On global financial governance

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Abstract: As the world experiences the unfold effects of the worst financial crisis since the 1930s, serious challenges to the functioning of capital markets and global economy are posed. And so is the demand for a new financial order. This paper reviews some elements to be considered in the analysis and design of an institutional structure that promotes global stability and favors development.

Keywords: financial stability, global governance, crisis, institutions, financial regulation.

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"Sometimes doing your best is not good enough. Sometimes, you must do what is required."
Winston Churchill

I. Introduction

As the world experiences the unfold effects of the worst financial crisis since the 1930s, serious challenges to the functioning of capital markets and global economy are posed. The last fall of aggregate demand has generated an important risk of recession and, even professionally managed, has affected productive sectors, types of entities and financial instruments and different regions of the world. Similarly, the crisis has revealed major shortcomings of the current international order in coordination and regulation, as well as a multitude of failures in accurate identification and risk management. These weaknesses involve both the financial sphere as the real economy one, as well as concern financial institutions, supranational entities, national States, central banks, ratting agencies, public and private companies.

The cascade of crises from the second half of the 20th century requires a deep review of global imbalances and with them, the international order that has allowed their persistence.

Since the 19th century the global economy has passed by three financial orders:

- The Classic Standard, with absolute convertibility of currency in gold at a fixed price and with fixed exchange rates, which was valid until War World I\(^2\). During its term some countries had bimetallism, i.e., paper currency was backed part in gold and part in silver. This is a system in which the values of the different currencies stabilize on a narrow strip, since deficits in balance of payments produce a gold output stream and

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\(^2\) Finished the World War I, the classic standard was abandoned and exchange rates became flexible. In 1922, the Financial Committee of the Conference of Geneva recommended the world adoption of the gold standard. In 1925 England reestablished the convertibility sterling pound/gold and the rest of the countries follow it, conforming to the gold standard. However, the explosion of the depression of the 30\(^{\text{th}}\) and the World War II make it finally collapse.
this contraction of the money supply, depresses domestic prices, which in turn encourages exports and favors a monetary flow in the opposite direction. This theoretical scheme of automatic compensation, with a trend to equilibrium, was the main advantage of the system; however it was totally abandoned during the crisis of the 30's to avoid deterioration in prices and wages as a result of the fall of the overall aggregate demand, while leaving it behind was less expensive for the economy.

- The Bretton Woods System (BWS), with gold-US dollar standard reserve and fixed but adjustable exchange rate, until early 70's. The end of the BWS was, for some, after the statement of the President of the United States, Richard Nixon, for the inconvertibility gold-dollar, August 15, 1971; others consider the year of 1973, date on which European currencies begin to float against the US dollar; and finally are those who seal its burial with the opening of capital accounts. It’s important to remark that already in 1960, the so-called Triffin Paradox implied the inevitable death of the system. According to him, the world was facing the problem that to avoid dollars’ shortages, the U.S.A. should generate continuous deficit, which in turn would undermine confidence in the currency. Faced with this dilemma, was required to find one way to increase reserves without generating systemic instability, which led to the creation of the special draw rights, SDR, by the IMF. Already at that time, Triffin raised the necessity of creating a Global Central Bank.

- The trustee, without metal backing, but based on the economic performance of the economies and in which coexist several exchange schemes (with all variants between fixed and floating). For Michael Mussa (in Kenen, 1995: 101), what is truly novel of the current international order is that the basis of the financial system, the money is totally trust. This situation is always featured in periods of war but as returned to a peaceful environment, it resumed some metal backing and for the first time, this seems that will not be repeated. Highlights in this order, the role of supranational entities to reduce volatility of the major currencies and the trend towards the establishment of areas of influence.
This latest order has favored a growth of finance above the real economy, giving this area a great versatility and an apparent own life. Simultaneously, frequent financial crises express increasing levels of risk and volatility that seem to indicate a tendency to not convergent scenarios. With each crisis major global economy imbalances have manifested, and after a quarter century of exceptional growth, financial institutions have to adapt quickly to a more restrictive monetary policy environment, lower levels of growth and greater State involvement.

