Sink or Swim
It is Time Ripe to Move in for
An International Monetary Policy and Financial Stability Policy Coordination Mechanism

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ABSTRACT

A new debate on revisiting global surveillance architecture follows every financial crisis. A new 'system' surfaces and fast transforms itself to a 'non-system' or even an 'anti-system' as it fails to pass the fundamental test of taking care of every sect - the powerful and the hapless. The mighty minority (the powerful and the rich), attempt to hijack the fate of the miserable majority at each turn. With the inherent resentment remaining within the whole of society, such 'Top-Down' approach of decision making is evidently not succeeding. It is hence time ripe as ever to test the efficacy of a newer configuration – the "Bottom-UP" structure of international policy making, in which the concept of hegemony – whether regional or global – benign or malign - would not have any place. It will be based on the emerging ideas of Financial Stability Councils being set up nationally, comprising of national authorities overseeing the Monetary Policy, Financial Sector regulation and Fiscal Policy. This 'group' would take a holistic view of issues of potential vulnerabilities and varying secondary and tertiary economic consequences which could be generated out of intra-sector, inter-sector and inter-economy connectedness. It would be macro-financial by nature and would rely on a 'Committee Approach' to address financial stability in a democratic, effective and legitimate manner. The idea would consider financial stability to be a 'Public Good' and its delivery being a sovereign responsibility.

The national central bank supervenes as the pivot of this architecture which inspires confidence to be a possible solution to this ever-elusive problem of finding an appropriate design to address regional and international issues. Regional and Global Financial Stability Councils –a hierarchical enhancement over this 'national system' could be a possible solution for more coordinated global monetary policy and financial stability in the hope that it can reduce or even neutralize, the foreign externalities stemming from emerging markets in the regions. The idea here is a revised version of the concept of a Global Super Central Bank mooted by the Author in 2006 when the financial crisis was brewing in the US. The suggested 'coordination mechanism' remains bereft of hegemonic arrogance and would help improve mutual trust as a result, which is currently at a deficit. With 'economic progress' progressively replacing 'political poles' the idea sound very plausible. The World has no appetite for newer paper tigers. It is thus appropriate time to attempt a design of 'new multilateralism' backed by the notion that interconnection among nations will cure the evils to which it has given birth. However, the interconnection needs to be synergistically hierarchical in a 'Bottom-Up' manner. This is paramount. Nations may connect themselves as sub-regions, sub-regions as regions and eventually regions as global. US Fed tapering (instead of being seen or shown as a tantrum of a hegemon) could prove to be a facilitator of ushering in a decisive mandate generated out of collective wisdom of all. The "Chairs and Shares" mode of global governance should give way to a "CARE and SHARE" mode backed by the voice of all – of the majority and the minority alike. Let the chronology of monetary history (which has been) driven by "warfare" be steered in future by "welfare" of the human race.

Key Words: Global Central Bank, Global Financial Stability, Regional Financial Stability, Systemic Risk, International Economic Integration

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"All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident". ***Arthur Schopenhauer***

"Yes, we have won the war, but not without difficulty; but now we are going to have to win the peace…" ***Georges Clemenceau***

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Advanced countries have adopted unconventional monetary policies to combat the negative impacts of 2007-09 financial crises on their respective economies, reportedly "to avert a 1930's style of global depression". They started thinking of unwinding their measures in mid-2013 to normalize the system, (popularly called the onset of 'taper tantrum[1]'). This however resulted in panic[2] set in the counter-party economies where substantial market volatility was observed as a result of capital inflows. Such risks of monetary policy 'spillovers' are expected in the current inter-connected world. However, the dynamics of such transactions are not that simple as "it prompts a reaction. Such competitive easing occurs both simultaneously and sequentially…..and both advanced economies and emerging economies engage in it……being pushed towards competitive monetary easing" (Rajan-2014) and "and musical crises" (Rajan-2015). The channels by which these shocks are transmitted to emerging market economies are via the interest-rates, the exchange-rate and changes in asset prices. A further channel of transmission for quantitative easing has been through "the international bank lending channel of monetary policy rates and QE, through foreign banks and their effects on the supply of credit to local firms, the associated real effects in the economy and reach-for-yield risk-taking incentives……The results suggest that foreign QE affects more risk-taking in emerging markets through an expansion of credit supply to riskier firms rather than improving real outcomes of firms in emerging markets" (*Morais, Peydró and Ruiz-2015*)[3]

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[1] While one view is that "…the 2013 taper tantrum caught markets by surprise…(Nouriel-Roubini- 29 June 2015)", the other does not feel that "…. (t)he sudden increase in long-term interest rates were deliberately imposed on the world by the U.S. central bank…Friedman, Ben (12 June 2015-email)".

[2] "The prospect that the US Federal Reserve will start exiting zero policy rates later this year has fueled growing fear of renewed volatility in emerging economies' currency, bond, and stock markets. The concern is understandable: When the Fed signaled in 2013 that the end of its quantitative-easing (QE) policy was forthcoming, the resulting "taper tantrum" sent shock waves through many emerging countries' financial markets and economies (Nouriel-Roubini- 29 June 2015, Project Syndicate)".

[3] Several empirical studies examined the cross-border financial market impact of QE policies. The latest being by Chen, Qianying, Andrew Filardo, Dong He, and Feng Zhu (2015). They found that "QE measures which lower the US corporate spread have had sizeable effects, which vary significantly across regions and individual economies….. have had sizeable and widespread effects on global equity prices….end to have a greater impact on many emerging economies than on the US economy". The same work cites Neely (2010), Glick and Leduc (2012) Chen, Filardo, He and Zhu (2012, 2014a) and Rogers, Scotti and Wright (2014) to have contributed to such type of conclusions. Sobrun Jhuvesh and Philip Turner (2015) have concluded that "globalisation has linked EM financial markets more closely to

However, is it not expected as a naturally observed tendency backed by the false sense enshrined in the logic of the 'tragedy of the commons' - no individual market participant has sufficient incentive, absent regulation, to limit its risk taking in order to reduce the systemic danger to other participants and third parties – or even 'the fallacy of composition' - what is true for the parts must be true for the whole. "Indeed, in a financially globalised world, exchange rate volatility, currency misalignments and structural deficits are in no-one's interest. But ……the probability of common macroeconomic governance….seems to be very remote…. the rise of risks tend to weaken cooperative arrangements" (Delarosiere-2014)[4]. The Asian crisis of the late nineties prompted many economies to build-up a substantial quantum of foreign exchange to meet future contingencies. While it looked individually advantageous for individual countries "to self-insure by accumulating reserves", this turned out to be "an inefficient mechanism from a global perspective" (Allen and Carletti-2010)...as it sowed the seeds of the next global crisis by way of creating global imbalances. "The remarkable paradox in international finance is that the emerging markets' desire for self-insurance has, if anything, increased global risks…." (Prasad-2011) thanks to the possible collective action problem associated with this.[5]

Internalization by victimized countries[6] of the perverse externalities emitted by accused countries (while looking after their own country's interests) is the theoretical solution. However, does this occur at all times and wholesomely possible particularly in a global scenario in which economies are inter-connected? Well, possibly - 'no'[7]. Rather, it may encourage protectionism to emerge particularly, within the slower-growing economies – some which may have the

long-term interest rates in the major centres" and this could result in "monetary and other policy choices in the Ems" having faced with "new constraints'.

[4] Kireyev, Alexei and Andrei Leonidov (2015) have devised a network model that allows capturing second round network effects of spillovers that can be substantial. They find that "about 20 percent of countries amplify spillovers, 40 percent are shock absorbers….. and the remaining 40 percent are spillover blockers…" They classify the United States, Switzerland, Italy, Korea, and India as "core spillover amplifying countries" and Japan, Germany, France as major "spillover absorbers" and observe them to "bear significant responsibility for overall international economic stability. Negative shock spillovers, originated outside the core, may be successfully mitigated by coordinated macroeconomic policies of core countries".

[5] "This allows advanced economies to get easy financing for their fiscal profligacy, increasing risks of future crises. During the financial crisis, there was also a concern that if a number of emerging markets tried to liquidate their holdings of U.S. government securities simultaneously, financial markets could be further destabilized. Thus, in many ways, massive reserve accumulation makes those reserves less valuable at a time of global crisis and in fact reduces the value of insurance as it heightens global risks" Prasad (2011).

[6] "Since international monetary cooperation might be difficult, though desirable, central banks in major advanced economies, going forward, need to internalize the implications of their monetary policies for the rest of the global economy to reduce the incidence of financial crises……Ideally, source countries should better internalize the implication of their monetary policy actions on the broader global economy and the IMS" (Mohan et al-2013).

[7] "….limiting harmful outward spillovers of policies will sometimes be costly domestically. For example, it may be in the national interest of one country to lend in its currency to unhedged borrowers in another country; curtailing such lending may reduce the profitability of domestic banks and economic growth even as it reduces financial-stability risks in the recipient country. Likewise, a policy of undervaluation may spur domestic growth and may even be justified if there are production externalities at home; but the policy may nevertheless force undesirable external adjustments in other countries, and curtailing the policy may be costly for the home country. Indeed, there will be situations in which correcting policies that violate the guideposts will involve a cost to the violator (in much the same way that moving to the global optimum may take you away from the domestic Nash position, recognizing the full gamut of domestic constraints)" (Ostry and Ghosh-2013).

wherewithal to withstand pressures while the others could still be threatened with dire economic consequences. This is precisely the issue at hand[8]. Collective action is incited to resist the intensification of such pressures. Considering the divergence in performance of various economies, such initiatives are bound not to get the whole hearted cooperation of all. Further, "with a number of "global public goods" requiring consensus-building and alignment across large numbers of countries, uneven economic prospects across major players may come in the way of this" (Gokarn-2015). Rightfully, the need and hence the call for "a more coordinated global monetary policy…with both high income and emerging countries" (Freixas, Laeven and Peydró - (2015) is being sounded. Whether systemic approach to emerging risks at country level by "using macroprudential policies can reduce, or even neutralize, the foreign externalities stemming on emerging markets from foreign monetary policy from core economic areas, or whether a more coordinated global monetary policy is the only solution" (Morais, Luis Peydró, and Ruiz -2015) have captured the center stage of current economic thinking on managing future crises.

