

## THE EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM

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World monetary system (WMS) is the concrete form of organization of monetary relations. It is the functional form of organization of international monetary relations it represents, a set of methods, instruments and organizations (institutions), which are used for international monetary operations.

The main tasks of WMS are the regulation of international payments and currency markets, mediation of payments for export and import of commodities, services, capitals and other types of international economic activity, creation of favorable terms for development of world production, international specialization and international productive co-operation.

The evolution of the world monetary system is determined by the development and necessities of national and world economy, by changes in the world economy and by periodic world currency crises. Financial crises may cause the explosion of currency contradictions, the inappropriate functioning of WMS. Usually crises are accompanied by the violation of exchange rates stability, the redistribution of gold-value reserves, currency limitations, worsening of international currency liquidity rate.

The development of the world monetary system has passed through more stages during its evolution; each of these took a long historical period of time. The main difference between world monetary systems lies on the assets, which represent the reserve of the given country.

The first world currency system is the Parisian currency system. It was legally implemented by the international agreement on the conference in Paris in 1867. The conference recognized gold the only form of world money. A gold-coin (gold) standard was the basis of currency system. The gold parities were installed according to their gold contents. All national currencies had their fixed gold contents by the system of «gold standard». For example, English pound had its gold content, which equaled 7,322385 g. of gold (since 1821), 1 German mark – 0,385422 g. of gold (since 1873p.). The exchange rate was determined by the relation of gold content of currencies. In our case – 1: 20,3.

A gold-coin standard was based on direct connection with gold. According to this system:

- currencies were freely converted into gold;
- the bars of gold had the opportunity to interchange on coins freely;
- gold was freely exported, imported and was for sale on international markets, the markets of gold and currency markets were interdependent;
- all countries maintained strict correlation between their gold stocks and the amount of money in turnover.

The exchange rate fluctuated in a relatively narrow range (within the limits of gold points, which were equivalent to the parity of national currency with addition or deduction of transport and insurance charges, caused by the material transfer of gold). Therefore, the system of gold standard is acknowledged as a currency system with fixed exchange rate

The international payments of gold-coin standard carried by the use of the bills of exchange that were discharged into local currency were characteristic mainly for England. Gold was used only for payment of balance of payments deficit. The share of gold in monetary supply diminished and fractional credit money have eliminated gradually gold from turnover by the end of XIX century. Gold-coin standard disintegrated at the beginning of the First World War because of its useless in terms of consolidating economic connections and in terms of adjusting to market economy.

The second world currency system was legally implemented by the intergovernmental condition of the Genoese international economic conference in 1922. The gold exchange standard was the basis of this system. For Genoese currency system gold and foreign currencies were the basic elements. The currencies that were suitable to exchange for gold at any time were called reserve currency. In 1922 the pound sterling and the dollar were complying with these criterions. That time the monetary systems of 30 countries were based on gold exchange standard. The conversion of currencies in gold

was carried out directly and indirectly (through foreign currencies) in Great Britain, USA, France, Belgium, Netherlands, Germany and other countries. However, unlike the gold standard, currency of these countries changed not on any amount of gold, but on bullions no less as 12,4 kg per each. As concerning the behavior of exchange rates in this system they were fluctuated freely and the currency adjusting was provided by mean of an active currency policy.

The relative exchange rate stability in the world was observed from 1922 to 1928, but it was undermined by a world economic crisis from 1929. As a result of crisis the gold exchange standard collapsed. The exchange rate of many currencies dropped by 50 – 84%, the accumulation of gold by private persons increased, external payments were stopped, the mass of «hot» money was created, money moved from one country to another spontaneously to find high speculative profit.

The world currency system was shocked by a new economic crisis in 1937. It was the mass devaluation of currencies. There was no stable currency before the Second World War.

Development of new, more efficient international currency system began in April of 1943. The leading countries of the West coordinated basic principles of the Bretton Woods currency system at the international conference in Bretton Wood in 1944. International organization – International monetary fund (IMF) was founded, – the «obligation» of that is providing of the normal functioning of the system and observance of the principles, envisaged by a general agreement.

The basic principles of currency relations organization according to Bretton – Woods system are:

1) the Bretton – Woods system was based on Gold exchange standard. The role of gold as a general equivalent and as a mean of payment and settlement unit in international turnover was maintained. «Parities of currencies of all participating countries must be expressed in gold, that is a general equivalent, and also in the dollars of the USA according their gold content on July, 1st 1944" - was written in Bretton – Woods agreement. However, this position was not executed in practice; the connection of all currencies with gold was indirect (through foreign currencies). Only the dollar had kept an external convertibility and acted as a kind of world money;

2) establishing of fixed parities, concerted within the framework of IMF. Currencies were compared and interchanged on the basis of the parities.

To provide accordance of the real currency exchange rate to the declared parity, every country could:

- guarantee convertibility of the currency in gold according to official parity (this variant was chosen by the USA, such parity: 35 dol. for a 1 ounce of gold, was set in 1945);
- to support the currency exchange rate on markets in relation to other currencies within the limits of fluctuations «±» 1% of its parity (other countries).

The exchange rates of currencies deviated from the parities slightly, as they were under the state and intergovernmental influence. The IMF controlled the mechanism of the international payments, succeeding to currency interventions, mainly in the dollars of the USA. At fundamental unbalances, by approbation with IMF, devaluations and revaluations of currencies of the developed countries were conducted;

3) Convertibility of currencies, freedom and versatility of payments were on current operations;

4) Prohibitions of free (private) to the purchase-sale of gold.

