

Iowa High School Model United Nations
Legal 2
Standardized World Monetary Policy
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The increasingly integrated global financial system also implies that the goal of price stabilization cannot be effectively achieved in isolation without taking into account exchange rates and the policies of other countries. Whether we like it or not, cooperation among the major economies becomes more and more important in order to avoid excessive or undue financial volatility and potentially disruptive shifts in international capital flows. - Johnson

Background

“The current crisis is global by nature but regulation and supervision are still based nationally. Not a single financial system today is an island to itself, so what should we do? The answer is to cooperate internationally.” (Min, 08) These are the words of Liu Mingkang, a Chinese regulatory official. His call for international cooperation is by no means unique or unwarranted. A variety of issues have plagued the international banking and currency systems, and domestic banks feel the crunch. Beyond the economic problems, disputes over how the international markets should function has at times created diplomatic friction, and at others helped nations find common ground. In all instances it is undeniably important, especially given the current financial crisis.

There have been some attempts to create standardized monetary policies. The most successful has been the European Union’s European Central Bank which administers monetary policy over a fifteen nation “Eurozone.” The participating nations organize a common policy and use one common currency. The euro has also had the indirect consequence of building political and cultural, as well as economic, unity. “The adoption of a single currency, while not strictly necessary for the creation of a monetary union, might be seen—for economic as well as psychological and political reasons—as a natural and desirable further development of the monetary union. A single currency would clearly demonstrate the irreversibility of the...union...(MUNDELL, 02)”

The problems of the euro also provide a perfect case study in the difficulties of monetary cooperation. Several major nations in the EU including Great Britain, and Sweden have opted out of the euro. This underscores the reluctance found in many nations to cede economic control. Some concede this right to “monetary sovereignty” to be one of the most fundamental rights of the state. “One of the hallmarks of national sovereignty throughout the ages has been the right to “create money”—that is for the sovereign to lay down what is or is not legal tender, to require that it shall be accepted in settlement of debt within the country’s borders, and to maintain the sole right of issuing this national money.” (Hirsch, 22) Until recently this strong nationalist tendency has stood in the way of international cooperation on monetary issues, but the recent crisis has led to greater movements in that direction. (Grier, 08)

What has been done/Past UN Actions

Most action on the topic has been done outside of the UN. Individual nations have central banks that determine set monetary policy. Some informal organization has occurred among these national banks to coordinate policy, and help keep inflation low, or to respond to global crisis. The US Federal Reserve, for instance, lead a world wide

coordinated rate cut on October 8, 2008 in response to the global crisis. This sort of multilateral coordination is often short-lived and almost always falls outside of the UN.

On the other hand, the UN is involved through the World Bank and IMF. These organizations lend out money and offer advisory and monitoring assistance to developing nations. These banks make suggestions to borrowing nations on what it considers to be growth-fostering policies. This practice is however controversial, as development loans may be refused if the suggested policies are not adopted. Some have suggested that this is not only a violation of national sovereignty, but is also counter productive (Toussaint). Defenders argue that the reforms are necessary for economic progress to continue, and further point out that the receiving nations have the right to refuse the loans

Possible Solutions

The first solution is to do nothing. The IMF and World Bank could continue to issue conditional loans and consulting services to developing nations in need of assistance. The UN could continue to maintain limited involvement in monetary policy, and multilateral coordination could continue outside of the UN.

A second option would be to significantly increase UN Involvement. The UN could attempt to establish a central bank in the fashion of the European Central Bank. The UN could also push for greater regulation of international financial interactions. The recent credit crisis showed with frightening clarity the interconnection of not only global business, but global banking. Some saw this as proof positive that there was a need for some international regulation of the financial sector.

The third option is for the UN to get out of monetary policy entirely. The World Bank and IMF could stop advising and monitoring activities all together, and the UN could refuse to regulate the market, or coordinate monetary policy. Some would argue this would be better for developing nations as the WB/IMF has had little success in bringing nations out of poverty.

Questions to consider

1. What is the appropriate role for the UN in international monetary policy?
2. Is the World Bank/IMF's use of conditional lending beneficial to developing nations, or a violation of sovereignty?
3. Should there be a Global Central Bank?
4. Should there be Global Regulation of the Financial Sector? Who would manage it? Who would pay?
5. Is it the UN's role to prevent global crashes, or promote growth, or just to stay out of the way?

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