This lesson was in fact learnt the hard way during the most recent crisis. Central Bankers/Regulators/supervisors in some of the advanced economies were also misled by these fallacies. Seeing individual banks sound, they were inclined to infer that the whole system was also sound, and thus remaining ill-equipped to prevent such systemic collapse as that seen at the end of 2008. Merely ensuring healthy individual financial institution did not necessarily translate into the system remaining healthy. Individual policy decisions may spring collateral externalities which are harmful for the entire system. "The dynamics of the system itself create risks and costs that markets and firms do not – and cannot – take fully into account in their decisions and their pricing. For example, in a financial crisis individual banks will try to cut lending – to deleverage – to preserve their funds. But if all banks do that then, as we saw, the economy will suffer which damages all banks" (Cunliffe-2015).

In the similar vein, national country-specific policies could prove detrimental to the interests of other nations and the global economy in general. It need not be intentional as a part of the age-old 'beggar-thy-neighbor' policy but a genuine by-product of a globalized economy in which countries are intertwined with each other by way of trade, financial flows and financial institutions. Domestic contingencies will overpower unintended consequences of individual country actions on others and in the process policy making will miss the wood for the trees, resulting in an overall downtrend in global growth[9]. It comes as no surprise that, as revealed in

[8] "…ideally, the Fed should run monetary policy from a global perspective (by taking into account its policy impact on the rest of the world and repercussions back to the US), not simply from a domestic perspective" (Kowai-2015).

[9] "Globalisation has resulted in a high level of integration between national financial markets. This means that developments in one financial market may have broad implications for other national financial markets. The IMF (2013) highlights that the conduct of macroprudential policies in the financial market can raise international issues, including the imposition of negative externalities on other countries as a result of a lack of macroprudential policy action, cross-border regulatory arbitrage, "leakage" effects, and home-host authority conflicts arising from the supervision of financial institutions that operate in multiple jurisdictions" (Engle Robert, Fariborz Moshirian and Bohui Zhang-2014).

the long history of financial crises, a significant portion of countries simultaneously experienced a crisis including: the Baring-related panic of 1890, the U.S.-centered international crisis of 1907; the European post-war crises in 1921; the banking panics at the beginning of the Great Depression in 1930/31; and the global financial crisis associated with the Great Recession of 2007/08 (Jorda et al-2010).

In the world of finance, 'systemic risk management' has become the buzz phrase. Macro-prudential policy making has come to stay as a supplement to micro-prudential decision making. Financial stability is a public good and must be addressed by public policy. The linkage between real sector and financial sector was also exposed. Accordingly, Macroprudential Authorities have been set up to monitor the potential vulnerabilities that might surface in all sectors, namely, macroeconomy, financial markets, financial institutions and financial infrastructure. The Macroprudential Authorities also use Macroprudential tools in sync with monetary policy tools to contain their intensity of impacting the system. As their responsibilities reflect, such Authorities are in the form of 'Committees' comprising of all the stakeholders of the country, namely, the central bank, regulators of financial institutions and markets and also the Government to extend the architecture to cover fiscal space.

Considering the fact that central banks are also the regulators of the banking sector, the predominant contributor to the financial institutions segment, such Financial Stability Councils are formed with the central bank of a country (monetary policy, LOLR and regulator of the predominant portion of both the financial institutions and markets), regulator/s of the securities related segments of financial institutions and markets. Certainly, the Ministry of Finance is also listed in the group. In short, post-crisis, the surveillance architecture of financial stability management of a country has taken the form of a Committee (not one country or any other institution) including representatives of the central bank, Government and the other relevant regulators. The functioning of these Committees is generally coordinated by the central banks[10].
In the context of the macro-financial domain, macroeconomic policy and financial coordination is being discussed and coordinated via the G20, along with macroeconomic assessment and surveillance in tandem with the IMF. Responsibility for financial stability, international standard-setting and coordination lies with the Financial Stability Board ('FSB', the successor to the FSF), yet implementation is at the domestic and regional levels. Monitoring and assessment is taking place through the IMF, the FSB and through regional arrangements. But the monitoring and

[10]Why central banks? This has been by and large a settled issue. In an international survey sent to 200 central bankers and economists from 16 countries around the world in February 2010, 86% of central bankers and by 89% of economists the central bank should play an important role in macro-prudential policy, in accordance with the emerging consensus in the academic literature (Blinder, 2010; Masciandaro, 2012). This new view is consistent with an increasing part of the literature that proposes that central banks should play a key role in this area. It is also consistent with reality, since central banks became key actors in macro-prudential policy by virtue of their acute knowledge of the financial system. (Carré, Couppey-Soubeyran, Plihon and Pourroy – 2013). In a recent Paper, using a cross-sectional regression model that employs data from 124 countries, Melecky, Martin, Anca Maria Podpiera (2015) find that "placing bank supervision in the central bank decreased the probability of banking crises during 2007–12…."

assessment are still in the mode of managing the severity of the last crisis - much in the same nature of managing liquidity crisis through coordination of banks. These initiatives were organized by the central bank in the case of LTCM failure during the late nineties and again through the coordination of central banks organized by the Federal Reserve to save Northern Rock in 2007. But these are, in fact, not in the nature of a system as they look like "a patchwork" (Warner et al-2011) - piece-meal reactions to stem the furors of the crisis at hand, though there is an urgent need for arrangements that manage future crisis supported by documented systems and appropriate structures both at regionally and internationally. A call for an international coordination mechanism for monetary policy and financial stability essentially looks for an elaborate institutional architecture reflecting an inter-twined fabric of national, regional and global context.

It is by far a well perceived idea that national regulation in an era of internationalization cannot be operationalized in an independent manner. The impact of any decision inevitably transcends across other related jurisdictions. International economic governance would be required towards setting global standards to improve cross-border transparency on financial systems; institutional behavior; capital/liquidity standards; systemically important institutions; cross-border financial flows; financial crisis management mechanism and so on. This would enhance possibilities of reducing regulatory arbitrage across major financial centers across the globe.

This has been the practice under the International Monetary System (IMS) in vogue. However the fundamental characteristics of the reform proposals – whether the creation of IMF, BIS, G-7, G20, G24, FSF, FSB etc.- have taken a "top-down" financial architecture. Indeed, each incremental proposal in the wake of fresh problems have been more inclusive and better configured[11], but the enshrined philosophy remains still "top-down". The Stiglitz Commission[12] that went into the dynamics of the global crises and looked for reforms in coordination architecture has recommended the establishment of a Global Economic Coordination Council at the level of the UN General Assembly and Security Council, meeting annually. Other recommendation included the establishment of a Global Financial Regulator and a Global Competition Regulator. These are again "Top-Down" by nature. Perhaps there was no thinking beyond what is available and the purpose has been only to create alertness and try to contain any financial fragmentation tendencies (Caruana-2015). Perhaps designs of international coordination were prompted by the urge "to avoid a race to the bottom" in regulatory standards (Dell' Ariccia and Marquez (2006)). The formation of Basel Committee on Banking

[11] The new systems at IMF (FSAP, Article IV discussions with member countries) and FSB (thematic and peer reviews to monitor implementation of regulations, focused commitment of the political leadership of G20 countries) are reflective of this.

[12] Stiglitz Commission Report (UN, Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System-21 September 2009). But when the recommendations of this report were discussed at the UN in the month leading up to the UN Conference on the Economic Crisis in New York on 24–26 June 2009, developed countries blocked and obstructed most of the innovative proposals.

Supervision (BCBS) was mooted in the aftermath of the failure of the bank Herstatt in 1974 "precisely to solve coordination problems" (*ibid*).

Unfortunately, the current solution of IMS[13] were prompted by the mighty and forced on the others. Or to put it differently, the top conceived an idea and the bottom were just obliged to embrace it. Thus it lacked synergy in the right order and commensurate depth. That could be reason why benefits could not transcend geographical boundaries and crises tend to crop up at the drop of a hat and quickly escalate into a crippling state. "It is reasonable to assert that in a patently imperfect world experiencing significant financial volatility and multiple sovereignties, monetary unions provide the possibility for shared sovereignty and monetary and fiscal discipline which may have some impact on the overall stability of the international financial system (Venner-2002)". Ideally, to be operationally effective, the IMS reform should come from a competition of ideas in a "bottom-up" format–"from different EMEs and within EMEs, a complex mix of interaction between markets, nations, civil society and enterprises to balance short-term needs of employment and self-interest, and long-term needs of social equity and survival from climate change…It is the competition of a bottom-up race to solve the key problems of our era that will shape our global economy and our IMS" (Andrew,Sheng-2015).

