On Crisis and "Third Bretton Woods" Debate

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Abstract: Seeking a new currency system after Gold Currency System, gravitate towards a new international architecture. This urgency arises from the deep problems and concerns for the future that are created by the crisis. Actually, the reason behind the first BW system's success was hope of soldiers, who returned from army after the second war, for creating a new economy. If there is no hope today, we should seek the responsibility for this in the environment created by "Second BW" debate. This work is aiming at discussing how to look into international currency system after dealing with history before and after "Second BW" literature. Especially the status of the developing countries after crisis will be the main factor that affects the architecture of 3rd BW. As well, we should get prepared for the new currency areas and tariff, protection enforcements. We believe that when the new currency system, that is intended to be created, motivates the labor markets with its new credit mechanism, the conditions that resolve the crisis can be created.
Jel codes: F02, F15, F33, F34, F32, F59

1- What is the purpose of money? Money, as a result of its nature, answers three purposes perfectly. Medium of exchange, unit of value or unit of account (numaraire), and store of value. If the valuation function of money falls behind the circulation characteristic of that, then the problems can even increase. The characteristics of value, such as stock or store of that, are determined in parallel with other qualities. These three characteristics we mentioned are important for mediating the circulation of currency. As a result of all these, some currency is named as key currency, world currency or reserve money. This means that the stronger currency units are used more. With which criteria should we approach to the fact that a currency is a stronger currency unit? This also can be considered as the currency which constantly increases its value in use and exchange value. U.S. Dollars, after Second War, is the reserve currency which increased these characteristics. The place of Euro in the World Economy after year 2000, is actually one of the general results of 1958 convertibility of European currency. For

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Japanese Yen, the significance of it as a credit money (medium of exchange) is more important than its status as a reserve money in Far Asia. As Eric Helleiner stated, Chinese Yuan (remninbi) is the closest currency unit to be a reserve money after the currency units we already mentioned (Chin G. ve Helleiner E., 2008). It should not be found strange if Ruble takes that position in the future. The extension of People's Republic of China after 1977, increased the yearly growth and efficiency rates in an unusual extent and Russia is a candidate for this position with its raw material sources, knowledge and armament. Mexico, Turkey, South Africa, Argentina and Eastern European countries, after Brazil, Russia, China and India, have a delicate position for restoring capitalism and for executing the functions of money as exchanging, valuation and storing.

When their shares in IMF and BW enforcement are considered, we believe that if the World Economy will be restored by the extension of developing countries, it will start from these countries and expand to the rest. Because according to Mishkin (Mishkin, 2007), the following steps should take place for the functions of money as medium of exchange, unit of account and store of value are fulfilled and to be superior to other currencies. First of all, there should be no problem regarding efficiency. The three function of money is developed as currency that can increase surplus value with the increase of efficiency in capitalist production relations. Since this fact advances with the discrepancies in production relations, it is very problematic and unstable by its very nature. Secondly, the changes in the relative prices of all commodities (inflation) should be reflected to the currency value. And third of all, the size of balance of payments disequilibrium is closely related to the value of currency. The currency of countries with an external deficit decreases

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even though the external conditions do not change (ceteris paribus). Besides the effect of tariffs and quota on enforcement, may cause revalorization of a currency against other currencies. Lastly, budget deficit or internal deficit (with savings gap), affects the value of currency negatively dependent on the size of the deficit.

The relation between value/s and price/s of commodity and therefore production is often problematic in capitalism. Especially in the periods of crises, the relation of value-price fails more. Since the problems in currency as unit of account, resulted from these, brings the problems in payment systems, the functions of money as medium of exchange and store of value becomes problematic too.

2. Disequilibrium in economy are measured with money but crisis are not!

Crisis or severe disequilibrium or instabilities and wars (the biggest depression) always resulted in new expansion in world money system (For stating some periods McKinnon 1993).

1879-1913 **Gold Currency** System is the product expansion of Great Britain to the world (globalization) after 1873 depression.
1945-1971 Bretton Woods: Adjustable Peg System. It is the product of conditions after Second War (actually even before the war ended).
1973-1984 Fluctuations *depending on the floating dollar exchange*. Enforcements after Vietnamese War and the Arab-Israeli War (Middle East)

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1985-1992 Plaza agreement *to re-establish a fixed rate system in terms of key money.* Recession in the early 1980s and after Latin American external debt crisis

1979 Establishment of the European monetary system*:* Efforts to resolve the effects of uncertainty in the Exchange rates

1991 Equ*,* ***1999 Euro*** *(unit of account)* ***2002 Euro in circulation***: It appeared as the first biggest "currency area". A very big step in integration of Europe and monetary union: It has a characteristic of reaction against key currency such as U.S. Dollars and Yen.

1990-2008 Second Bretton System: Growing trade volume based on the fixed exchange relation between U.S. and China; and towards the Great Depression after 2008.

Secondly, as it can be understood from the following Formula, three main points deeply affects a candidate of world currency. For instance, private savings in the Keynesian sense, which is known to play an important role in the accumulation of value, with their following form as a financial indicator, helps us to understand internal and external balance, or disequilibrium of the nation-states

Sp= Y – T- C Sp=private savings, Y=national income C=Consumption

Sg= T- G T=taxes G=government expenditures

S= Y-C-G= (Y-T-C)+ (T-G)= Sp+Sg

Sp=I+CA-Sg=I+CA- (T- G)= I+ CA + (G- T) (savings gap or oversaving)

CA= Sp- I- (G-T) CA=Current deficit G-T=Budget deficit

Money stages which means creating Meta and more plus value, can not process in a constant and stable manner from all three perspective in the periods when the disequilibrium stated above deepens (Krugman, 2006)

If you have a savings gap, you have the Money which is in danger of loosing its characteristics of storing value. This is the basics. Without savings, there can not be investments and therefore meta subject to exchange value can not be produced or can not be produced in a sufficient level but will jeopardize the future. When the characteristics for storing and exchanging value, are in danger, it can be said that the characteristics of numaraire is also in danger or at great risk for the last time and effectively. These three malfunctions will not only hinder being the World currency but will also lead to crisis. Is crisis resulted from production or consumption, or finance and trade that compose the circulation relations? I think in the background of all these, production relations lies but we can not fully understand the latest globalization process and crisis if we do not consider the circulation, i.e. the developments in finance, and factors shapes currency trading.
We can now continue by examining the historical context of this fact.