The need to achieve systemic stability forces to evaluate structural aspects because it seems that the problem will provoke a decoupling between a rigid, insufficient and financial rules of game, and a flexible and highly demanding globalized dynamic system.

In a world of dizzying dynamics projecting the institutional structure, which will emerge from the set of transformations that are happening, requires combining aspects of the financial system with those in a geopolitical level, so the task is by far challenging and complex, alongside of mandatory.

II. Institutional architecture

The international institutional scaffolding, inherited from the collapsed BWS, has not been able to control the exchange challenges, or prevent financial crises of the globalized economy, as shown in recent decades. The need to strengthen the main institutions of the financial order is becoming increasingly clear, asking them greater flexibility, speed and efficiency in its action, together with greater control of the moral hazard and higher levels of transparency.

Highlights the revision of the role of the International Monetary Fund, IMF, which has been modified, increased, as well as strongly questioned. Thus, while during the 1980’s the IMF was a vital piece for the resolution of debt problems of undeveloped countries, - while highly criticized for the use of a strong conditionality- during the 1990’s, was a channel to fix problems produced by abrupt outflows of capital, delivering large-scale loans.
The evolution of the exercise for a new architecture of the international financial system has been marked by the lessons from financial crises and the institutions adjustments to new realities, as well as proposals from different theoretical perspectives.

1. Alternative proposals

While the financial world has channeled by the path of deregulation and liberalization to promote innovation, quality, and time and cost reduction, volatility and instability emerged requiring control mechanisms to reduce the negative effects triggered. Proposals for transformation cater to international institutions, being for renewal or for the creation of new ones. In addition, it requires greater coordination of the agents/actors of this market, which currently are not confined to the traditional national or supranational ones. Similarly, different economic variables that impact in global dynamics and stability have to be checked.

Taking into account the key role of capital flows and the so-called financial hegemony from a post Keynesian perspective, Davidson (1994, 1997) develops a proposal that tries to divert such flows from speculative to productive investment. In this regard, establishing a set items to operate in a monetary system open and unified\(^3\), able to avoid the impact of a fall in the effective demand, creating a system that press nations with balance of payments’ surplus, and enabling nations to control of capital movements and eventually increase the amount of liquid assets. He raises the need for a 'trigger mechanism' that forces surplus nations to spend, so the adjustment will rely not only on the deficit countries, thereby achieving harmonizing global imbalances. Also, its proposal considers an asset of international reserve, the international monetary compensation unit (IMCU), which would be held exclusively by central banks, and to which currencies would have a stable but adjustable parity.

Rodrik and Subrananian (2008) work on investment flows, stresses the importance of reducing the mobility of capital, to avoid future financial crises. They emphasize that the

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\(^3\) Davidson (1994) it distinguishes among unified and not unified open monetary systems. In the first ones, contracts are expressed under the same currency, for what the exchange rate is fixed, while in the no-unified, contracts are expressed in different currencies and the exchange rate is flexible.
recent crisis exacerbated because of the immense inflows that became in bubbles (as in 1980s generating the debt crisis, during the second half of the 1990s and its consequence in Asia or more recently in the USA, pressing house market). Rodrik (2009) has suggested to least developed countries, to handle prudentially their capital accounts, to avoid excessive indebtedness in good times and controlling capital outflows during crisis.

As exchange rate schema is an institutional rule of indelible impact, Fred Bergsten (1988) highlights that the required systemic stability can be achieved structuring exchange rate specific areas. For him, the best strategy of coordination appears to be in the construction of indicators and development the so-called specific areas. Zones would be announced publicly to help stabilize the flows of capital, rates will be free to fluctuate without intervention of the authorities, but when approximated to boundaries, countries will experience strong pressure to modify their policies. This will create three global currencies with stable exchange rate among them.

