy has structurally “escaped” supervision, some domains being not only partly deregulated but even free of any regulation. The typologies of financial institutions have multiplied and caused regulatory and supervisory imbalances even inside the financial economy, which has posed a threat to the international financial system. These imbalances and those resulting from a normal correlation between the financial system and the real economy have become a critical threat to the world economy. Globalisation has made this threat hardly controllable, having impact on the effectiveness of economic governance, in general, and on crisis and risk management, in special.

While so far the real economy required an effective financial system, now - due to *per se* multiplication of money – the financial economy shows that, until uncontrollable speculative bubbles burst, it can exist even without a real economy. The bubble phenomenon is an expression of **the substance** characteristic to the financial economy, expressed immaterially through a usually positive psychosis of the actors of financial markets, caused by subjective aspects specific to them, cut to some point from the truth of the real economy: the versatile complex behaviour in relation to risk, the illusion of permanent high and quick returns, the “herd” behaviour, the moral hazard, etc. All of them had become an air cushion until the sudden “puncture” of the membrane, when sustainability became null, followed by a collapse in the form of the latest financial crisis.

The financial system has equally evolved both to the objective of necessity and to the highest risk of the real economy. The situation has become of greater concern – in view of the international monetary system – as part of the international economic order. Facing multiple decorrelations within the financial economy and the economic one, and between the two economies, decision makers – the political factor and the governments – mentioned quite often the need “to do something”. The way this statement was understood – always left in somebody else’s charge – strengthened concrete action very much. Instead of deep structural reforms, initiated in time and carried on to the ultimate consequence, only adjustments were made, thus extending the decorrelations, which became “a way of living”. Considered challenges or opportunities, decorrelations required a vision of a new (the last?) international economic order, significantly involving the political factor. We mean, therefore, a new international order embedding a monetary system adapted to globalisations, i.e. any point on the planet can be reached at once by means of technologies specific to this century.

World modernity and international economic order

Any international order – since the beginning of the modern age – has in its DNA the precursors of other order, just as a life start contains a death core. For a civilized individual, familiar with the sense of responsibility and advantages of prosperity, which qualities globalisation has managed to disseminate throughout the world, a conflicting transition from one international order to another (similar to that of the 20th century) could shock and traumatize. This could be determined by two evolutions: multiplication of the power poles, along with the persisting adjustments instead of reforms. The adjustments required by the latest crises have affected the entire world, brought in the situation of the Weimar Republic. That is why they say that the new international order cannot be built by mere growth or improvement of the mechanisms and structures of the present international order, which pushed the world economy to the verge of disaster. But this needs more, as this matter is only discussed and no steps are taken. Therefore, the need of leadership in these times is urgent and, willing or not, should be looked for, accepted and established, etc., but in the sense of leadership of a laboratory of the new international order. Globalisation requires a transition based on an agenda of national priorities consistent at a world level, and the new international order should take over projects related to the planet. Since the lessons of history are always forgotten, no matter how much they are being debated in times of tensions just like now, one should take from the past at least the propensity of political leaders of the past for accuracy in any reasonable approach.

The financial crisis, as an opportunity for a new international order, has revealed many technical problems of the global economic system, either very small or missing wheels, poorly geared in a world changing faster than the functioning of the global governance service. Thus we can identify the restructuring of economic powers, the emergence of new or unfinished projects, which have become a cannon ball fastened to the legs of those living inside – see the European Union. After five years of crisis, experts say that there is more than half of it ahead or the disaster is more serious. For national observers, the only "consolation" is that, on the verge of collapse, we understand at last what is to be done. The tough problem of mankind is now Europe, because of the unaccomplished project of the Political Union. The lack of decision to complete it under the conditions set by its founders, real statesmen and European leaders at that time, actually frightened the world. Let's recall what amount of statements, comments, concerns, and early solutions was "stimulated" by the euro crisis, Greece's failure or exist from the Eurozone! Could it be a mere storm in a water glass?

The G-20 vehicle, considered a laboratory of a new international order, succeeded in awakening people facing a common danger but having different tasks: mankind should fix a financial system, Europe should complete the Political Union Project, so that they can consider a new period of economic growth along with people's prosperity, which means more millions of new jobs. A sustainable, intelligent and green economic growth could include global priorities – resources, especially energy, and climate changes – since it will produce financial resources to support them. But the international monetary system can no longer function as before, if this is the objective.

Special circumstances – special solutions

In this context, one should consider some ideas for solutions circulated in Europe and outside it, but relating to that area, the Eurozone and single currency. Their quiet launching by those trying to think non-traditionally under the pressure of annoying events stands in contrast with nervous reactions of those to whom the *status quo* is: **no step backwards from the disciplines agreed upon.** They say special situations need special solutions, which – if mirrored – would mean for the present crises that quite populistic behaviours in economic policies aimed at keeping power of some political colour during election stages that counteraction can be only non-standard. Fiscal-budgetary indiscipline could be diminished only if central banks go beyond their mandate; that is why the politicians' initiatives come against the central banks' independence. In general, this has been and is the context of the fight with the conflicting parties: politicians versus central banks. But there is a shade of difference: while the politicians' ideas were not accepted from the very beginning, the ECB did what it had to do, as Erik Nielsen, the chief economist of UniCredit Bank, said.