2-Search for an International Monetary System: Historical Trend

The search for an international monetary system first formed in Great Britain in the 19th century, with the discussions between Banking School and Currency School. The reason behind this fact is also the reason why the search for World currency started in Great Britain. In 1750's when the production for other countries started in there for profit

making, they realized that the meta money can not handle current export and import relations. Therefore, historical background for the quantity theory of money is discussed from the perspective of these two schools. The views of Currency School, which is based on the logical deduction that if you coin into money for 100% gold, there will no inflation since the money will create exchange value, is close to the view of Monetarists today. Actually, Currency School is the origin for the quantity theory of money. In other words, trend for full employment equalizes the demand for money to supply of it and crisis is impossible. It is the version in which Say's law is applied to monetary relations.

On the other hand, through 20th century, the suggestions of Currency School fell behind Banking School, in other words, as Torren, Mill and Tooke (http://cepa.newschool.edu/het/) from Banking School argued, first the prices of meta increased and after that supply part of quantity theory of money operated and supply for money is arranged accordingly. As a result, the choice of adjusting the supply of money to inflation, make the circulation of banknotes easier. Easy circulation of banknotes could manage gold currency system with problems between 1879-1913. On that stage, while the money coined are adjusted to inflation or increase in the prices of other meta, crisis arose. After war, Gold Monetary System had to be abandoned by countries except U.S. and a few countries (Şişman M.,2003). All these developments first strengthen the position of Sterling as a world currency but then a room had to be opened for U.S. Dollars. Search for a monetary system between two world wars receded by countries becoming introversive.

Bretton Woods (BW) currency system, which arose as a response for the search of a system alternative to the gold currency system failed

after 2nd War, has three main characteristics. First of all, gold was again becoming a medium for international value store but U.S. dollars turned into money "as good as gold" with its attribute of being the second convertible currency after pound sterling A fully convertible currency is in an important position for mediation in international settlements. After war U.S. had all the qualifications of a fully convertible currency that is conforming for reserve currency and international mediation. Secondly, in 1944 35 U.S. dollars is accepted international parity for 1 ounce gold with the decisions made in the meeting in BW town of U.S.. Third and last, foundation of IMF and World Bank in order to regulate the foreign exchange rates and short term deficits.

By conferring on IMF freedom for devaluation up to 10% was given to the countries which has (chronic) balance of payments deficit (short term). Thus the country with current accounts deficit obtained the opportunity to close the deficit by reducing the export costs and increasing the import costs. Devaluation was made against U.S. dollars and if there is current accounts surplus, there was no suggestion to make a revaluation. Governors of the country anticipated that they will not confront a sanction when there is CA surplus but in order to meet the CA surplus a process of adaptation the exchange rate adjustments to other prices will be suggested and this pegged rate will systematize capital flows.

In 1945, it is announced that U.S. and Canadian dollars transferred to full convertibility. For, it was controlling 70% of the world gold reserves when the war ended. This power with gold, maintained the central role of dollar in international monetary system. Great Britain, the country of previous world currency, sterling, became more and more dependent to

U.S. loans for food and raw material importation and therefore had to accept the suggestion of U.S. in BW conference (Evans T., 105) In 1958, European countries other than Great Britain such as Germany, France and Italy, which was convertible before, announced full convertibility. Japan, which was regaining financial power and had high efficiency rates on those days, passed to full convertibility in 1964.

As a result of the problems in their economy, the currencies of developing countries could not be convertible until 1990's. Therefore, two dilemmas of BW system revealed around 60's. Expansion of countries with CA surplus against the countries with CA deficit increased the disequilibrium. Second, the currencies of developing countries met the currency areas like U.S. Dollars, Deutsche Mark and Japanese Yen other than Great Britain pound sterling. The problems in the U.S. Dollar economy. Since it did not expand in the same rate in all countries and there is always tendency for crisis, the first BW system became successful to some extent in 20 years after System was announced. As a reserve currency addition to U.S. dollars, sterling and franc, two new currencies arose. Deutsche mark and Japanese Yen

SDR application, is a unit of account put into use in 1970 in U.S. (with contribution of President Johnson), as a result of difficulties in dollar and gold reserves from the mid-1960's. It is created from U.S. Dollars, Deutsche Mark, French Franc, Japanese Yen and British Pound under the name of Special Drawing Rights (SDR) The country, that wants to use key currency which is determined to avoid failure of international liquidity, could use the key currency (dollar etc.) by giving SDR for its quota in IMF (Hormats, 1987; 17,18) Today SDR, which is suggested for being used again as a reserve money by Chinese Central Bank, is

mainly used as Dollar since 1970's and is not effectual. SDR, which is not used in trade and banking sector other than central banks and for liability opportunities by governments, is not considered as suitable for applications. On the other hand, U.S. dollars, which depreciated in a certain band against European currencies with the attempt of snake in the tunnel in 1971, became floating currency after 1973. It was thought that since IMF and World Bank fell behind in the intervention to fast speculation and movements of currency (Kindleberger, 2007, 290), fluctuation or flexible rate system would facilitate the work of these foundations. The intention in entering Bretton Woods system was to control hot money or speculative currency flow, that corrupts national economy polices, to some extent.

However, while the system was working, hegemony of U.S. was felt with all its oppression. This fact also revealed convulsive conditions for BW system. Inversion of the convertibility of U.S. dollars to gold, decreasing profit rates from late 1960's, Vietnamese war and its aggravated circumstances (inflation etc.) followed and in 1973 BW declined On the other hand, Euromarkets which appeared in 1950's ended American hegemony in international finance markets in 1960's. European Monetary System that was created in 1990's, moved to 1999. Euro stated as a physical currency unit in 2002 and today it is used in 16 of 27 European Union countries as official currency unit and in other European countries it is effective as unit of account. Since the search in Asian countries continues and external disequilibrium in countries in Southern America; 'catastrophic liquidation' conditions in dollar's international value continues (Gill S., 1993, 92-97). To apply independent macro economy became difficult as well as short term currency flows

and illegal financial flows could not be controlled by advancing technology. (Helleiner, 1993, 38-39).