Another vital indicator for international stability is the evolution of liquidity. In this sense Buira (1995) emphasizes that its distribution is inefficient and inequitable. He remarks that the growth of international liquidity depends on the largest economies payments imbalances, and that from developing countries (more than 150 for the IMF), only a few participate currently in local markets by placing securities. The above comes from the absence of an international organization that balances the needs of liquidity of the various groups of countries and the global economy. He also point out that the IMF has been building adjustment programs based on available resources and not of the amount needed to promote growth adjustment.

For other authors, the transformation of the international financial system requires giving IMF the role of the world lender of last resort. From Bagehot (1962 [1873]) we know that a lender of last resort has to offer unlimited short-term credits to financial institutions suffering a panic move; credits should be offered with no discrimination but at a high rate and collateralized.

According to Fischer (2000) the IMF resembles increasingly an agent such as it has institutionalized loans large-scale; has become Manager global, mobilizing consortia and
governments that provide crisis financing along with him; can supplement their funds by activating various modalities for loans; although it does not emit its own money, agreements eventually can issue SDRS; and finally makes the new role of monitor adherence to standards and codes to strengthen the system global financial. So Fischer considers that it will evolve towards a lender ultimately international.

In the sense of strengthen the IMF, are also approaches of Hale (1998) who highlights its role in financial, offering economic consulting recent crises in its performance as glo-cal lender (global-local) to problems of liquidity’ contraction and promoter of microeconomic reforms, that otherwise would be politically unacceptable. Hale recognizes that the role of the IMF is inherently controversial, because it demands borrowers to accept monetary and fiscal austerity, involving a high risk of economic contraction, and structural reforms, without interfering in domestic affairs. In spite of everything, for him is the only existing tool deemed to control the unwanted effects of financial liberalization.

A critical perspective of the institution, noted that the IMF borrows not freely, nor against guarantees, and although it has been able to coordinate major financial flows, it has not enough resources to serve as the lender in last resource. Finally, it insists that the main principle of the IMF is universality, so it cannot deny borrowing to a country based on the way it is managed. The truth is that the IMF disburses large amounts of money conditioned to political commitments. Here, a double credibility is at stake for the Fund to offer loans and for countries to implement policy changes. Additionally it is highlighted the potential moral hazard for large loans recently granted. The IMF conditionality has been one of the most criticized elements and refers four aspects: *ex post* vs. the *ex ante* conditionality, the extent of conditionality, exchange regime and private sector fragility; and the implementation of international standards (Goldstein, 2000a, b). Based on the above mentioned, the IMF is also requested to return to its original mission of macroeconomic adviser, giving financial support to solvents economies with liquidity problems and to develop international statistics.
During the 80’s Lipton and Griffith-Jones (1984) raised the necessity of an international lender of last resource, although did not developed the form of its operation neither its organization. Herbert Grubel (1983) suggested the creation of an International Insurance Corporation for bank deposits, similar to that existing in the United States, the Federal Deposit Insurance Company, FDIC, to promote banking sector stability. Felix Rohatyn (1983) raised the requirement to establish a debt payment relief through an interest rate subsidy (equivalent to the difference between market rate and the one payable by the developing country) to reduce insolvency and payments’ cessation statements (in Strange 1997: 146-169).

More recently, Eatwell and Taylor (2000) propose the creation of a World Financial Authority (WFA) whose main role would be the regulation of systemic risk along with all nations, to avoid abuse and financial crime actions; and ensuring the efficiency of the financial market, that by definition is global (in the sense of being outside national jurisdiction, but not outside the jurisdiction of the Community of Nations). Measurement its efficiency would be in terms of stability, but also by its contribution to growth and employment. They emphasize that the brokerage and the leverage are, paradoxically, the sources of growth and weakness of banking, allowing the increase of liquidity and profitability at the expense of mounting systemic risk. This risk is a cost because it increases the cost of capital and reduces the return of the investment. Its management involves internalizing externalities taking in account not only own risks, but society’s as a whole. As risks are accounted more properly by those exposed to them, they considered vital in developing controls the participation of financial firms, which should be dynamic as the environment in which they will be applied. Thus, the effective regulation could replace the IMF conditionality.

