Editorial

Need to Redesign the International Financial Architecture

The failure of the global financial architecture, including the Brettenwoods institutes, to foresee and handle the global melt- down of 2008 and the Euro-Zone crisis have completely exposed the inherent weaknesses of the existing financial architecture. The twin crises i.e. the global meltdown of 2008 and the sovereign debt crisis of the Euro zone, have destabilized the global economy almost to the extent that the apprehensions of experiencing a lost decade are gaining ground. The financial stability mechanism has altogether failed to take the cognizance of the twin economic crises and these crises are beyond their capability to handle them. The existing multilateral agencies too are proving to be too small and tiny, to bail out the crisis ridden economies of the Euro-American world. The International Monetary Fund (IMF) as well as the World Bank are no more able to bail out the Euro-American economies, while they could comfortably intervene in cases of all the early intensive adjustment lending (EIAL) countries as well as in cases of all other Asian, African and Latin American countries in the 80s and 90s. The Financial Stability Forum (FSF) created in response to the 1999 Asian Crisis, and the European Stability Mechanism created recently, are also not at all, in a position to effectively bail out the world from this unprecedented crisis.

The idea of an international reserve currency to replace Dollar, Euro, Pound and Swiss Franc, for cross border payments is neither having global acceptability, nor there is any meaningful mechanism in sight, to give shape to such a reserve currency. Even the proposal of evolving a single treasury of the European Union is also not finding buyers among the European sovereigns themselves. Then, how consensus can be evolved on regulating the financial architecture for a common reserve currency? The agency to be created for regulating such an international reserve currency, that would have to oversee the trade, fiscal balance and monetary policies of the participating countries.

Moreover, the Bank of International Settlement, the Basel Committee on Banking Supervision, the Financial Action Task Force, the International Organization of Securities Commissions and the Association of International Insurance Supervisors, all need to be integrated with this new regulatory mechanism along with the IMF and World Bank. Even if, all the components of the International Financial Architecture are integrated, then as well it would be very difficult to fulfil the aspirations of the participating countries, in cases of sharp differences among the participating nations. The new regulatory mechanism might also meet the fate of WTO, which is now due the divergent interests and sharp differences among the member in dolldrums since 1996. In light of the country specific differences in the post WTO regime the world may have to think of country specific policies, instead of multilateralism. Due to the rising aspirations of majority of nation-states, multilateralism is finding difficult to perpetuate. Therefore, the International Financial Architecture has to be redesigned with the twin objectives of sustaining international cooperation and sustainable growth with balance in international payments along with country specific needs. This needs to be addressed most urgently to revive the global economy with sustainable stability.

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