In summary, a short history of monetary systems debate shows us that since Bimetalism (beginning of 18th century), money is the source of problems in production and in addition the logic "bad money drives out good" as stated by Gresham still works and this fact increases international trading disequilibrium and money problems. The single metal (gold) system for which the discussions started in 1810's; the difference in understanding of Currency School which is identified with the views of Monetarism-Neoclassicism School that wants to limit money supply from the beginning, and Banking School which suggests money supply according to the need in the market, still continues. In the Gold Currency System, which is applied between 1879-1913, the effect of Currency School can be seen. In the subsequent Bretton Woods system, the views of Banking School, which complies with the views of Keynesian School, is more effective. Today Central Banks now in which domestic currency is issued, predetermines the money supply according to growth, bound by the prediction of Banking School. According to Kindleberger, difference of opinion on money supply that goes back to 17th century still continues (Kindleberger, 2007).

In the debates for 2008 World Crisis and then World Monetary System; SDR, which is applied in 1970's similar search for a new, single, independent currency unit as suggested by Keynes n 1944 but which could not be successful, is clearly mentioned by Chinese Central Bank (Financial Times, 23 March 2009). Besides if the suggestion for SDR is not accepted, there is a suggestion of Russia for regional

currency called “Avras” for Asian countries, especially for China, Kazakhstan and Turkey.

3- “Second Bretton Woods” debate and Crisis:

Dooley and others approached differently to floating exchange rate system which is claimed to be applied since gold dollar parity had been abandoned in March 1973. In the last 15 years that financial deregulation became widespread, the developments in the environment created by the countries with high trading volume such as U.S. and China got more complicated. Undervalued currencies arose in developing markets in Far East that benefit from the global investment environment. Proceeding from the lesson they took from 1997 Asian crisis these countries continued to have a surplus in current accounts by intervening exchange rate system in order to market in-country production to abroad, especially to countries which are open to capital movements and by expanding export with their undervalued currency. Naturally, although the same exchange rate was not applied in all Asia, undervalued exchange rate policy still continues with different versions. High foreign exchange reserves are in the size of foreign trade surplus of these countries (Dooley, Folkerts-Landau and Garber, 2003). A significant part of these reserves are invested to U.S. long term bonds. These countries have structure based on trade balance. In the background of this structure, Far East countries are known as producing and saving countries and at the same time they are known as high foreign productive investment areas (see table 1).

Table 1. Disparity among TFP levels remains wide

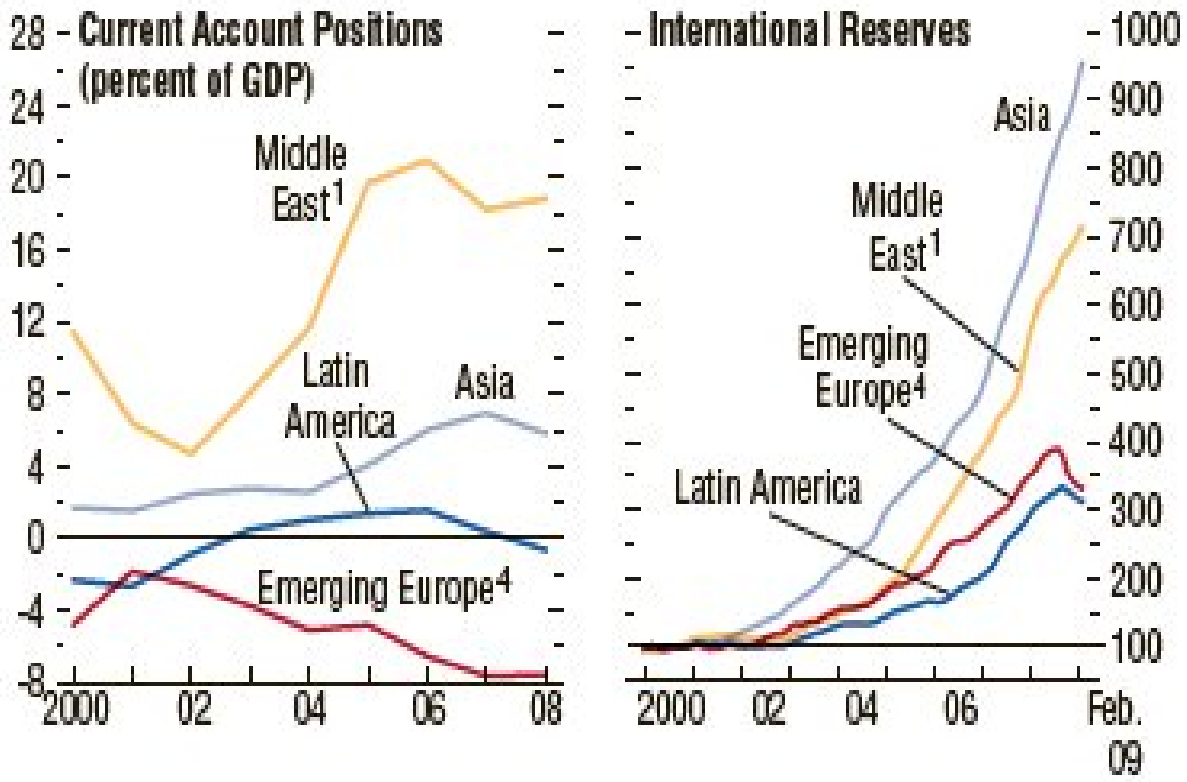
	TFP relative to that of the United States, 2005	Annual TFP growth, 1990–2005
Regions	*(index, U.S. = 100)*	*(annual percentage change)*
East Asia and the Pacific	8.4	5.1
Europe and Central Asia	21.7	2.2
Latin America and the Caribbean	19.3	0.2
Middle East and North Africa	13.3	0.5
South Asia	5.8	2.3
Sub-Saharan Africa	5.6	0.2
Income groups		
High-income OECD countries	77.1	1.3
High-income non-OECD countries	53.1	0.7
Upper-middle-income countries	23.7	1.2
Lower-middle-income countries	9.6	3.2
Low-income countries	5.2	1.7

Source: Poncet 2006.
Note: OECD = Organisation for Economic Co-operation and Development; TFP = total factor productivity.

On the other hand, U.S. is in the 'World System' as a country based on capital account with a high current accounts deficit and savings gap (i.e., based on consumption economy). We are of the opinion that when current deficit of U.S. is compared to far Asia's current surplus, it is possible to argue that increase in the velocity of circulation of the currency mentioned in the first part determines the international currency system by predominating over valuation function of currency. The countries other than U.S. with current deficit such as Turkey, Spain, England and Eastern European countries are joining to the process by an expansion predominated by capital account. While in Asian countries, especially in Japan and China, predominated by trade account,

exchange rate reserves are continually increasing (see figure 1), the countries predominated by trade account presents a structure binding to capital flow from abroad (Şişman M., 2008).