Looking for systemic stability, other proposals refer the necessity to promote coordination of international policies and they go back to the 70’s. McKinnon highlighted the requirement of a tripartite coordination between the United States, Japan and Germany, being then the nations with greater monetary power (1974). Major objections to this approach have been political, since not always existed confluence in the interests of this trilogy. In addition, the proposals derived from the Brandt Report (1979) raised the
desirability of support among rich countries and poor countries. James Tobin (1984), Economics Nobel Prize, had suggested some coordination based on the fact that domestic benefit submission to international one is supported by global demand expansion which helps in the recovery of the world economy (Tobin, 1984:112).

More recently Ocampo (2010) develops the concept of 'special and differentiated responsibilities' to deal with the global economic system asymmetries and the achievement of the development of societies in a high interdependent environment. In this regard he stresses the following objectives to reinforce global governance: the creation of a dense network of national, regional and global institutions, ensuring equitable participation of least developed countries, the creation of a comprehensive Council Global representation-based United Nations system by constituencies, to guarantee coherence of the decentralized global system with effective accountability of international commitments.

With another perspective, Pollin (1998, 2001) suggests an approach towards egalitarian policies, through democratic control of the financial markets and the placement of credit, balancing micro-efficiency bases and macro-coordination for the required stability for a viable economic strategy. He stresses that the increasing financial instability has weakened the transmission mechanisms of policy instruments. He compares financial systems based on banking and those based on capital market, indicating that the challenge is to develop policies that combine the efficiency of systems based on banks (though less able to face the challenges of financial globalization) and the lowest concentration of capital ownership of capital market’s based system.

In line with the previous approach and with the objective of reducing international volatility, Grabel (1998), has insisted in a greater State’s participation elevating the importance of governments and banking intermediation. From here the interest in development banks and the support from the multilateral organizations to these banks, this would partly isolate the real sector from the volatility attacks of the financial sphere.

Palley (2000) considers that the debate on the international financial system has focused almost exclusively on developing, forgetting the instability that deficiencies of developed
countries pose on it. In this regard he notes that to reduce systemic weakness, a consistent regulatory framework has to be generated, whose central element would reserve requirements based on assets, which would allow the monetary authorities to discourage the unduly risky portfolio selection and strengthening the system financial.

Facing the trend to the withdrawal of the State of the economic arena are reviewed approaches favoring control and tax to financial transactions. In this sense is Pollin, Baker and Schaberg (1999) approach, who include their potential in the generation of new resources and their ability to reduce uncertainty by the increase of liquidity of financial investments. They state that tax must be a wide-ranging, imposing most of transactions, discriminating rates by the traded instrument, based on the effective value of the transaction and reflecting the differences of the markets.

A case of this type of tax is the raised by James Tobin (1978, 1992) who, to reduce the flows of short-term capital, proposed the establishment of a tax (with a rate between 0.25 and 1 %) on transactions in the exchange market, whose objective reduce the margins of profit in these operations, discourage the speculative flows and improve the monitoring of short-term capital. The tax would be managed by nations and delivered to the IMF or World Bank who will use it to face challenges exchange, besides increasing funds for loans and reducing pressure on interest rate. It had been pointed out that this proposal is really attractive for less developed markets where information is fairly precarious and whose economies are more prone to massive leak of capital and also most vulnerable to its impacts. Its detractors have noted the impossibility of their effective implementation, because it would require the cooperation of all countries of the world; but thereon has been said that it will be enough if main centers impose it, and leaks will become marginal (Schmidt, 2007, Cooper) 1994: 141).