The politicians' aversion to the ECB president was notorious under Claude Trichet and so is under Mario Draghi, which can be blamed considering the rigidity in special situations of crises, but also beneficial, when it gives a push to obsolete conception. In spite of Draghi's frustration, the ECB still is considered by politicians a rescuer of the European Monetary Union. At the beginning of his term in office, Draghi requested the politicians to take strong action on the public finance side to build a wall against crisis expansion. He also criticized the way the governmental creation called the European Facility for Financial Stability works. Both Nicholas Sarkozy and François Hollande, after being elected for the supreme function in France, requested – to counteract the criticism stirred up by the ECB leaders regarding the government responsibility, supported also by the German Chancellor - the introduction of Eurobonds as instruments to generate liquidities to fund budget deficits and sovereign debt. Besides their pressure, there should be considered the voice of another country in trouble, but Eurobond have not become a reality. But the ECB moved to non-standard measures: it launched a programme for direct acquisitions of state bonds when the debt crisis started in Greece, accepted non-orthodox collaterals to ensure liquidities in the monetary market, provided the facility of three-year liquidity, diminished the monetary policy interest below 1% (a premiere since the Eurozone was created) and it is possible to go further, under the pressure of the EDF and the Bank of England, to quantitative relaxation contrary to the price stability mandate, which means money creation for purchasing assets.

The auspicious part of the ECB's fight – with politicians and against the pressure put by G-20 and Fori – is that the tenacity to reject the Eurobonds cleared the way for discussions on so-called taboos, although they had always defined the essence of the European project. With the sword of Damocles hanging above – Greece's crisis, failure and exit from the Eurozone, the disappearance of the single currency, contagion sweeping countries with a stronger relevance for the EU project (Italy, Spain) and not only (see Portugal and Ireland) – people started to make relevant connections. Eurobonds cannot be introduced/accepted before reaching a fiscal union, at least at the level of the Eurozone. Is this fiscal union possible without a political union? Facing a banking crisis in expansion (Spain is an example at hand, but the problem of capitalizing the commercial banks confronted almost all the EU countries), the idea of creating an European Banks Union was launched, which means accepting single standards for capital adequacy, bank supervision, guaranteeing the people's deposits and resolution in case of bankruptcy. Also this project may not be completed unless the two unions – fiscal and political ones - are achieved, which implies that the European project takes its proper course. It is the hope of G-20, as a legitimate institutional representative of the world economy, since Europe, the EU and the Eurozone have become the central point for solving what many analysts call the present chaos of the real economy and the international financial system.

Both in the economic practice and theory, people discuss about **orderly processes** for overcoming conflicts like (economic, financial, fiscal, banking, currency, sovereign debt etc.) crises, and the cumulation of crises, in different domains and areas, hinders any orderly overcoming of the contagious crisis by everybody. Orderly and soft landing – considering the multitude of problems of today's world, after the shock caused by the financial crisis in August 2007 – is probably the strongest argument that the rehabilitation of orderly processes can be achieved only by means of a new international order. In this respect, it is said that Hollande's victory has already changed the sense and terms of debate in Europe dominated by the German conservatism, having as priority objectives – often mentioned in almost all crisis summits of the EU – budgetary honesty and structural reforms. Laying stress on the same tools of handling the crisis of deficits and banks, Hollande has no longer insisted on what Germany, the Netherlands and Finland said to be an undeserved debt "exemption" of the faulty ones, but related them to economic growth and the creation of new jobs: "The idea is to add power to the growth engine. It is not necessary that all EU members share this point of view, but some of them expressed the same idea", Hollande said in an interview before the EC Summit in June 2012.

Not only the message construction was changed, but also the way of making decisions within the French-German partnership. For the first time in over two years of summits dedicated to crisis, the leaders of France and Germany did no longer meet only themselves in advance to coordinate their positions, which analysts consider "a significant change in the axis that traditionally determined the European decision making" (Reuters). Hollande met first the Spanish Prime Minister Marian Rajoy, in Paris, and then, in Rome, the Italian Prime Minister Mario Monti and the German Chancellor Angela Merkel and then at the European Council. Another change made by Hollande is demonopolisation of the address in tandem at the EU top level: "We do not meet to confront each other… but everybody should say what one really thinks when speaking about the best tools, methods and steps for (economic) growth". It is expected that shifting the debate from settlement of debts on a mutual basis at the Eurozone level to economic growth, hoping to stop the dispute on tools limited only to "who saves whom and how", would revive in another way and on long term arrangements of the European policy included in the Euro Plus Treaty, the Fiscal Agreement, in the European Semester and the EFSF and ESM.