Figure 1: International Reserves and Current Account Positions



Source: IMF, WEO, 2009

This mechanism works with the results of Washington Reconciliation that foundations like IMF, World Bank, U.S. Treasury Department, The Wall Street and WTO reconciled. As in the first BW, exchange rates are dependent on the interest and foreign exchange transaction decisions of Central Banks. Although there was not any official agreement, this system is called as "2nd BW" by Dooley and others. Because, there had been a world currency system predominated by a rate system called managed floating and similar to pegged system applied with Bretton Woods. Besides, although the role of IMF and World

Bank as BW foundations had declined, they still affect macro policies and credit systems.

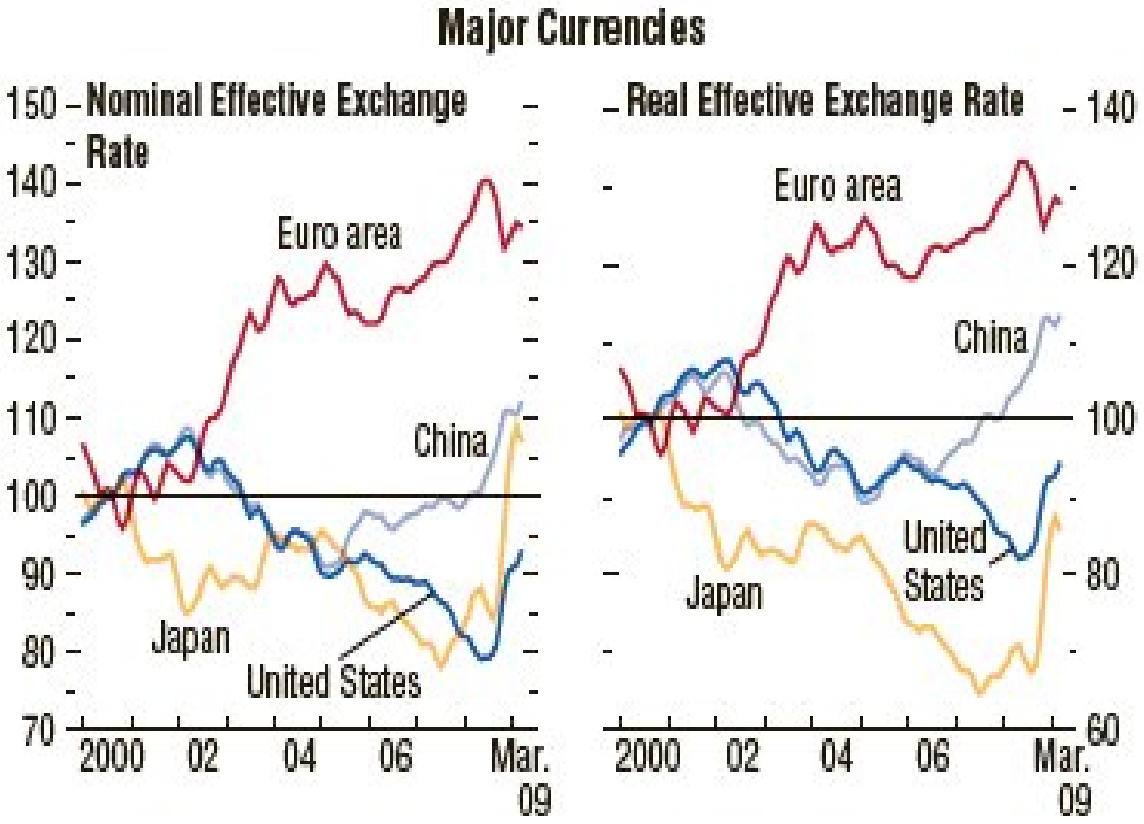
According to an econometric study made by Saxena in BIS (Saxena,2008), even if independent monetary policies in developing countries determines foreign exchange rates as more flexible with financial deregulation implementation, not entirely a floating exchange rate but a exchange rate system, in which capital and amount of foreign exchange are effective and in which interest rates determined by the central banks decreases, is confronted. . Impossible Trinity Hypothesis, which states the argument that fully free capital movements and pegged rate policies as the results of financial deregulation and Washington Reconciliation contradict with independent monetary policies, opened up for discussion. Again here, according to study of Saxena from BIS, independent monetary policy is based on interest rates of U.S. FED from 2000. Therefore, 2nd BW system as in first BW manages international monetary system this time with a different medium, with interest rates, through U.S.. In the first BW, pegged rate mediated international settlements through gold dollar parity. 2. Function of international mediation of currency is constituted by the relation between FED interests and domestic inflation targeting in 2nd BW.

For developing countries, the achievement of inflation targeting policy, which aims at shaping the inflation rate in domestic field in accordance with the expectations, was at the same time measured as real achievement of central banks in developing markets (Saxena,2008,95). This achievement is actually dependent on the developments determining the exchange rate in long term. In other words, while in short term interest arbitrage is determinant in the centers

like U.S. and Japan (carry trade), in long term efficiency level, balance of payments deficit, tariff and quota treatments and relative inflation levels of countries will be the actual determinants on their own currency. Present capital movements can only postpone this valuation process. (Mishkin, 2007, 161).

So, let's state the problem after the 2008 world crisis. The currency of the countries, which attract high capital flows with financial deregulation, was in a different valuation process against reserve money, dollar (as you see Figure 2). By supporting their own currency over their purchasing power parity or undervalued below purchasing power parity by being trade-oriented as in Asian countries, they approached floating exchange rate rather than intermediate regime implementations in which they choose to determine their currency as over valued In terms of exchange and interest, transition from intermediate regime to exchange rate regimes necessitates more in 2nd BW than first BW to get involved in the economic area determined by the state policies predominated by U.S. and G7. U.S. interests as a main power governing Center or G-7 countries, became a directive for capital and money-capital movements from Center towards periphery. If the inflation fluctuates in domestic field, the interests should be balanced by increasing them.