In short, the need for global stability has been revised since the 1970s by different authors who from their perspectives have suggested important transformations, either to modify exchange regimes, influencing the pipeline of capital flows, modify or create global institutions, strengthen regulation, democratize relationships, etc. All added a number of
initiatives to keep in mind and are a significant advance work to be capitalized for the sake of a new international order.

2. Transformations and institutional adjustments

From recent past’s experiences, some transformations of global institutions as well as the mechanisms of action of financial entities have been developed. Highlight those resulting from the G-8, G-20 and the Basel Supervision Committee meetings:

✓ **Halifax-Lyon** (1995, 1996). These meetings of the G-7, reflects recommendations arising from the Mexican crisis of 1994, known as the Tequila effect. In them arise the necessity of strengthen the IMF, increasing its resources and creating instruments to help reducing the risk of future crises. Also it sets the requirement of an 'early warning system', of Financial Emergency Financing Mechanism (EFM) for crises and the increase the general loan agreements (General Arrangements to Borrow, GAB). It’s noted the requisite of an enhanced international cooperation in financial monitoring, strengthening the management of risk, promoting transparency in financial markets and the adoption of rigid prudential standards.

This last has been considered the paramount to prevent crises and goes parallel with the work of the Core Principles for Effective Banking Supervision, Basle. Thus the Special Data Dissemination Standard, SDDS is created for countries participating in capital market of capital and a General Data Dissemination Standard, GDDS, for the rest of the countries, but instead of increasing the GABs, the New Arrangements to Borrow, NAB, were created, becoming the main source of financing.

✓ **Denver-Birmingham** (1997, 1998). The G-8 meeting, in Denver, was before the Asian crisis and endorsed previous recommendations. The Asian crisis governed the discussion in Birmingham and focused on large-scale loans and the Supplemental Reserve Facility, SRF, were created to assist countries with abrupt fall of confidence and pressure in their reserves. The conditionality of the IMF was also revised and its little help in times of crisis, as well as the must to strengthen financial system and expand the SDDS.
Simultaneously the Treasury of the United States invited to the ministers of finance and directors of central banks of the G-22 to discuss systemic stability and three committees were promoted: two focused on crisis prevention and one on its resolution. Thus came up the Reports on the Observance of Standards and Codes, ROSC, and a report on the strengthening of financial systems.

**Koln-Okinawa (1999-2000):** These G-8 meetings focused its discussion on the impacts of Russian crisis, the Vodka effect, 1999. So were developed the Contingent Credit Line, CCL, to assist countries in contagion, which were activated after serving a number of requirements. In general, after the Asian crisis the IMF institutionalizes large-scale loans, which has been widely criticized as considered moral hazard source. In addition, IMF conditionality has been regarded as intrusive and ineffective by the report commissioned by the U.S. Congress, known as Meltzer Report.

These G8 meetings engaged much to roles, policies and governance of the IMF and World Bank (WB) and future developments of standards. They emphasize that the resolution of the crisis does not remove the obligation of the debt repayment, requires market discipline and highlights the importance of private flows.

**Génova (2001).** This G-8 meeting discussed the role of development banks and the effectiveness of the participation of foreign banks in strengthening banking systems of emerging countries. The participation of foreign banks allows assets’ diversification of banking system of a country, reducing their vulnerability to domestic shocks as they can ask for support to their matrix company. However others warn that the competition can threaten the survival of domestic banks. Therefore, its entry as competitors can strengthen the system as a whole, but not the domestic system. When foreign banking purchased domestic banking, total or partly, directly strengthens the entity.

This meeting also stressed the obligation of a greater involvement of the private sector in debt resolution, which still rests on volunteer and thus, cooperation is very limited.

**Basel II (2004).** Collects a set of recommendations on laws and banking regulations, issued by the Committee on Banking Supervision of Basel, strengthening the
existing ones (known as Basel I) favoring the banking system solvency and global stability; and whose design rests on three pillars: capital requirements, monitoring and market discipline.