The IMS needs to culminate in a structure having real power to make rules for effective adherence by global financial, competition entities and also regulatory authorities. A "Top-Down" approach suggesting global regulators in this same manner with changes here and there in the face of "strong sovereignty concerns that the establishment of such regulators" might raise as hitherto is "highly unlikely" (Warner and Buckley- 2011). Similarly, simple juxtaposition of national priorities and positions to redefine the needs of the globe and getting it administered by one of the current institutions like the IMF, BIS or FSB without regard to the realities that "reflect better the real world, and particularly the growing importance of emerging countries" (Delarosiere - 2014) may not also work. Even though G20 accounts for 85% of world GDP, 80% of world trade and two-thirds of world population, its legal foundation is not by national treaty or law, but essentially self-appointed and its ideas are essentially recommendatory. "…the Basel standards are only "soft law", not legally binding" (Ingves-2014). The current edifice of IMS was "assembled piecemeal in the 1980s and 1990s. Post the Asian financial crisis the Financial Stability Forum (FSF) …. So when the next crisis hit, the FSF was found wanting, and in 2009 the G-20 governments decided that a tougher model was needed – the Financial Stability Board. …..It can neither instruct the other regulators what to do (or not do) nor force member countries to comply with new regulations….In the meantime, the FSB, with all of its weaknesses, is the best we have "(The Spider of Finance, October 16, 2014).

"The recent experience in the European Union underscores that it is important to take a regional approach to financial stability……supranational oversight framework may be

[13] "In the past 10-15 years, international monetary relations have become, as in the 1930s, a free for all, in which might is right. (Pringle-2014)".

necessary…the need to reinforce regional macrofinancial surveillance mechanisms (e.g., the ASEAN+3 Macroeconomic Research Office) and regional financial safety nets (e.g. the CMIM) (Almekinders, Fukuda Mourmouras and Zhou – 2015) have arisen. Similarly, the thought process in the ASEAN is tending to change. In 2015, the ASEAN Economic Community (AEC) is attempting to manage macroeconomic and financial stability. The aspiration is to become "Resilient, Inclusive, Competitive, and Harmonious—a RICH, truly borderless economic region by 2030 by eliminating remaining barriers to the free flow of goods, services, and factors of production." What appears imperative for all these is to happen be that the "ASEAN countries must think globally, plan regionally, and act nationally" (ADBI-2015). There has been progress "creating a financial safety net, including the renewal of bilateral swap arrangements, doubling the resources of the Chiang Mai Initiative Multilateralization, and strengthening the ASEAN+3 Macroeconomic Research Office" (Lipton-2015).

Thus, the idea of a possible global financial system requiring an appropriately designed architecture is neither new nor novel. There was even a chorus for an 'effective', 'on-going' and 'binding' international coordination mechanisms inherent in the ideas floated by Sutherland (2002), Masciandaro (2003), Kremers, Schoenmaker and Wierts (2003), Jackson (2005), Branson and Healy (October 2005) and that of Cihak and Podpiera (2006). Since financial crises are recurring by nature, "a fundamental redesign…domestic, regional and international… to meet the realities of global finance" (Warner et al-2011) is being seen as a dire necessity. Rajan (2014) initiated the fresh debate on revisiting "the international rules of the game" calling for "collective action" with Lagarde (2015) finding "scope for greater international policy cooperation to minimize the negative spillovers". Rajan (2015) looks for "responsible global citizenship" that "would require a country to act as it would act in a world without boundaries. In such a world, a policy maker should judge whether the overall positive domestic and international benefits of a policy, discounted over time, outweigh its costs. Some policies may have largely domestic benefits and foreign costs, but they may be reasonable in a world without boundaries because more people are benefited than are hurt".

This Paper leverages on the concept of a Global Super Central Bank (GSCB) mooted by the author in the presentation of his Paper –"Financial Innovations & Systemic Risk: In Search of the Ever-Elusive Global Super Central Bank" - at the International Conference on Business, Banking and Finance held at University of West Indies, Trinidad & Tobago during 01-03 May 2006. With amended scenarios, the concept has been dovetailed into the current emerging 'start-ups' in the nature of Financial Stability Councils, which are generally coordinated by central banks. In the earlier structure, the central bank central board would have four independents Boards to address various issues whereas in the revised structure, Financial Stability Councils would have four independent Sub-Committees to address potential vulnerabilities in four different areas of national financial stability management. Other dynamics would remain the same.

The fundamental focus is on 'Committees' whose time has since come to replace 'countries'. With power of 'Hegemony' whether benign or malign no more getting to work ; with the voyage of the world from Unipolar to Bipolar to Multipolar (G-24) grouping nearing to complete, the need has arisen to expand ideas keeping global systemic risk in consideration. The ingrained area of concern is that 'difficulty in any country could pose threat to any other as also the globe'. Such Committees will address specific global issues bearing on the economics of individual countries irrespective of geo-political differences. Representation by central bank, government and regulators would lend required legitimacy to the decisions taken by the representatives for each participating country. Implementation accordingly will be mandatory on each country as opposed to being voluntary as has been the practice in respect of recommendations of IMF, BIS and FSB.

The network of Financial Stability Councils (or Systemic Risk Boards) could in fact, work together "to foster this fine-tuning of monetary and regulatory measures – to be applied not uniformly across the board, but according to the problems of each country – then we could improve stability. The absence of an international monetary system could, to a certain extent, be mitigated by a serious macroeconomic oversight regime" (Delarosiere–2014). With increasing recognition of systemic risk as the target variable inviting redress, this network can be used to overhaul the regulatory architecture, with increased coordination and centralization of regulatory powers lying at the national, regional and global space (in that order). This will be capable of addressing the contagion risks built up by the segmentation of regulatory authorities. The inherent trend of the regulatory authority to neglect potential negative spillovers on the parts of the system it is not responsible for and thus can be monitored.

Illustratively, remaining on the current point, e.g. the surging episodes of 'competitive devaluations' or 'taper tantrum', it should be imperative on the part of each economy to ensure its immunity from the after effects of reversal of QE by US or an invitation to QE by Europe. Although the mechanics could be made simpler and '*pareto optimal*' (beneficial for all with little or no harm to any one) if countries sit together and steer policies in their favor. Taking clue from the well-known story of the two cars crossing each other at a narrow road, it is not difficult to surmise that if both the drivers are careful about each other's body and try to proceed through mutual consultations, the crossing will be hassle-free. In contrast, if each is selfishly careful of its own body with little care about what might happen to the other, there is a real possibility that the two cars may slide into peril or impair each other's progress. Expanding the explanation to country level, the best example could be those of the illustrated biological neighbors - India and Pakistan. If India raises its defence budget and buys fighter jets from developed countries for the genuine purpose of its border management, it throws bare an (un)intended consequence on Pakistan to replicate the same action at its end. In this way both get negatively hit without serving any useful purpose. If they opt to put a moratorium on rise in defence budget as the beginning of an economic integration process keeping political/historical issues aside for some time, both would benefit economically. A smoker while enjoying his smoking never realizes the negative effects of passive smoking on his innocent neighbours. Hence the need arose for state-

sponsored norm to smoke only at designated zones. In the same vein, the tapering from the US, instead of being seen or shown as a tantrum of a hegemon could also prove to be a testimony for ushering in of a decisive mandate generated out of collective wisdom of all if handled in a democratic multilateral fashion.

This is the motivation behind this attempt to re-script the idea (over the earlier version in 2006), when the debate on a doable scheme on IMS looked to be at cross roads. Section II tries to run through the evolution of the concept of IMS over the years, while Section III presents the two versions of the 'Bottoms-Up' framework of IMS under the Garland Makers' Model. Section IV shares and discusses some of the thoughts transacted during recent times as it concludes the Paper.

Section II

Financial innovations were meant to rid the 'world of finance' from avoidable risk. Globalization was meant to catalyze this process through geographical diversification. However, thanks to lack of synergy among the people and processes, both financial innovations and globalization are manifesting itself in an ugly form. The questions remain: How do we handle this conundrum? The answer to this is simply creating a synergy among the nations in a calibrated manner. If the global architecture has helped financial risks to spread rather than diversify, the revisiting of the very same architecture will fetch its solution as well. This line of thinking is in sync with medical innovations. Through the innovation of penicillin, bacteria were used to kill bacteria. Vaccine for rabies is made of saliva of mad dogs. Snake venom is used to cure snake-bites. It may hence be apt to take the position that interconnection among nations will cure the evils that it has given birth to. But the interconnection needs to be synergistically hierarchical in a 'Bottom-Up' manner. Nations may connect themselves as sub-regions, sub-regions as regions and eventually regions as global.

Such a global synergy based on global cooperation would look for "the globally optimal set of monetary policy rules"(Charles-2015) to avoid "unconventional policies with large adverse spillovers and questionable domestic benefits (Rajan-2014)" could be found in an "optimal design of a cooperative agreement" (Charles-2015). This could address the resurgence of the ugly 'beggar-thy-neighbor' policies manifested in competitive devaluations or even 'gamed' oil price declines. Such a goal of optimal policy cooperation would mean bringing all concerned to the table and derive a set of solutions in the best interests of all. The design should meet the real ethos of democracy so that necessary momentum and urgency can be generated to internalize a greater portion of the negative effects of spillovers. It will also encourage the general spirit of managing systemic risk of the global whole. The coordination mechanism should be able to inculcate a sense of: "compensate potential losers or even those countries that stand to gain less than others" (Charles-2015) so that most of the constituents should gain.