Fiscal Union – A controversial idea

No matter who first changed the decision making in Europe at a crucial moment, one should first welcome the emerging convergence of political will towards a rational evolution of the European project as a major **input** even for the new international order, recalling that it is expected by the other partners and G-20, who keep saying that, within the new global architecture, we need a reset Europe. We hope that the voice of the German Finance Minister Wolfgang Schaeuble does not only amount to promises, if it is to support directly the words of the Chancellor Angela Merkel: "The Government has always said that before starting negotiations on the joint management of debt, we need a real fiscal union, as a medium-term project ... Saving and economic growth cannot be contradictory. Thus, saving programmes do not deprive state of their purchasing power, as it is often said" (Agerpres, June 5th 2012). If we add to it the stress laid on gradual approach, we find in the context of quite visible conservatism that the launching of the fiscal union (also) by Germany has become a **fact** resulting from a controversial idea. We believe this process can evolve as long as besides the French President François Hollande and the Italian Prime Minister Mario Monti, also the European Commissioner for Economic and Monetary Affairs Olli Rehn said, when discussing about "the false dispute" on Eurobonds, that "we cannot succeed in overcoming the problems while focusing on the issue of common bonds without a simultaneous fiscal sustainability". We notice that the state-level message has risen to the level of the European Commission, technically involved in developing the European Project.

Equally we should note, in the context of shifting debates from confrontation to a fluent European project, the speech delivered by the Chairman of the European Council, Herman van Rompuy, focused on the promotion of economic growth **in order to restore Europe's stability** (at Chatham House in London, Mai 2012), since only this way Europe can acquire "full significant weight on the global scene", and, for having international influence, a stronger EU needs to act "united as a club" to prove it has a common external policy. In our opinion, the concern of the top representation of the EU about Europe's position at the table of the new international order is obvious.

The evolution of financial markets has reflected the tension in the European dialogue concerning the economic stabilisation, which has resulted in the depreciation of the euro against the US dollar to the lowest level in three years of crisis. Germany's obstinacy has diminished the return on state bonds of the most viable EU member state below zero (bonds due in two years). These are signals from markets and not from the exchange of opinions between politicians and the ECB, showing that national governments must fill up the gap left for a long time for the fiscal pillar, besides the quality of governance and the management of structural reforms.

Major deficiencies of the international monetary system – A cause of the financial crisis

Coming from all directions - G-20 partners, Fori, the WB, financial markets – the messages require that stakeholders in European governance consider the essential processes, the delays of which – caused also by the political game –

become themselves causes of the present critical situation. For this, **resolution policies** are required in all fields. Focusing both at the EU and world levels on the financial sector tells us that the present monetary system is weak and even deprived not of resources but credibility. Saving as a source of investment is affected by mistrust in governmental policies through the bank crisis, before it is translated into volatility of exchange rates and interest level. Savings already accumulated are affected by the balance and wealth effect of the exchange rate fall and the lowest interest level, while the investors' propensity to risk stays in a negative zone. The financial system entropy causes blocking, which diminishes opportunities for economic growth recovery, which is the target of the global system. The resolution policies for riding out the crisis of the financial sector are focused on restoring the viability of the banking sector, responsible for a vicious circle producing a type of zero or very small economic growth, which causes financial stress resulting in even more restrictive conditions of crediting the real economy. Therefore, it is considered that "the restoration of the financial sector must be a priority of the resolution and prevention policies for a financial crisis. The quality of such policies has a major impact on the future monetary system, since the channels for transmitting the monetary policies of the central banks to the real economy passes through the system of financial institutions subject to new initiatives of regulation and supervision in accordance with the G-20 Agenda. The dissemination of the way transnational banks held assets determined the groups led by Jacques de Larosière (2009) to recommend the highest regulation and supervision standards covering not only crediting institutions but also hedge and private equity funds".

The financial crisis has revealed major deficiencies of the present international monetary system (IMS), since there is a wrong cumulation of rules set before pre-globalisation and a need for ensuring its operation under different conditions. Its main functions, i.e. providing global liquidity and a flexible adjustment mechanism, are in danger, if we consider the results, that is persistence of global imbalances, high volatility of exchange rates, quick direction change in capital flows, misfunctioning of financial markets, all caused by the lack of trust. The credibility of the present IMS requires not reforms, but a vision of new integration of its functioning tools and structures, which, in turn, need a sense of multiculturalism and broad cooperation within the international community. The kit of tools for assessing the actions to be taken by the IMF should be completed with regulation and supervision of a size already set by G-20, which, as regards their implementation, still needs to be discussed.

The technicalities concerning the urgent resolution of the problems occurring in the global financial sector, diverging from macroeconomics, foreshadow a new IMS, multipolar as regards the currencies able to satisfy the need of reserves of a global economy which can be rebuilt through the increasing number of economic powers. Maybe, the multipolar stage of the IMS is a transitory one, evolving towards a **hegemonic currency**, in accordance with Kindleberger's theory of hegemonic stability. This transition might require a global currency, for which a global issuer should be found to meet the three requirements set by Constâncio for being recognized as an international reserve currency: a strong and large economy, cut out from the global economy, and integrating profound, open and efficient financial markets and enjoying proper political and macroeconomic governance.

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