While the capital agreement of 1988 attended market and credit risk, Basel II changes substantially the treatment of credit risk and also requires that banks have sufficient capital to cover operational risk. Also imposes quality requirements to all risk management as new revelations. It also requires greater transparency in the information on credit risk, it will increase the documentation for debtors and it also will increase the balance diversification through insurance’ activities (BIS, 2006).

✓ **Washington-Londres-Pittsburgh** (2008-2009). After the outbreak of the Subprime crisis, the G-20 had three meetings:

The first one in Washington, November 2008, with the following central objectives: assess the roots of the crisis, review the actions taken to alleviate the crisis, strengthen growth and identify agreements for financial markets’ reform under principles of free market.

The second meeting, held in London, April 2009 produced an extension of the agenda, incorporating international macroeconomic coordination actions to revive growth and employment; and insisted on reforms to improve the financial system, emphasizing in those international agencies, IMF, World Bank and the Forum for the Financial Stability. That meeting established commitment to keep credit supply, to implement economic stimulus plans with agility and support the recapitalization of the banking system, as well as holding up developing countries through strengthening the IMF. Likewise it was emphasized the necessity of regulating financial institutions firmly as hedges funds, requiring greater transparency in the risks in they incur, and a code of conduct to credit rating agencies and to those linked to derivatives markets and offshore centers. At last a disaggregated $ 1.1 trillion, agenda was adopted as follows:

- US$ 500 billons for NAB of the IMF
• US$ 250 billion in special draw rights, SDRs, to increase international reserves of the IMF members

• US$ 250 billion to support funding to the trade

• US$ 100 billion for development banks

In March 2009, China proposed the use of the SDR as an international currency reserve (Zhou Xiaochuan) (2009), opening important discussions. Stand out in the discussion Swaminathan (2009), Williamson (2009) and Eichengreen (2009): while the first discards the SDR role as reserve, the second agrees the Chinese central bank Governor’s idea and the third highlights the need of people possession of it to fully comply with this role. Bergsten (2007) has pointed out repeatedly that the SDR will not solve the international monetary problems nor by itself will achieve stability to the global financial system, however, having alternatives for reserves will minimize the adjustment risk of the global economy and facilitates the transition to a bipolar monetary system, Euro-Dollar.

Whatever the differences, this Chinese proposal put back on the table others that for some time had been shuffling, as those of Riboud and D ’ Arista:

The Centre Jouffroy Pour la Reflexión Monétaire, follows the proposal of Jacques Riboud, who as Keynes states the necessity of an international money unit. He raises the New Bancor, NB, conformed equally by the US dollar and the Euro, both indexed by their corresponding consumer price levels’. This way a universal currency will be created with standard value and stabilizer of exchange rates. The NB would be created by the IMF in the form of central banks loans, with partial coverage of reserves in domestic currencies and would have the status of foreign currency for all the nations.

The approach of Jane D ’ Arista, since 1999, included three actions to advance in a new arrangement for the financial system:

4 Some nations increased in an important way their reserves: China, US$7.3 trillions, Russia US$6.9 trillions, India US$4.8 trillions, Brazil, US $3.5 trillions

5 More information at www.centre.jouffroy.com
• The creation of a public investment fund for emerging markets. Its aim would be to balance the weight that private capital flows have on emerging economies decreasing their volatility. Thus public sector could make a schedule for growth and development of these economies and even favor the development of pension plans. It would be restructured as a public closed mutual fund and its investment objective would be in long-term instruments.

• An issue of SDRs to solve the narrowness of liquidity and international reserves. This new issue will be as a kind of safety net for emergencies in the absence of an international lender of last resort. It could also be a source to provide relief to the external debt of many economies, enabling them to strengthen their domestic markets, focusing on growth and development.