This coordinating body could be in the nature of a "neutral assessor playing a useful role in helping to bridge the divergent views of national policy makers" (Ostry and Ghosh - 2013). But such a mechanism needs to have inherent characteristics to reflect "credibility and neutrality of the assessor" so much so that all the involved countries should feel inclined to appreciate or even accept "the alternative strategies and the resulting tradeoffs" as also "reasonable quid pro quos" it might offer. They have also suggested having in place a few 'guideposts' to limiting "policies that give rise to misaligned currency values or external balances….cross-border instability in financial flows". They find G-20 heterogeneous[14] and hence lack the effectiveness to coordinate optimally an agreement on "a set of guideposts for each country". As such, the task is enormous as it involves identification of trade-offs that are welfare-enhancing for the larger set of economies and believe that the "Integrated Surveillance Decision" conducted at the IMF can foot the bill.

The world besieged with the ongoing lack of symmetry and stability stands on the cusp of a threat of a breakdown. Quantitative asymmetry in shape and size ensures that the divergence of interests and advantages between the pivots exist. It may be correct to presume that imaginative central banking and close cooperation among national and international monetary authorities could prevent such a state to crumble down. There has been a growing feeling in favor of the development of a global money and central bank. But the paradox is that while everybody talks about it, he who listens to it dismisses it as a fantasy. Hence he who proposes to conceptualize a structure (regardless of how abstract it may be) starts believing himself as having mild bouts of insanity. Reality follows the dream; the cobweb of fantasy germinates scope for innovations. In the realm of insanity a philosophy takes birth. Reality and philosophy are related…..at best distant cousins. Such vigorous engagement, both at official and academic ends, for such a widely dismissed idea is neither a random development nor a crazy riddle. The world is in real search of a metamorphosis of its own structure. It is much entrenched in its subconscious that it can no more afford to weed it out. When the idea of a 'global parliament' was mooted by Alfred Tennyson in 1842 it became a term to be ridiculed. However, the idea never sank. It had been raised time and again. The demand for a world parliament is at last acquiring some serious political muscle. The campaign for a U.N. parliamentary assembly is being launched on five continents. It is backed by nearly 400 MPs from 70 countries, a long and eclectic list of artists and intellectuals.

Such dreams have been dreamt even quite a while ago. In an article carried in The Economist (1988) by Jerome Corsi titled "Get Ready for the Phoenix," it was conceived that, *"THIRTY years from now, Americans, Japanese, Europeans, and people in many other rich countries, and some*

[14] As of October 2014, the membership of the Group of 20 Nations (G20) comprised 19 countries plus the European Union. While not formally a member, Spain has participated in all G20 meetings thus far. The current membership includes: Argentina, Australia, Brazil, Canada, the People's Republic of China, the European Union, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States.

*relatively poor ones will probably be paying for their shopping with the same currency……*The phoenix zone would impose tight constraints on national governments. There would be no such thing, for instance, as a national monetary policy. The world phoenix supply would be fixed by a new central bank, descended perhaps from the IMF. The world inflation rate - and hence, within narrow margins, each national inflation rate- would be in its charge. Each country could use taxes and public spending to offset temporary falls in demand, but it would have to borrow rather than print money to finance its budget deficit. With no recourse to the inflation tax, governments and their creditors would be forced to judge their borrowing and lending plans more carefully than they do today. This means a big loss of economic sovereignty, though the trends that make the phoenix so appealing are taking that sovereignty away in any case. Even in a world of floating exchange rates (more-or-less), individual governments have seen their policy independence checked by an unfriendly outside world". "Pencil in the phoenix for around 2018, and welcome it when it comes," the article concludes. In fact, when Harry Dexter White launched his proposal on new international mechanism in January 1942, he had envisaged a concept of World central Bank that would "issue notes" and would "function as a sort of central planning agency for the whole world……..eliminate possible financial crises…." (Harold James, page 40). Even the choice of venue in July 1944 in favor of a "contemplative wooded retreat in Bretton Woods" from the earlier one in 1933 at the "Geological Museum in London was symbolic of the openness and progression of ideas in this direction.

An ad hoc Committee for a New Bretton Woods was formed in August 2007 with Helga Zepp-LaRouche, the Chairwoman of the Schiller Institute as its Head to follow up on the previous calls of 1997, 2000, and 2006, for a reorganization of the world financial system. Thousands of prominent personalities from all over the work, among them former heads of state, members of parliaments, unionists, entrepreneurs, city officials, church members, members of the military, and other interested participants have endorsed the demand in a formal manner.

The concept of an 'instant world Government' was suddenly evolving. While it was warranted by international inequality (leading to chaos), it was contested by Richard N. Gardener who advocated a "brick by brick approach" in building the "house of world order". He was emphatic that such a structure "will have to be built from the bottom up rather than from the top down". The "old-fashioned frontal assault" will look like a, to use William James' famous description of reality, great "booming, buzzing confusion". "Progressive Regionalization" as an eventual stepping stone to "Genuine Globalization" was also vociferously advocated by Zbigniew Brzezinski (former National Security Adviser and co-founder of the Trilateral Commission) in his address to Gorbechev's State of the World Forum in October 1995, "because thereby we move toward larger, more stable, more cooperative units." The ideas of Global Civil Society (GCS) and Global Citizenship (GC) "as a reflection of the internationalization of the state" were mentioned by (Armstrong, 2006).

A central global government having higher authority than the 'regions', as also a regional government having more authority than individual states is an inescapable necessity if the need

is to achieve sustained cooperation in the current anarchic international system. Pursuit of state interests without cooperation often leads to states treading on each other's toes in the international system, hurting each other and other involved parties for short term gain. This will be in sync with the concept of 'collective goods dilemma' in which states deplete a shared resource, such as fish stocks, and are unwilling to cut back their use for sustainability because they do not believe other states will do the same, leaving them at a disadvantage and their rivals at an advantage.

The key problems with such ideas are the agreement and enforcement issues towards democratic governance. Under the current dispensation, the United Nations Security Council, the World Bank, the International Monetary Fund and the World Trade Organisation and the youngest FSB are supposed to oversee the implementation of modalities pertaining to global governance. This is not that they do not care to carry their brief. In fact, they make decisions that affect every nation. The only issue is that the decisions are not taken democratically. They are taken without the consent of the parties who are most affected as they are controlled by the veto powers of their major shareholder and permanent members. "The question is not whether global decisions need to be made…..The question is how to ensure that they are made democratically" (NooraKauppi, Jo Leinen, Watson and Onesta - 2007). An upgraded alternative would be to have "small groups of nations of regional, ideological or historical similarity - known as regimes – which aims to harness ideas those benefit all the participants all the time, "making it more in each state's interest to cooperate than fight with each other for short-term zero-sum gain". Such economic arrangements ensure that "states can work together to detect and stop any nation found to be cheating. States, as rational actors, will refrain from selfish short-term gain attempts if the risk is too great – this is the situation regimes try to create". ( )

Such attempts, termed as "new Global Order by Stealth" by Steve Watson in his column dated May 5, 2007 (internet blog) have been in operation ever since. The United States and the European Union have signed up to a new transatlantic economic partnership that will see regulatory standards "harmonized" and will lay the basis for a merging of the US and EU into one single market, which is considered a huge step on the path to a new globalized world order. As per the Summit in Washington held in early May 2007, the two sides agreed to set up an "economic council" to push ahead with regulatory convergence in nearly 40 areas, including intellectual property, financial services, business takeovers and the motor industry. The aim is to increase trade and lower costs.

In the CFR's document, 'Building a North American Community', mention is given to the Bilderberg group in a recommendation that private bodies be formed to direct policy between Canada, Mexico, and the United States. The document states: "To ensure a regular injection of creative energy into the various efforts related to North American integration, the three governments should appoint an independent body of advisers. This body should be composed of eminent persons from outside government, appointed to staggered multiyear terms to ensure their independence. Their mandate would be to engage in creative exploration of new

ideas from a North American perspective and to provide a public voice for North America. A complementary approach would be to establish private bodies that would meet regularly or annually to buttress North American relationships, along the lines of the Bilderberg..."

Thus such “club-in-the-club” approach (coined by Erik Berglof of Stockholm School of Economics) as practical complement to processes of global integration is not new to human ingenuity. ‘Bond of the South’ moves towards regionalization of country insurance against economic shocks were propagated by Argentina's president, Nestor Kirchner, as a first step "in the construction of a bank, a financial space in the south that will permit [us] to generate lines of finance". Eventually this may be a mechanism to cope with potential finance crises without involving the IMF. The recent proposal of the Asian Infrastructure Investment Bank (AIIB) aimed at “helping to meet Asia's need for trillions of dollars of investment in energy, power, transportation, telecommunications, and other infrastructure sectors” (Bergstern-2015) led by China with about 50 countries (including UK, Australia and certain Gulf and European ones) as members should best be appreciated from this point in view. The ‘angry response’ of the US could at best be termed as “a sorry development that reflects the huge mistake the United States has made” (ibid).

The shift in thought process from 'global lending arrangements' to 'global crash prevention mechanisms' in the late 1990s was backed by the perceived potentials of systemic risk in the changing pattern of financial flows across the globe. "What is really needed is not so much a global lender when we get into problems. The need is to prevent problems, to have a supervisory and regulatory process in place that limits damage around the world, rather than to get into damage control. The need is not for a lender of last resort, the need is for improved supervision and regulation over risk-takers and the major markets" (Kaufman-1999). This "Create a super-regulator," call was, in fact, amply translated into a proposal of creation of World Financial Authority (WFA) by Eatwell and Taylor in 1998 which came in their report in the wake of LTCM crisis.