Figure 2: Nominal and Real Effective Exchange Rates

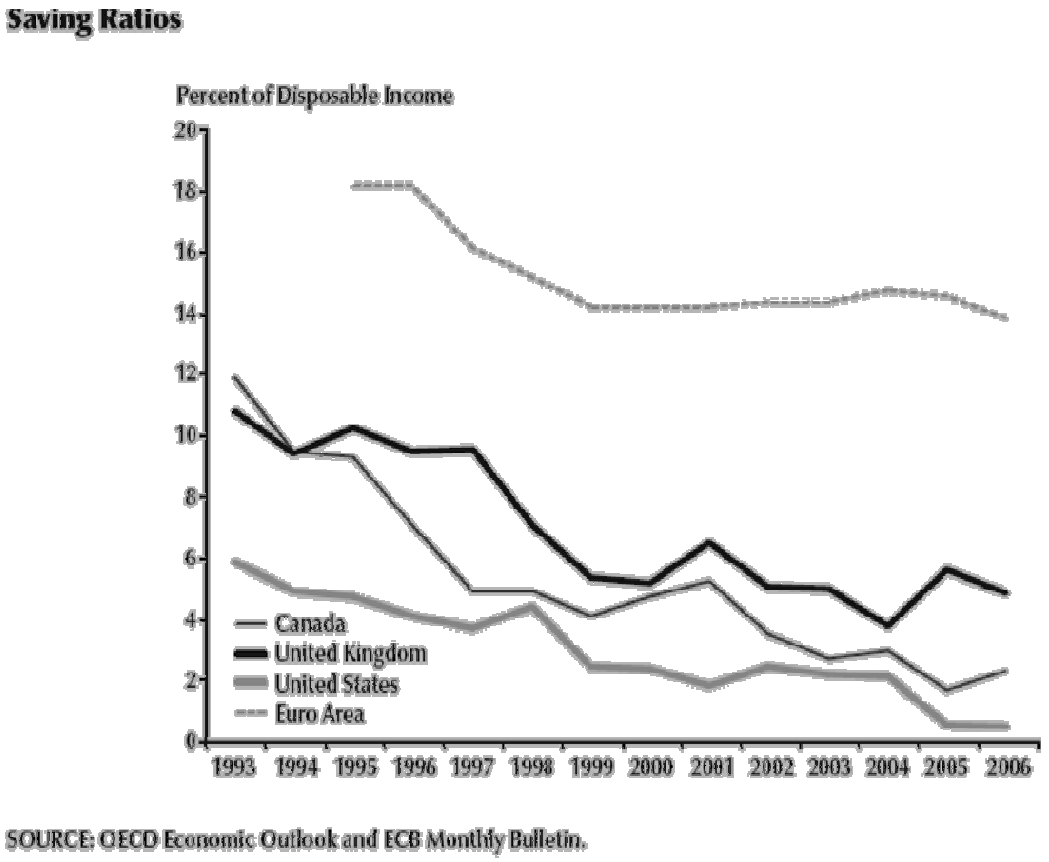


Source: IMF, WEO, 2009.

After Fed 2002 with the interest rates that moves from 1 to 5, both the economy should be disinclined and current accounts should be balanced against China and possible increase of inflation should be retrained. However, the fixed rate, also known as "2nd BW" , between U.S.-China was preventing this. On the one hand the rates of debts-income increasing in the country (as a result of mortgage), on the other hand the decreasing saving ratios ended "2nd BW" (see figure 3-4). On this level, especially increasing interests for household debts based on subprime in the real estate markets in United Kingdom and U.S., both decreased the value of estates and made repayments more difficult, immobilized the circulation and became the trigger for current crisis

trend. Although the interests get closer to 0%'s in G-7 countries, especially in U.S., still there is not enough recovery.

Figure 3

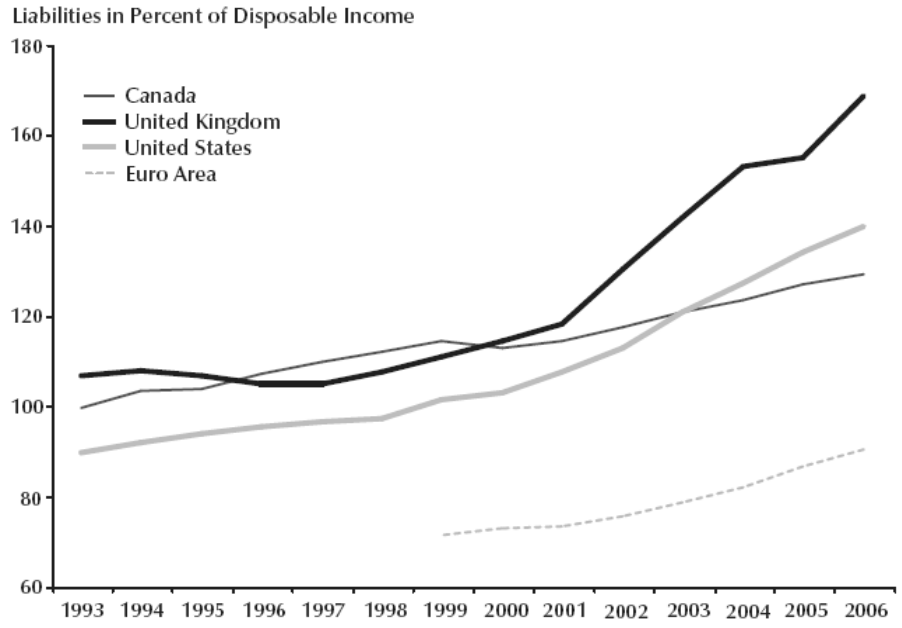


SOURCE: OECD Economic Outlook and ECB Monthly Bulletin.

As shown in Figure 3, savings drain in UK, Euro Area, Canada and especially in U.S. (six of G-7 is here). This fact also shows that along with the valuation and exchange function of money, the function of storing value also declines and strengthens the search for a new monetary system.