• The creation of an international compensation system for public and international payments. It must possess three basic features: it should enable national governments and central banks to retake control of their economic policies, promote its countercyclical use and promote a symmetric relation between real wealth creation and financial liabilities service. Is not conceived as a central bank nor as a global currency issuer, but it would keep countries’ debt instruments with the aim of offering liquidity through intermediating in open market operations with these instruments and acting as lender of last resort, which to the author, the IMF fails to fully accomplish.

Perhaps one of the aspects which come from the discussion of November in Pittsburgh is the obvious growing geopolitical role of China, because the Yuan-Remimbi is also one of the currencies wanted to assess the nomination of reserves, if it was freely available to the public. On the other hand, the discussion also demonstrated the indirect strengthening of the role of the Chinese currency since the increase in the weight of the SDRs in international reserves.

The bottom of all this debate is the must to adapt the management of global imbalances. On one hand the responsibility for those nations who have maintained high trade deficit

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6 At the time of the proposal, 1997, the SDRs mounted 21.4 billion (US$ 28,000 million) versus US $ 1.6 trillion in foreign exchange markets.
without having achieved any control to their consumption, and on the other hand are those nations that show persistent trade surpluses without allowing adjustment of their exchange rate. In this regard it is noted frequently that the United States have benefited from the preponderant role of its currency in international finance. On this respects, Bergsten (2009) highlights that it is not to the United States who benefits from this situation but the rest of the world, taking advantage of transactional costs reduction and achieving trade surpluses. Conversely, if the United States will no longer be the world's great consumer, would be those nations the ones that should adjust their growth strategies or increase their domestic demands.

III. Political economy of a new order: alternative scenarios

The end of the first decade of the 21st century shows signs highly different to the trend of the end of the previous century: slow global economy, more government intervention, control to globalizing dynamics, investors with low risk propensity, and an active participation for a substantial reform of the global financial architecture. This forces finances to adapt to a new environment and to approximate with cautious, prospectively to a future in which its actors and agents should act.

1. Current situation and trends

The last crisis evidenced its roots in global unbalances, including: low interest rates for long terms - adding pressure to the unusual rise of assets prices -, massive leverage and the recurrent presence of surplus/deficit countries for international trade.

Also, the crisis revealed severe limitations in coordination and regulation and a multitude of flaws in risk management, involving financial institutions, central banks, rating agencies, government entities, corporations, and media corporations, as those who participate in financial markets, without true conscience neither full knowledge of the risk/yield relationship bear.

The observed tendencies are diverse and they go from those promoting more government intervention, widening the scope of cooperation in regulation, a more conservative banking activity and restructuring of the investment portfolios toward smaller costs
alternatives; arriving to others that evidence the inexhaustible creation opportunity and financial innovation associated to mechanisms of capital democratization and the inclusion of vast majorities traditionally silences in the financial community. Many of these tendencies are contradictory one to each other, for what to venture to a prospective of the future financial environment is complex and full of uncertainty.

By virtue of previously pointed out and the impact these actions imply, a wide and integral scope must be promoted, incorporating all the actors, so much to reestablish the trust in market mechanisms, as to achieve the goals of stability and development in the long term

2. Alternative Scenarios

The multitude of signs shown at the present time, add uncertainty when projecting the required global financial institutionality, because their convergence doesn't have an only possible future, but rather they can arrive to different scenarios, as would be the final combination of geopolitical dynamics and the speed achieved by institutional transformations. The strategy of building scenarios doesn't seek to predict the future but to explore the limits of what is possible and to stimulate a strategic thought that when identifying strengths and weaknesses of each situation, promotes collaboration.