WFA would be an independent international financial institution with the responsibility of maintaining safety and soundness in international financial markets because interrelated and cross-border financial businesses warrant regulation and supervision on a unified and global basis in line with those of national regulators functions in domestic markets. Its functions would be to take preparatory and preventive measures towards minimizing the spread of financial crisis in other economies, as well as to lessen the impact of these crises internationally. By way of spreading its areas of watch over the operations of securities and futures markets, hedge funds, foreign currency traders, fund managers and other institutions that use borrowed money for speculative purposes, it would ensure avoiding or reducing destabilizing leveraged activities and systemic bank risk. In short, WFA would be the suitable reply to the rise in global systemic risk in a scenario of liberalization of the international markets.

Accordingly, "...the WFA (or whatever institution performs its functions) must have the means to develop a coherent analysis of the overall impact on systemic risk, to persuade the participants of the values of the analysis and policies and to mediate disputes" (Eatwell, Taylor-2000). They should hence have the power to guide and dictate to national financial markets and to tie them with a system of mandated accountability in the matter of violation of its edicts. The ultimate aim of such a senior regulator would be to "maximize financial stability between the developed and the emerging markets in such a way as to maximize world productivity" (Felsenfeld-2004). Toward this benefit, the possible hesitation to cede national independent powers of control to an international body like the WFA could be tempered through a dialogue for "consensus and mutual recognition of self-interest…" (Eatwell, Taylor -2000).

The trend of internationalization of financial market regulation has been perceived from time to time. However, these are not done in a formal manner and/or with perfection. "Authorization is still essentially national, the information function is highly imperfect, surveillance (by the IMF) is as yet experimental, enforcement is national, and the policy function is predominantly driven by an exclusively G 10 consensus. As measured against the template of a proper WFA, there is a long way to go" (Eatwell, Taylor-2000). The institutional mechanism in vogue to look after international regulation to mitigate systemic risk is also slip-shod. There is an "awkward hybrid" in which the predominant rules are made by the BIS, IOSCO, and IAIS while the international surveillance responsibility is vested with the IMF. Worse still, the 'centre-periphery' paradigm i.e. "rules are made by the rich nations and enforced on the rest" (Eatwell, Taylor - 2000) is prominent enough to steal the charm of the show. Devising an appropriate structure is, in fact, the biggest challenge.

The global super-regulator approach would not be “either feasible or desirable. It is not feasible, since there is a very little chance of sovereign legislatures ceding powers in the regulatory area to a supranational body. And it would not necessarily be desirable. A single regulator could well be too monolithic, disinclined to experiment with new regulatory approaches. The rules it would create might not take adequate account of the particularities of the financial sector in different jurisdictions. And insofar as all countries had to agree on regulatory initiatives; there would be a risk of converging on the lowest common denominator” (Crocket-2001). Crocket-2005, however, hypothesizes an umbrella roof and bringing all relevant international supervisory groupings underneath, “in a way that respects their institutional autonomy while exploiting the synergies of a common location, and the ability to discuss and resolve issues of common concern”. This appears to be an even more complex challenge to deal with.

Another strong votary of reforming the international financial architecture in the wake of cross-border financial interdependence, which is both helpful and hazardous, has been Ralph C. Bryant (1999, 2001 & 2004). His is a holistic approach toward prevention of crises in the direction of optimizing welfare gains for the whole economy, both national and global, in which the role of the international institution would be essentially “prosperity management” rather than “crisis management". The aim of the proposed global institution would be to look after (a)

supranational surveillance and lending intermediation (b) prudential financial oversight and (c) cooperative crisis management. The efforts should be to let the national governments understand the efficacy of choosing "to act collectively not because they agree to bend to the will of an independent authority above them, but because achieving their mutual interests requires cooperation". Such a collective surveillance would have a watch over "individual nations from deliberately or inadvertently pursuing policies likely to cause economic disruptions for other nations". Attempt to attract financial activity by deliberately fostering regulatory arbitrage and supervisory laxity by few jurisdictions or abetting financial crime, money laundering, tax evasion by citizens of other nations would have to be constrained through this 'collective governance' mechanism.

It need not act only as a crisis manger as it would mobilize international consensus toward "mutually beneficial adjustments of policy instruments" even during "non-crisis conditions" so that possible market failures can be offset/prevented. It should be so designed in the nature of an impartial "Adjustment Referee and Coordination Catalyst" *("a neutral assessor and a few guideposts" conceived by Ostry and Ghosh-2013)* for national macroeconomic policies' relating to both internal and external financial flows. This may appear ticklish to weave a monetary policy or fiscal policy for a Region or for the World. "Yet the general global stance of macroeconomic policies is a critical feature influencing the global economic and financial environment. Procedures for intergovernmental cooperation among the fiscal authorities and the monetary authorities of the largest nations are in their infancy....Encouraging national governments to pursue stable, predictable and mutually consistent macroeconomic policies should be the central feature of collective surveillance" (Bryant-1999). As such, for national governments, persuasion of a global consensus in these matters will increasingly become an inevitability considering the progressive internationalization of domestic balance sheets.

While there is unanimity on the proposal for a global body and a coordinated management of systemic risk, opinions differ vastly on its possible structure so much so that the "ratio of architects to builders has grown too large" (Gasper-1999). "The world is not politically ready for a genuine supranational lender of last resort, much less a World Central bank. It would be no easier to establish additional international institutions with greatly enhanced authority" (Bryant-2003) nor the world is "ready for a WFA" since the "creation of a new body with senior responsibility for setting regulatory standards for all financial enterprises worldwide would be an almost unreasonably ambitious approach" (Falsenfeld-2004). While some felt that "IMF cannot take on the dues ex machine role of an international lender of last resort" (Eichergreen and Litan-1998), others recommended its' up gradation in the interim (Eatwell) or full-fledged and final (Bryant-2004, King-2006) with suitable functional changes. On the other hand Falsenfeld (2004) felt BIS as the better candidate for the purpose. As a middle path, merger of the two Bretton Woods institutions and the organization of an international lender-of-last-resort function by the IMF and/or the BIS have also been proposed.

BIS was created not to be a central bank, but rather a bank for central banks. As BIS says in its website presentation, it "does not possess any formal supranational supervisory authority, and its conclusions do not, and were never intended to, have legal force…..encourages convergence towards common approaches and common standards without attempting detailed harmonization of member countries' supervisory techniques". It is increasingly earning a role for being primarily responsible for creating a sound and safe environment for banking activities remaining in concert, in a manner of "cohabitation," with the national financial policies sponsored by the World Bank and the IMF. The purpose of creation of the IMF was “to promote international monetary cooperation…provide the machinery for consultation and collaboration on international monetary problems”. “In reality though, the Fund is not playing that role at present. Its surveillance lacks focus. Its lack of day-to-day independence hampers its ability to comment effectively on divergence between stated objectives and actual policies at the national level. And it lacks the legitimacy to be an effective secretariat. Despite strenuous efforts……..there is little genuine interaction between members….about the international monetary system” (King-2006).

Since the need for both an ILLR (to intervene in the market if the risk of crisis becomes endemic) and a WFA (to undertake surveillance of financial markets on an on-going basis to be able to smell and hence constrain the intensity of crisis and its ability to spread), is unequivocally a necessity, a hybrid of both IMF (crisis lending and macroeconomic conditions analysis) and BIS (policy making for national and international financial stability) appears to be the most favored proposal. But the homogenization of their heterogeneous activities have got to be led in a step-by-step approach with a sense of “pragmatic incrementalism” (Bryant-2001, 2004) since in the direction of multilateral cooperation in such complex scenario ‘too much’ should not be expected ‘too soon’ (Bryant-2001, 2004). The initiative toward this end has to be sovereign-sponsored since it is a “disservice to argue that markets will sort things out efficiently if governments will just stand aside and let the market “get the price right” (Bryant-2001) as against waiting for its evolution “incrementally in response to pressures from markets and governments, not discontinuously in response to radical visions”.

Section III

The idea of a Global Super Central Bank – central bank being entrusted with both monetary policy and regulatory functions – on a global plane has its origin from the experience of the Great Depression of the 1930s, when Charles Kindleberger commented that “For the world economy to be stabilized there has to be a stabilizer, one stabilizer”. The same feeling was echoed again in September 1998 by Jeffery Garten, who strongly felt that the “world needs an institution that has hand on the economic rudder when the seas become stormy. It needs a global central bank”.

IMF does not know how to deal with a crisis of international dimension, in which all countries’ problems occur at once and are linked. World Bank is not designed to handle financial crises. Cooperation among powerful central banks (FRB, ECB) will not help as global responsibility is not in their Charter. “An independent central bank with responsibility for maintaining global

financial stability is the only way out...It could provide more money to the world economy when it is rapidly losing steam…..such a bank could play an oversight role for banks and other financial institutions everywhere, providing some uniform standards for prudent lending in places like China and Mexico……providing clear and reasonably verified information to the market on the real state of banks around the world….” (Garten-1998).

The Garland Maker’s Model

“Excessive concentration of power in a small group of industrial countries”, who are no more “genuine partners in a cooperative enterprise” and tend to look after their own interests “acting outside the Bretton Woods system” (Buira-2004) has led to a decision making process that is devoid of practical insights into the happenings of a large contingent of the globe and hence has rendered itself “dysfunctional” to address the issues of financial stability and development. While “Failure of the prevailing governance structure in the international monetary and financial system” is essentially to blame for such an impasse (Buira-2004), the faltering “spirit of internationalism” is said to be one of the reason behind the diminishing effectiveness of the IMF in managing international coordination on global issues (Rajan-2006). This is the outcome of a distinct change in economic status of the emerging economies (for the better) and the developed economies (for the worse) resulting in a peculiar scenario in which the former are “unwilling to be lectured to” as they “no longer need funding” from the IMF and “want influence over the policies of the industrial countries” while the latter, on the other hand continue to wish “to exercise the influence of an era that is long past” and to discourage dissemination of IMF findings on their adherence to international norms (Rajan-2006).