Bretton –Woods system had been operating during almost 30 years. These were the years of proceeding in the economy of Western Europe countries and Japan – «the economic miracle», in relation to moderate inflation rates in the industrially developed countries.

However to the extent of increase of world economy, strengthening of competitive activity, inflation growth, sharp increase of financial operations volume, unconnected with concrete foreign trade agreements, and also in connection with the crisis of key currency of the system – the dollar of the USA, the Bretton-Woods system satisfied less necessity of international trade and capital flow.

Inequality of currencies was folded within the framework of the Bretton –Woods system. The dollar of the USA occupied the privileged position. It allowed the USA to cover the deficit of balance of payments in a considerable measure due to the short-term obligations of the American banks to foreign state organizations and private persons. The USA became debtors. Investment balance (capital balance sheet) was also folded not in behalf of the USA. There was an outflow of capital, and, as a result, negative balance of balance of payments.

The chronic balance of payments deficit resulted in fact that the amount of dollars abroad considerably exceeded gold reserve of the USA. There was distrust to the dollar and aspiration to exchange dollars for gold. The USA began to lose the dominating position in world production and

international trade. The role of the countries with positive balances of payments grew ( EEC, Japan and other countries) The overcoming of deficit of balance of payments of the USA in this situation would mean the reduction of international liquidity, that would bother the international settling. The USA appeared before a choice: to bear large charges or change all currency rules. The USA did a choice in behalf of change of rules, tearing connection of dollar with gold in 1968, and then introducing the floating course of dollar in 1971. The principles of the Bretton –Woods system undermined the development of Euro market and market of Eurodollars, where the enormous amount of dollars circulated freely. All of them created a favorable situation for currency speculations. In these conditions the system of the fixed exchange rates could not effectively function.

Transition to a new currency system had begun it was called «Jamaican» in honor of the name of country, where basic principles of this system were established.

A transition from a gold exchange standard to the new system of currency relations took several years. After the first substantial step – stopping of exchange of dollars on gold have happened. The floating exchange rates entered into force in March 1973. All leading currencies (dollar, pound sterling, German brand, yen, French franc) freely floated with respect to each other from 1974. In the same year «Special Drawing Rights» – «SDR basket» became the new standard of value exchange. The IMF made a decision to give up fixing the official cost of gold, stopping the gold operations within the framework of IMF, in 1976, giving the right to the national currency institutions to dispose their own gold reserves how they consider it necessarily. And finally, there was the envisaged abandonment from the fixed parities in the charter of IMF in 1978. The Jamaica monetary system was officially enacted.

Basic differences of the Jamaican currency system from Bretton-Woods are:

1. The transmitter of world money changed. If the Bretton-Woods system used gold and key currencies as eventual means of settlement, then the new currency system leans on SDR (collective currency of IMF). This currency became an important element in the structure of international liquidity.

2. The new currency system allows both fixed and floating exchange rates and mix of them.

3. The presence of the reserved currency blocks that, from the one side, are the participants of the world currency system, and from the other – there are the special relations between participating countries into them. The most characteristic example is the European currency system (ECS) – which have originated from EEC.

4. The rights for IMF on a supervision of the exchange rates are extended in the Jamaican currency system. IMF established the basic principles, which are required to be met by IMF member countries, during realization of course policies, for the effectively functioning of international currency system on the whole. The essence of these principles is explained in the following points:

- the exchange rate must be economically reasonable. Countries must avoid exchange rate manipulation/speculations in order to avoid the subsequent balance of payments adjustment or receipt from unfair competition.
- to carry out intervention with the aim of smoothing of considerable chaotic short-term exchange rate fluctuations.
- to take into account interests of other countries during realization of intervention.

The abolishment of gold, as an official international means of payment and measure of value, was one of conditions of Jamaican system. The official price on gold was canceled, and its demonetization (deprivation of gold from functioning like money) started. Gold has kept the possibility to be the national reserve instrument, but all payments between IMF and national financial institutions were implemented only in SDR.

The principle of adjusting the exchange rates by market forces (demand and supply) was proclaimed as basic idea of Jamaican system theory. However, the exchange rates could not function in the mode of pure floating (so under the act of only market forces). Integration processes resulted in the close interlacing of the national processes, stronger compliance of national economies with world economy conditions depending on processes that take place in world economy, including in the field of currency. It was unreal to create optimal background for the development of international trade without the monetary policy coordination.

By means of the «pure» floating, it was not succeeded to attain the balances of payments equilibrium. The floating exchange rates did not result in the autonomy of domestic economic policy. In contrast, the freely floating exchange rates strengthened intercommunication between the exchange

rates and internal economic processes. Consequently in the real practice the Jamaican currency system functions as the system of the guided floating courses (with a tendency of strengthening of «custom controls» elements in currency policies of separate countries). The central banks interfere for providing a favorable level of exchange rates for national interest by:

- 1) purchase or sale of both foreign and national currency on the foreign markets;
- 2) limitations or prohibitions of purchase or sale of certain currencies, direct control above private external translations, introduction of negative interest rates in relation to the foreign holding etc.

Despite the fact, that the Jamaican currency system has some negative moments its functioning renders substantial influence on the acceleration of development rates of industrialized countries and many countries of the «third world» for further social-economic integration.

Among characteristics of the modern world currency system we can highlight substantial volatility of exchange rates, in particular, in relation to the US dollar (the periods of underestimation of dollar change by the periods of rise of his cost); considerable flexibility of exchange rates, despite the existence of free-floating, world economy currencies interdependence which imposes certain restrictions on national economic policy; the instability of the world currency system to crises and sensitiveness to the external shocks.

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