The World Economic Forum (2009 a, b) has delineated four prospective scenarios taking into account the global transfer of hegemony, from the West to the East, and the degree of international coordination to be achieved in the future, each of the which has an impact on the different agents of the market and the projected institutional structure which will favor. In this sense the scenarios are:

*Fragmented Protectionism.* Characterized by division and conflict, exchange controls and protectionism, deeping the long-term negative effects of the last crisis. For this scenario it is assumed a very strong and highly fragmented regulation, nationwide, with numerous banking nationalizations, restrictions on capital flows, barriers to trade and little international cooperation.
Financial Regionalism. Marked by lack of awareness and responsibility of the source of the problems and the fear of the spread of the resulting negative effects. This will exacerbate the financial-trade regional blocs’ schemas that compete strongly each other. Generated regulatory institutional structure would have a regional scope, with important differences between the three possible blocks keeping each its own principles: market democracy and minimum regulation (USA) vs. controlled opening (Asia) and high internal regulation (EU).

West Reengineering. In a highly coordinated and financially homogeneous scenario as the current, it will not adapt but faces, confronts, the changes at the geopolitical arena. This scenario provides a supranational financial regulator with the participation of the majority of countries. However critics to market dynamics and contagion during crisis remain.

Re-balanced Multilateralism. Defined by the successful coordination and effective risk management in an environment of change of geo-economic power centre. It considers the design and implementation of a new regulatory regime characterized by the risk’s management with appropriate macroeconomic policies, favoring trust creation and design of special plans for contingencies. A global entity as lender of last resort is set and the Bank in Basel is considered to fulfill this role.

In either case, financial institutions and national governments should evaluate their ability to adapt to new scenarios. In some cases the transformations in the short term will be minor, but it requires greater attention to the risks to growth and development. In others, more intense transformations will have cost in the short term, but they will favour long term adaptations into more stable environments. Naturally, these changes have no homogeneous impacts because initial conditions are clearly differentiated; hence a long-term strategic scan must be the basement to guide decisions of the true statesmen.

Although the last stage is the most desirable - so the efforts of the new global financial architecture design are channeled towards these course - its objectives would be simple dreams or wishes’ lists, if efforts to convince, of the desirability of this transformations, managers and executives of financial and productive corporations, presidents of central
banks, ministers of economy and finance, politicians and leaders of the different nations, them, are not effective.

So, together with the efforts of professionals and technical specialist in these matters, even more relevant is the political economy of global finance, with the objective of achieving conditions conducive to harmonious and balanced development of the global economy.

In this sense, the West would accept a multilateral order that offers the decision-making role that the East holds in the world economy. Similarly it must be acknowledged the weight that the developing world has for the world economy, which participates in equivalent proportions in trade and consumption. Simultaneously the emerging economies have to assume their responsibility in systemic stabilization, allowing the adjustment of economic variables, as the exchange rate, to balance international economic relations. Highlights the case of China, which clearly will be the actor to follow with great attention during the 21st century.

IV. Final reflections

As happened after World War II, when it was established the so-called Bretton Woods Agreement, world economy transformations, frequent crisis and changing geopolitical dynamic, call to establish a new institutional structure that promotes systemic stability and favors global development. For the above mentioned, are not few the lessons we can learn form that Agreement (Helleiner, 2009), adding, naturally, to the agenda, new topics to be reviewed.

The work comes ahead since long ago: are not few studies from different perspectives that have been developed whereas the new realities. Also, supranational institutions have made a set of transformations in the desire to adapt to the new environment.

But all will have poor performance if the new emerging institutional structure does not take account of the impact of the new geopolitics in gestation: the weakening of West in front to the East as uni-polar axis power. In this sense, the management of global imbalances, the role of the US dollar, the Euro and the Yuan-Remimbi as reserve
currencies and the need to promote more inclusive and democratic supranational institutions, are some of the elements of urgent consideration.

In such a way that the success of the economic policies, of coordination schemes and the resulting institutional structure will be possible if a multi-polar international environment is built, conducive to dialogue and the coexistence, with shared responsibility among those with trade and capital surplus and deficit; and with rules of game strict, transparent and appropriate to global financial business, that allow to fulfill its intermediation role to favor and harmonic development of societies.
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