Figure 4:

Debt to Income Ratios



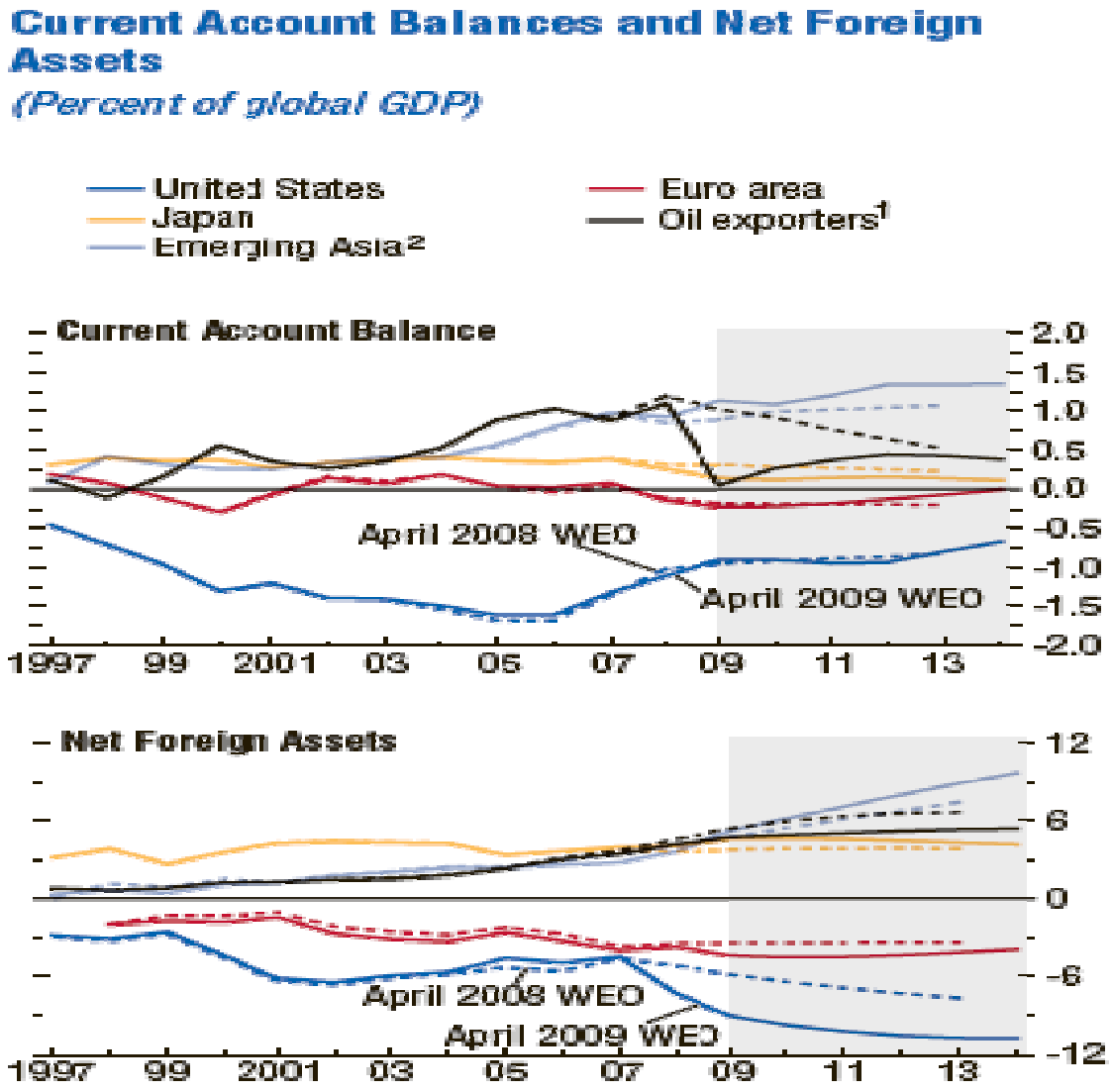
SOURCE: OECD Economic Outlook and ECB/Haver Analytics.

On the other hand, the problem is not only primarily mortgage contracts and derivative papers based on these agreements that are shown as toxic. According to the OECD especially in United Kingdom, and then U.S. and the Euro Area, the debt levels of households and government showed solid growth in excess of one and a half compared to early 1990s (see Figure 4). This fact is another indicator that 2008 crisis will take a long time with similar tendencies to Great Depression '29.

2-Why "third BW": What can be done?

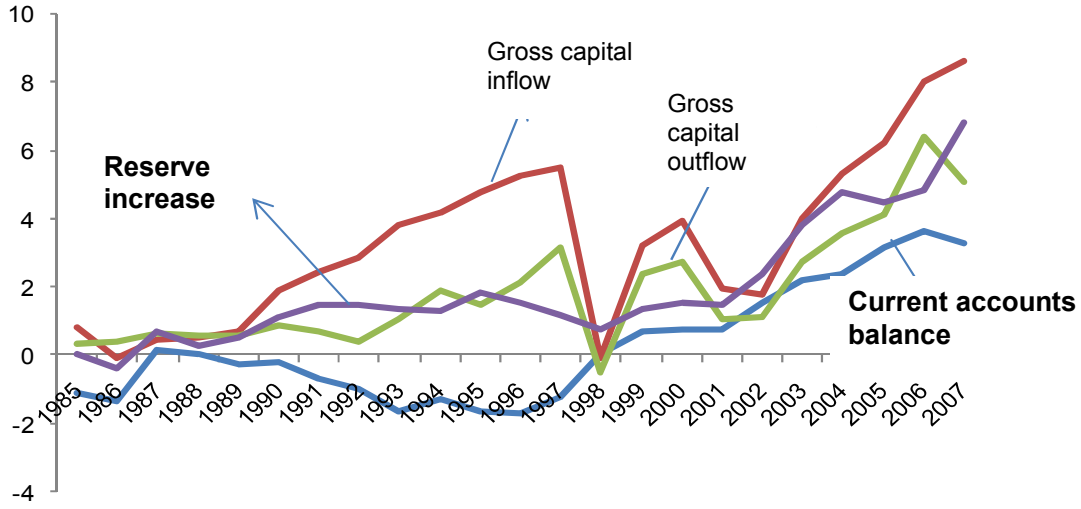
In today's world, there are not appropriate conditions neither for first BW nor for second BW. As it can be seen from the graphics 5-6 below, the inflow and outflow of capital to and from developing countries are in a size that was not seen.