The problem in fact lies in taking an honest position on the issue of ‘what facilitated this impasse' and what is the way out ‘to steer clear of that’. It appears persuasive to believe that the playing field in the IMF regime was never level and has had been discriminatory because they are dictated by ‘quotas and shares’ and a principle of ‘some are more systemically important’ than the others and hence have a ‘more powerful say’. This kind of approach would hardly work in an era of globalization in which systemic crashes turn global almost instantaneously and crashes and ruptures to the system are country-neutral. Further, in the ‘see-saw game of development’, it is reasonable to appreciate the expectations of the “advanced emerging markets” as they would naturally not like to lose out even when it is their turn to win. The restructuring of economic power would have to equilibrate, of course, at a different point this time, thus fetching the required balance of power. After all, “Vastly expanded international capital markets have created new opportunities but their volatility poses difficult challenges that the IMF is currently ill-equipped to address, except at an enormous cost to the countries” (Ariel-2002). “In a complex globalizing world, no fixed, detailed scheme is likely to work, and there are no global institutions with the authority to decide and even less so to implement it. Therefore, policy coherence and cooperative as well as intellectual pluralism are concepts that should be further explored as proposed guiding

principles of global multilateralism. Add the rapid onset of the so-called new economy, and the case for creative flexibility gets even stronger" (Lunde-2000).The time is hence ripe to appreciate and implement the idea that international surveillance needs to be "multilateral, putting greater emphasis on the linkages between members, the spillover of one country's policy choices on other countries, and the joint risks that this implies" (Tiff Macklem-2006). This is the philosophy behind this model.

The Model (Version 1) (2006)

The idea carries the clue from the discourses of Lord Krishna (the God Himself) in the famous Indian Epic "The Mahabharata". "Be like a garland maker, O king; not like a charcoal burner".

The meaning is explained hereunder.

A garland accommodates flowers of many colors and forms that are strung together for a pleasing effect, while a charcoal, which is the byproduct of a variety of wood being reduced to homogeneous dead matter. The charcoal burner is reductionist and destroys diversity, whereas the garland maker celebrates diversity. Garland making and charcoal burning represent two divergent worldviews in terms of socio-political ideology. The former leads to pluralism and diversity of thought, whereas the latter strives for a homogenized and fossilized society in which dogma reigns supreme.

The current arrangement appears to be more akin to the 'charcoal burner' variety as it discriminates economies in terms of the 'power' they wield in global political-economic scenario while discouraging genuine feelings of others. Such an approach cannot but be transitory as it would be hardly 'global-welfare-enhancing'. However, as sharp contrast, the committee structure of the proposed model of a Global Super Central Bank (GSCB) would be an emblem of unity, diversity and under no circumstance disruptive. It would imbibe the soul of a garland and could re-engage everyone (not "both groups" as suggested by Rajan) for the "much needed multilateral dialogue" (Rajan-2006).

It would be equally worthwhile to use one more parallel narrative from Indian mythology. Lord Shiva's (The God of destruction of what is evil or outmoded) family consists of Goddess Parvati (His wife) and the two sons, Karthikeya (God of physical power) and Ganesha (God of Learning & Goodwill). Their close associates are, a bull, a snake, a tiger, a peacock and a rat. As is well-known, the bull is the food of the tiger, the snake is the food of the peacock, the rat is the food of the snake but in their discharge of duties of guarding their respective masters they tend to forget their enmity and live in harmony and camaraderie.

In the same way, the proposed structure of a GSCB would cut across political arrogance as it is being prompted by a unique necessity to remain immune from international systemic risk. It would be in the nature of a 'common-friend-of-all-but-enemy-to-none approach'. This may not be difficult now under the current transformation in the dynamics of global economic

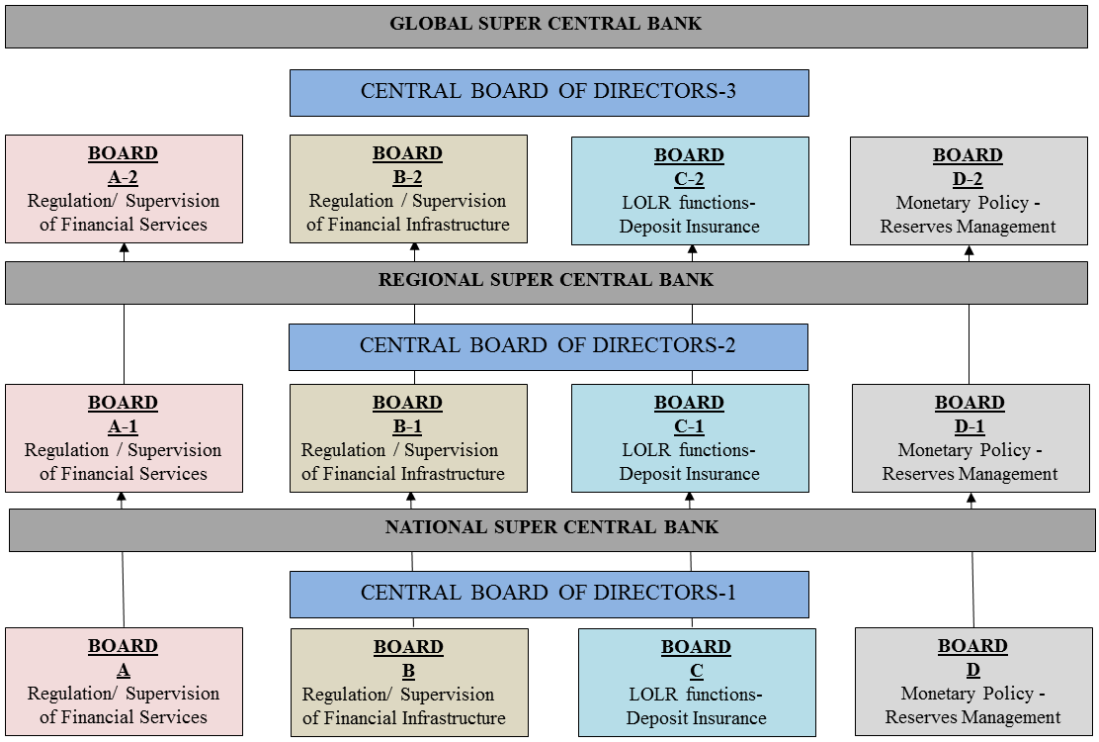
performance and power. Given the exposures-structure, a systemic crisis may harm the developed economies the most, while it would harm every one indiscriminately. Immediate necessity may prevail over past legacy while a democratic committee approach of decision making has more opportunities to be accepted than it has been as-hither-to.

The National Super Central Bank (NSCB) will remain responsible for both monetary management and financial market supervision. There would be four different Boards to take custody of the policy-making activities of the four major strands of functions. Each Board would constitute one member from the NSCB proper (the chief executive in charge of those functions, or Deputy Governors as in many countries) and four others from the experts-pool in the respective markets. Illustratively, the Board A (Regulation & Supervision of entire Financial Services) would have the Chief Executive of Regulation & Supervision functions of the NSCB and experts from the areas of Banking, Capital Markets, Insurance, Pension funds etc. This Board would evolve all required policies in the direction of financial stability and will be assisted by various operational Divisions, which will implement them as and when they would tend to emanate. Similarly, another Board, Board D, would discharge the responsibility of policy making in the area of monetary management with the concerned Chief Executive from the NSCB and few other experts from the market. This way, independence of thought processes could be maintained while minimizing the impacts of the so-called 'conflict-of-interest' issues.

The next layer would be the Regional Super Central Bank (RSCB), a Union of few geographically congruous economies with cultural similarities and trade relations. It would also have the same four Boards each having representative members from the respective Boards of the NSCBs. Illustratively, Board A-1 (Regulation & Supervision of Financial Services) would comprise of the representatives from Board A of NSCB1, NSCB2 and so on, while Board D-1 (Monetary Management), would comprise of representatives from the Board D of NSCB 1, NSCB 2 and so on. This way each Board in a Region will have an expert-member from each economy equipped with the issues of his economy in his area of expertise and with the aim of assimilating them with the other experts on that area of the economies in his Region. The Central Board of Directors-2 of the RSCB would have rotating members from the Boards with a Chairman nominated by them from among them from time to time.

The final and Apex layer would be the Global Super Central bank (GSCB), the Union of the RSCBs having four Boards and similar representation structure as the RSCBs. Illustratively, the Board A-2 (Regulation & Supervision of Financial Services) would have nominated members from the Board A-1's of the various RSCBs and the Board D-2 (Monetary Management) would have nominated members from the Board D-1's of the various RSCBs. This way each Board in the GSCB will have an expert-member from each Region equipped with the issues of his Region in his area of expertise and with the aim of assimilating them with counterpart from other Regions of the Globe. The Central Board of Directors-2 of the GSCB would have rotating members from the Boards with a Chairman nominated by the Boards from among them from time to time.

A graphical presentation of the proposed GSCB model is given below.



In their September 2011 Report "Rethinking Central Banking, Committee on International Economic Policy and Reform", a team of economists of international repute[15] led by Barry Eichengreen had acknowledged "the cross-border spillovers from monetary policy" but their solution emphasized on "ensuring compatibility" between national policy framework of smaller countries and those in large countries. They proposed formation of an "International Monetary Policy Committee" with "a small group of systemically significant central banks" to periodically "discuss and assess the implications of their policies for global liquidity, leverage, and exposures, and the appropriateness of their joint money and credit policies from the point of view of global price, output, and financial stability" and submit a report to the G 20. But they themselves were skeptical about its efficacy because of (a) their duplicity of being discussed anyway at various meetings at BIS or even G20, (b) these being "informal" without any "accountability" and (c) absence of central banks in G20 format; and hence looked for "a separate forum" which would address these issues and enable central bankers to "identify and publicly air the inconsistencies in their policies" thus encouraging them to learn to "internalize some of the external consequences of their policies".

[15]Mohamed El-Erian, Arminio Fraga, Takatoshi Ito, Jean Pisani-Ferry, Eswar Prasad, Raghuram Rajan, Maria Ramos , Carmen Reinhart , Hélène Rey, Dani Rodrik, Kenneth Rogoff , Hyun Song Shin, Andrés Velasco , Beatrice Weder di Mauro and Yongding Yu.

Further, in their Report of August 2013, "Think Tank 20: The G-20 and Central Banks in the New World of Unconventional Monetary Policy" prepared by another group of Economists[16] of international standing led by Atiyas Izak, they too find the "G-20 process" to have "lost a lot of its initial force and promise" vis-a-vis its initial vigour post-crisis in managing its intensity. The G-20 leaders – primarily "civil servants and bureaucrats" - will remain "constrained by their own domestic politics" and as such the forum of negotiations needs to "involve very strong academic, business, labor and civil society engagement".

These looked partially akin to the proposal given by Mishra (Version 1-2006) as above which involved brain storming monetary policy strategies of individual countries in one of the Boards (Board D) of the NSCB-RSCB-GSCB format. But it had addressed the concerns of the Eichengreen Group idea even while recognizing the fact that fixing monetary policy issues without regard to those emitted by macro-financial and fiscal space would create more problems than solving them. Accordingly, formal inclusion of the government and the intelligentsia should be a primary requirement. The elements of democracy and the 'bottom up' configuration are the other criteria marking their distinct difference.

The Garland Maker's Model – A Modified Approach (Version 2) (2015)

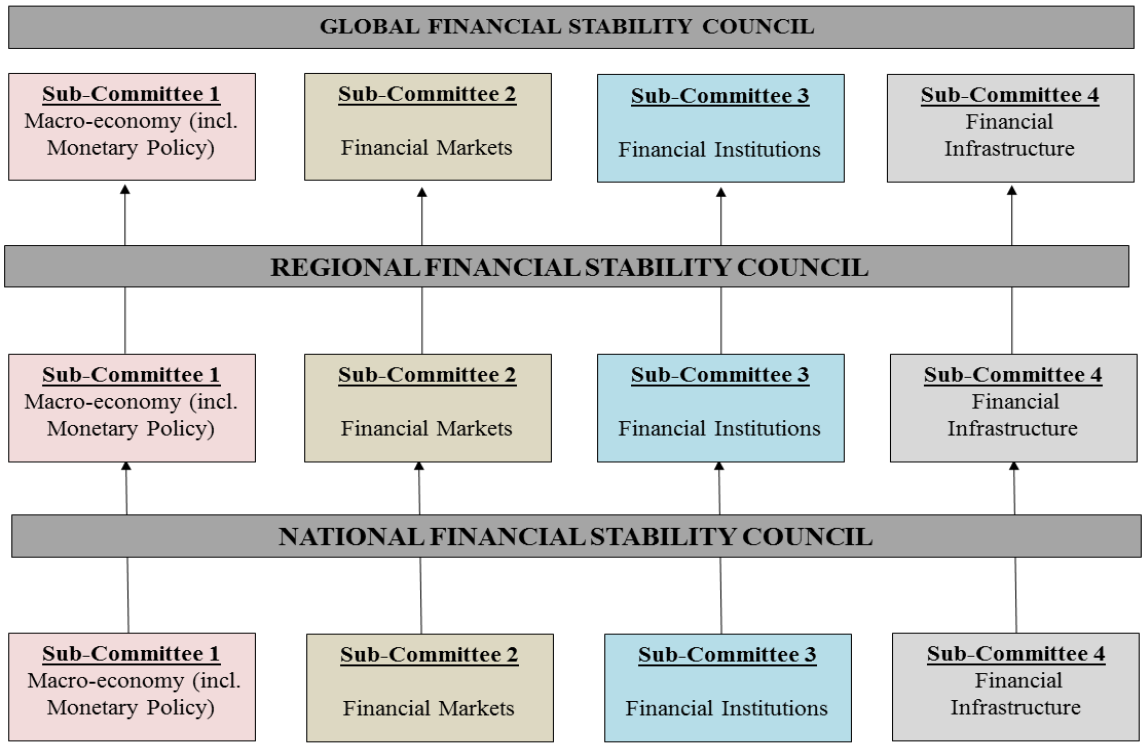
The idea of national macro-prudential authority to address systemic risk gained ground in the post-crisis period. These ideas are in the nature of Financial Stability Councils comprising of the central bank, financial sector regulators and the Government. They deal with all the sectors, namely, macro-economy (including the fiscal space), financial markets, financial institutions and financial infrastructure. They also use macro-prudential tools in sync with monetary policy tools to contain the intensity of impact on the system. Considering the fact that central banks are also the regulators of the banking sector, the predominant contributor to the financial institutions segment, such Financial Stability Councils are formed with the central bank of a country (monetary policy, LOLR and regulator of the predominant portion of both the financial institutions and markets), regulator/s of the securities related segments of financial institutions and markets and of course the Ministry of Finance as members. There could be Sub-Committee structures to address each of these matters of concern. In short, in the post-crisis period, the surveillance architecture of financial stability management of a country has taken the form of a Council (Committee) -not in the form of an institution - with representatives of the central bank, Government and the other relevant regulators. These Committees are chaired either by the Governor of the central banks or the Minister of Finance (depending on jurisdictions).

[16]Haroon Bhorat, Kemal Derviş, Peter Drysdale, Claudio R. Frischtak, Ippei Fujiwara, Daniel Gros, Paolo Guerrieri, Alan Hirsch, E. Fuat Keyman, Homi Kharas, Miguel Kiguel, Donald Kohn, Xue Lan, Marina Larionova, Wonhyuk Lim, Jacques Mistral, Rakesh Mohan, Yoshio Okubo, Guillermo Ortiz, Galip Kemal Ozhan, Andrey Shelepov, Paola Subacchi, Maria Monica Wihardja, Guntram B. Wolff, Qiao Yu.

This development in the current context inspires confidence to think in terms of replicating such structures into regional and global domains. A Regional Financial Stability Council would comprise of nominees of each nation in each of the sectors (namely, macro-economy-including fiscal place, financial markets, financial institutions and financial infrastructure) – bifurcated into Regional Sub-Committees in order to discuss potential vulnerabilities in each of them on a regional basis. National issues decentralized on the discretion of the Region would get escalated in the national platform while Regional issues (depending on Global consensus) would get escalated to the International Financial Stability Council through the Regional nominees of the respective areas of operation. In other words, monetary policy related issues across nation, region and global would have representations vertically levered-up for discussion and resolution in an unbiased manner. This process will be followed in a similar way for the other financial stability related issues. Ultimately, the vertically escalated issues would get converged horizontally seeking regional or global solutions, whatever the case may be.

Such a structural committee-approach carries elements of an idea of "subsidiarity as a principle for collective governance" (Bryant-2003). Each of the four independent Boards/Sub-Committees (in both the approaches) consisting of experts in the respective areas would be resemble subsidiaries having an arm's length relationship with the central body of the central bank.

A graphical presentation of the proposed GFSC model is given below.



There may be an "international secretariat responsible for administrative and analytical support" with staff brought on deputation from each of the countries. Similarly, there may be a panel of on-site examiners and off-site surveillance analysts drawn from various nations at the Regional and Global level. In case of need, these experts would take up assignments as independent external members in the teams at the National level. This way, manpower resource cost would remain billed to the NSCB or NFSC, while a type of emergency corpus fund may be created through contributions from all. There need not be any new institutions created. Few relevant divisions of the existing set-ups (IMF, WB, BIS, and FSB) could be reorganized with the current location at Basle remaining its headquarters.

Many experts in this area have serious apprehensions about central banks being allowed to play the leading role in the act of international cooperation because they are "unelected" and the "management of crises involves the actual or potential commitment of public money". They would just end up mobilizing "a collective view of the systemic consequences of different means of dealing with crises, then conveying this view to finance ministry colleagues" (Crocket-2005). In the matter of international monetary cooperation, "….we have to talk about more than central banks…….governments will have something to say" (Volcker-2005). Some point to the possible emergence of a sort of moral hazard in the minds of central bankers negotiating in international coordination frameworks. "Monetary policy makers are accountable to their countrymen, not to a vague 'international community'. They will likely become more sensitive to whether their actions in the international sphere can be fully defended in terms of bringing benefits to the national economy and its citizens" (Yamaguchi-2005).