Figure 5:



Source: IMF, WEO, 2009, April

Figure 6: Gross Flows, Current Accounts Balance and Reserve Movements
(As a percentage of GDP of developing markets)

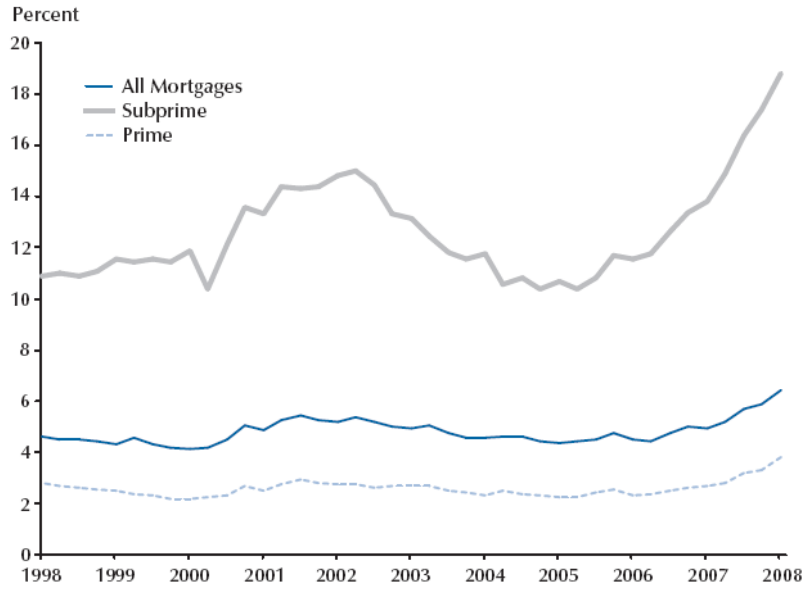


***Source*: International Monetary Fund**., "World Economic and Financial Surveys: World Economic Outlook; Globalization and Inequality", pp.1-29 , October 2007

The crisis that started in U.S. and other Central countries, deeply affects the current capital movements. Especially in U.S. the crisis triggered with the problem of mortgage (see figure 7), means that one third of U.S. national income will be governed by the state with the intervention of FED.

Figure:7

U.S. Residential Mortgage Delinquency Rates



SOURCE: Mortgage Bankers Association/Haver Analytics.

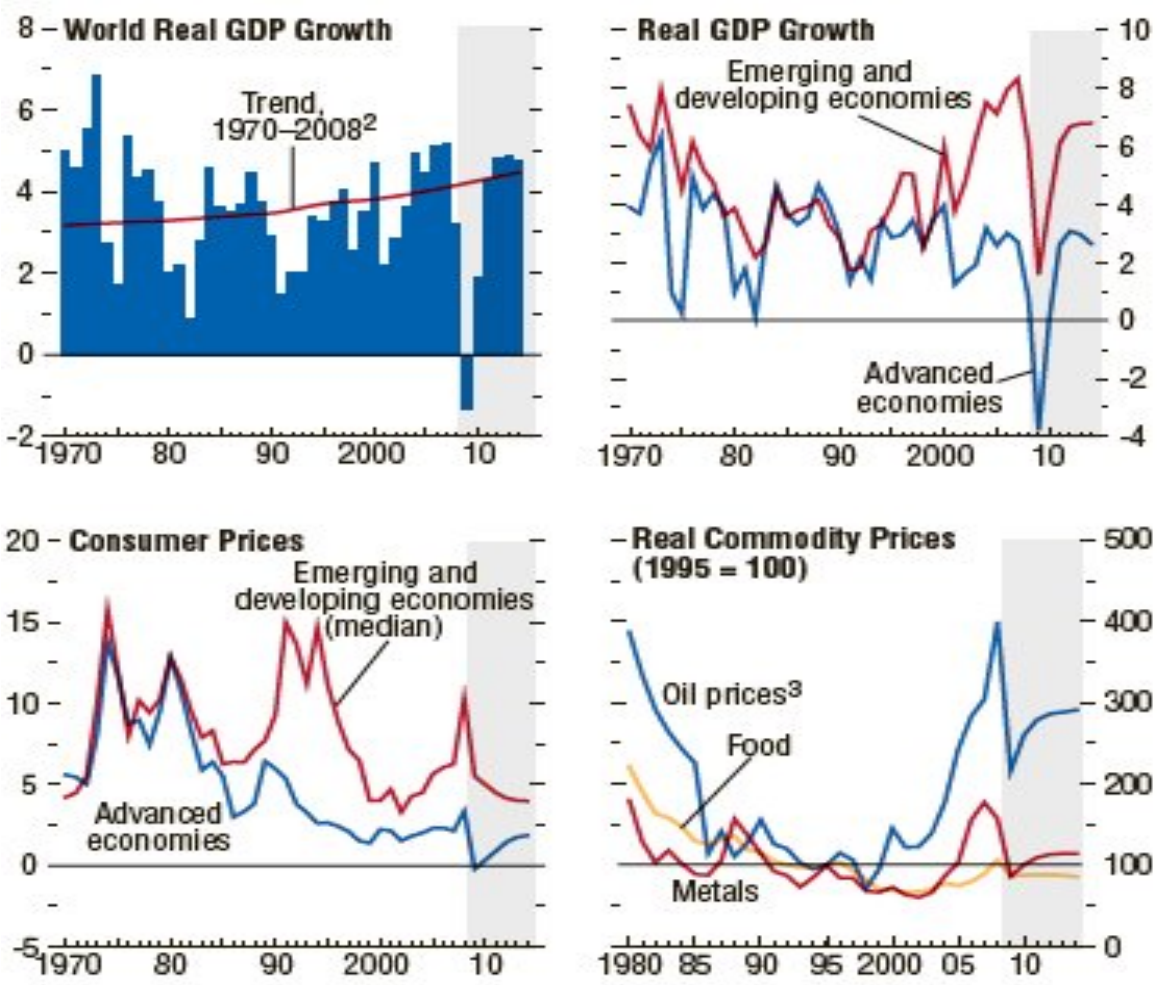
Particularly in China, Japan, Russia, India and Brazil, and similar developing countries (Taiwan and South Korea can be added to them) the question “where the accumulated dollar reserves will be invested” is observed to be the fundamental question for determining how to resolve the 2008 crisis.

The existence of both Asian money-capital (reserve accumulation) and the World Crisis points out Disproportionality Crisis mentioned by Simon Clarke in reference to K. Marx. Since world income distribution is disrupted, no matter what the amount of money (liquidity) is, the excess of supply after demand is reflected as a result of production disproportion in the world (Clarke, 2007, 150).

> “If the main problem is the lack of equivalents for the commodities can be exchanged, this lack, regardless of the amount of money, can not meet. Because what is needed is not money but the equivalent of capital in the form of commodity created by the increase in production. Trying to overcome the crisis by coining unlimited amounts of money, in this particular case of crisis, studied by Marx, will not do anything to eliminate the reason lies in disproportionality of production but only provoke the inflation” (Clarke, 2009, 148)

Like all crises, the crisis in 2008 is understood as money problems and reflects from there but in the end they are production crisis (see figure 8).

Figure 8:

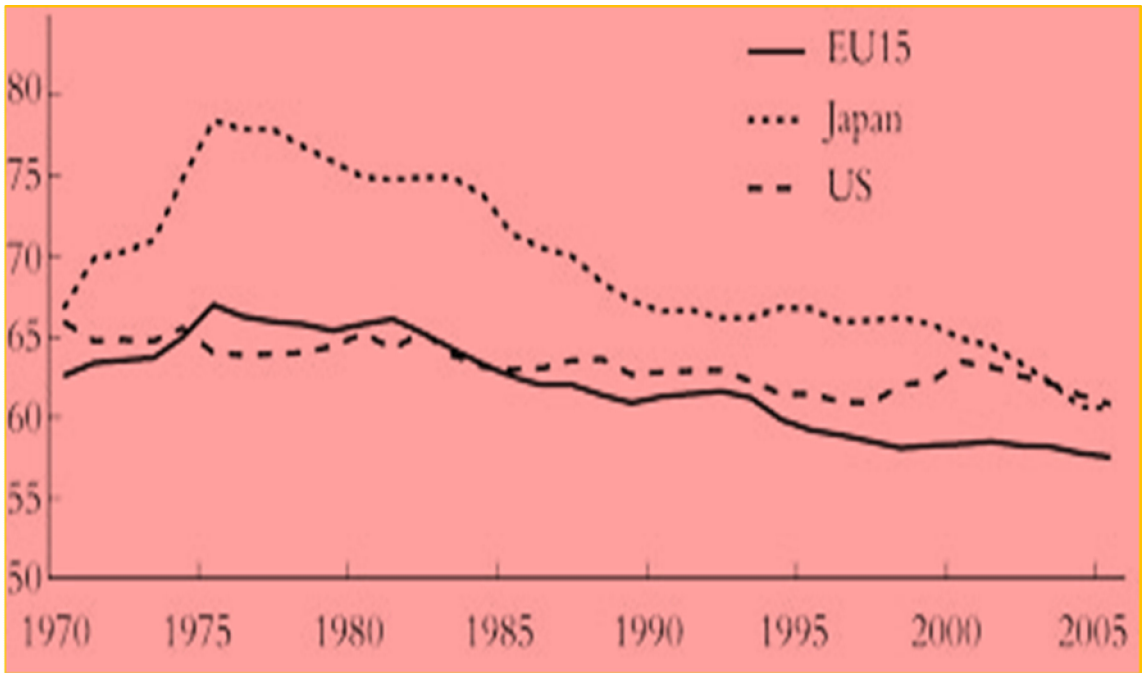


Source: IMF, WEO, 2009, April.

Therefore, Walrasian General Equilibrium Theory, which is used by Orthodox theorists to explain general balance and that does not deal with money markets (financial) different from the commodity markets, does not help us understand the crisis. When, financial processes that are used by Heterodox economists to explain the contemporary economic crisis, the importance of the credit markets (Dymski, 2008, 50-51) for circulation, valuation and storing, is also clear for other markets. "When creating 3rd BW", a model that evaluates labor-money-meta (commodity) markets in terms of the credit markets.

The relationship between labor markets and credit markets in fact; emphasizes the relation between production increase (because of increased investment) and wages. In terms of efficiency-wage increases, what happened before the 2008 World Crisis is similar to that before the year 1929 (low inflation and high real estate indebtedness are not the only similarities of course). Between the 1919-1929, in manufacturing industry output per worker increased by 43%, but wages, prices and costs remain constant, has not increased in any circumstances (Galbraith, 2009, 182). In 1990s similarly, increased efficiency is not reflected on wages (see figure 9).

Figure 9:The wage in GNP (%): EU 15, Japan and US



Source: OECD

Accumulated capital flow from central countries to the others in order to create new profitable areas. Although inflation decrease at the center, unemployment did not decrease, and at the same time, rates of household debt (see Figure 4) increased, savings decreased parallel to increasing unemployment. As the U.S.-China relations, this fact disrupts

the productivity-wage relationship by positioning one side as a great producer (China), the other side of the excessive consumer (the U.S.).

Moreover, according to the NYT news (NYT, 14 March, 2009) China explained its suspicion for refund and value of U.S. bonds of 682 billion dollars by their prime minister. If China decreases loan or U.S.'s chance to contract external debts is under risk; it can be said "the second BW has collapsed" for two results. First; the possibility of an increase in U.S. interest rates, will reduce the value of long-term bonds that is in the hands of China. Secondly, the rise of U.S. interest rates does not risk only the long term, but also deepens the current crisis in the United States. This fact is also bad news for the China that sell goods to the U.S. and therefore expands its by having surplus, and puts Chinese economy at risk. This stalemate status is the proof for decline of "Second BW". Therefore, it is worked on third BW.

According to the China's view issued in Financial Times, China suggests a single currency unit that will be less problematic for recovering world trade (FT, 23 March 2009). Especially created by the IMF in 1969, SDR (Special Drawing Right) is proposed unit of account. As we tried to explain in the first part of this work, the functions of dollar as valuation, creating circulation value and reserve value of it (accumulation) seems problematic

As a result of these economic relations continued to accelerate during "Second BW", the possibility to allow interest rate in order to neutralize inflation and manage movements of capital, is slowly die out and Crisis (The second great depression) has burst. When the interest rates became dysfunctional, the functions of money as medium of

exchange and valuation also collapsed. In order not to let the storing function of money, a new international monetary system was discussed in a G20 meeting. **G20 Meeting** which took place in April 2, expanded IMF's financial resources. In order to increase world trade, IMF allocated funds. Brought auditing to finance sector. Hedge funds, tax havens, credit rating agencies and the wages of executives of banks will be audited. Nonetheless, these measures does not reduce the anxiety of China. A **convertibility** decision is expected for **Chinese Renminbi** (yuan). This will not be difficult since China already exports capital to Far East and Latin America. Yuan might be reserve money in the near future.

I believe that the efforts of regional trade and industry areas for a common currency other than dollars will continue with a prediction that the conditions for Optimum Currency Areas (Mundell, 2007) will be realized in the regions close to each other; and regarding this, "3rd BW" debates will give a direction to the relation between labor productivity and currency areas.

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