The proposed model has scope for overcoming these practical issues. Government is represented in each Board/Sub Committee and decisions on public spending, in the event that they do occur, can be taken legitimately in this conclave. As a logical corollary, in the Boards or Sub-Committees at Regional or Global level in which such decisions are supposed to be taken, a responsible government representative may be the obvious choice to be nominated for. The model leaves enough scope for various wings of the economy being involved in their respective areas, while decisions are taken on them at a Regional or Global level. The central banker need not necessarily get entangled in all the areas of policymaking. The implementation is left only to its officials for better coordination and homogeneity of action-points. In a NSCB/NFSC, all the policy makers are from diverse areas of operations in the economy and are citizens of the Nation, including the representative of the Central bank. In a RSCB/RFSC, representatives of the citizens of various Nations sit together to discuss those issues which if taken up on a regional basis could benefit each of the individual nations and such that they would be inclined to take necessary actions at their National-ends. A similar process occurs for GSCB/GFSC. It is natural to assume that no representative would like to go in for a decision that may harm its own Nation but considering from a regional or global perspective, there could still be an opportunity gain for the representative to get attracted to the notion. While the 'trade-offs' will be many, policy responses and opportunities will be as equally numerous.

William R. White (2006) has voiced an interesting concern in the formulation of an effective macro-financial framework for managing international systemic risk. The issue of "the need for closer cooperation on financial stability issues between the various interested agencies in the official sector……agreement among involved agencies that an imbalances problem was emerging….followed by orchestrated statements of concern" would be crucial. Since "...the agencies involved see problems building up, but assume that somebody else will do whatever needs to be done" it would be useful to handle this by setting up "a committee of senior representatives of central banks, regulatory agencies and treasuries to monitor events and identify problems". The proposed set-up takes care of these issues automatically with independent representatives from all wings of the financial sector, the central bank and the Government under one roof, that too on national, regional and global basis deliberate on them on an on-going basis. This would sound more effective from a practical viewpoint than the piece-meal 'as-and-when-required-get-togethers' organized under the aegis of the Financial Stability Board at the BIS. If the BIS/FSB gets metamorphosed into the proposed GSCB/GFSC, then the institutional as well as operational issues would tend just to dissolve.

The FSB, which is the post-crisis incarnation of the FSF (established in April 2009), "at the call of the Heads of State and Government of the Group of Twenty[17]" – is meant to promote "international financial stability" by coordinating national financial authorities and international standard-setting bodies. The interesting dimension akin to what this Paper suggests is that its membership consists of finance ministries, central banks, and financial supervisory and regulatory authorities of the member jurisdictions. Its' administrative structure is in a way hierarchical, as suggested in the Model of this Paper, the Plenary[18] (decision making), the Steering Committee (taking forward operational work), three Standing Committees[19] (assimilating country feedback) and various Working Groups (Researching identified Technical areas). To facilitate its interaction with a wider group of countries, six Regional Consultative Groups (RCG)[20] have been formed to include 65 non-member jurisdictions thus covering about 90 countries of the World. By this method, feedback on vulnerabilities affecting regional and global financial systems is analyzed with a wider format and initiatives to stem them are taken by the FSB.

The FSB's decisions are however, 'not legally binding on its members – instead the organisation operates by moral suasion and peer pressure, in order to set internationally agreed policies and

[17] Four more countries and territories (Hong Kong SAR, the Netherlands, Singapore, Spain and Switzerland), the European Central Bank (ECB) and the European Commission; and international financial institutions and standard-setting bodies have been added to the membership.
[18] The current number of 70 Plenary seats.
[19] The Standing Committee on Assessment of Vulnerabilities (SCAV) (for identifying and assessing risks), The Standing Committee on Supervisory and Regulatory Cooperation (SRC) (for undertaking further supervisory analysis or framing a regulatory or supervisory policy response to a material vulnerability identified by SCAV), The Standing Committee on Standards Implementation (SCSI), (for monitoring the implementation of agreed FSB policy initiatives and international standards).
[20] The Americas, Asia, the Commonwealth of Independent States, Europe, the Middle East and North Africa, and Sub-Saharan Africa.

minimum standards that its members commit to implementing at national level'. {http://www.financialstabilityboard.org/about/}. Further, the Basel norms at the BIS were seen to be influenced by "private financial institutions that anticipated being negatively affected by new regulations". They "were able to enlist their nations' representatives on the Basel Committee to water down the measures. The initial proposal for increasing the ratio of common equity to risk-weighted assets to 8 per cent was scaled back to 7 per cent at the behest of countries whose banks were exposed to Greek debt. The new higher capital requirements mandated under Basel III will not go into full effect for eight years – an eternity from the perspective of financial stability. This works to the favor of countries whose banks are poorly capitalized. The simple leverage ratio that will supplement these new higher capital requirements will similarly not go into effect for a period of years and has been set at high levels, which works to the advantage of countries in both Europe and Asia where banks are highly leveraged. The same is true of the new liquidity requirements, which have been watered down at the behest of countries whose banks rely on short-term wholesale funding" (Eichengreen-2011).

In the past there has been a MOU-based approach to regional/international cooperative structures. An agreement was made on May 18, 2005 towards a MOU among "banking supervisors, central bankers and finance ministers of the EU on dealing with crises and to enhance practical arrangements concerning cooperation in cross-border crises situations at EU level" (Larosiere-2005). In our proposed model, they would all be part of the RSCB Board/RFSC Sub Committee -Europe and would be, as a matter of mandated responsibility, initiating steps on an ongoing basis on any issue of concern in a cohesive and concerted manner.

The GSCB/GFSC in this form can deliberate and formulate on various other issues having bearing on the proposed World-RTGS system, International Financial Technology Infrastructure, Monetary & Real Unions as well as Regional & Global Financial Conglomerates taking inputs from the respective Boards of the NSCB. The modalities of creation of LLR and Insurance Corpus Funds can be framed up accordingly on a joint-contribution basis.

The distinguishing features of such a model would be as under.

(a) It would generate a pool of global experts on each area, who are in the know of the evolving issues on an international plane.
(b) It would be easier to standardize and implement norms as those would be reflective of economy-specific realties being the brain-child of the expert-representatives of the respective economy.
(c) The issues pertaining to financial regulation, monetary stability and liquidity subventions can be analyzed on a holistic manner and on a Regional as well as Global perspective.
(d) The market realities on the ground can be captured with lesser wastage of time and human resources and the policy actions can be sharper as they are perceived from a practical point of view.

(e) The sense of responsibility and accountability of the policy making would be backed strongly as they are by a sense of support bearing in the interest of individual member economy.
(f) The hierarchy and economy-specific nomination of market-talents (as against public employees) from each economy would lend sufficient sharpness to the teeth of implementation in case of any crises.
(g) It would be the best bet for smelling and smoothing of systemic crisis of global dimension.
(h) It would be qualitatively superior to the proposed idea of a WFA as it would profess to take care of both financial and monetary stability with the authority of a central bank. As a lender of the last resort, the central bank also has the fiscal dimension with the government nominee remaining actively associated at each layer of discussion and decision making. The political strength could be a 'given' since the body of experts is nominated by the sovereign sanction.
(i) This would be a global body with accountability and would hence remain focused on its avowed objectives because its functionally diversified activities were looked after by independent bodies of experts (not necessarily from the national governments or central banks) and thereby would relax its monolithic physical stature to considerable extent.

It would be worthwhile to reflect upon the ideas shared by Tiff Macklem (the then Deputy Governor of Bank of Canada in his remarks; Renewing the IMF-some lessons from modern central banking, to the Global Interdependence Center, Philadelphia on March 9, 2006) on what should be the avowed principles for an internal surveillance outfit in the globalized, market economy of the 21st century. Equally of interest is the evaluation of how the proposed model compares with such expectations to promote "global financial stability by supporting a market-based international monetary order" (Macklem-2006).

- Multilateral surveillance against bilateral communication between IMF and a member country: There is a need for a "forum where risks are debated openly, frankly and comprehensively by national policy-makers…..strengthening the analysis of the linkages between the financial sector and the real economy…..potential risks to be identified earlier so that authorities can address any problems, rather than calling on the Fund for financial assistance in the midst of a crisis". The forum should be effective as the issues that shape the global economy can be discussed "with candor and good will and in which problems can be resolved" (Macklem-2006)..
- Legitimacy: "as a truly global institution, and on a shared sense of trust and responsibility". "Global issues can't be effectively addressed if key players feel that they don't have adequate voice as IMF members…..quotas and voting powers at the Fund need to better reflect the growing power of Asian and other emerging-market economies"(Macklem-2006).

- Effective use of markets: "...to ensure that the international financial infrastructure is sound, that countries pursue sustainable policies, and that incentives encourage the appropriate pricing of risk and the efficient allocation of resources". It should be able to establish the "rules of the game" to address the risk of "global imbalance" by playing a lead role in "bringing the right players together, facilitating discussion, and relying on markets to achieve the necessary adjustments" and not doing too much "exceptional lending" (Macklem-2006).
- Transparency and accountability: At IMF "Accountability is dispersed and decision-making lacks transparency". "The IMF would be more effective if the Executive Board focused on setting strategic direction, as well as ensuring that policies are sound and that objectives are met. The Managing Director would then be responsible for policy implementation, and be accountable to the Board….Towards this end, Bank of England Governor Mervyn King had suggested that establishing a non-resident Executive Board that meets periodically, rather than almost continuously, and that focuses on strategic direction and oversight. Accountability and transparency of the Board's decision-making would also be enhanced with more frequent and more timely reporting. Finally, and very importantly, surveillance and analysis must be, and seen to be, independent of political influence"(Macklem-2006).

A careful perusal would suggest that the proposed GSCB/GFSC meets adequately (and even surpasses in many aspects) all these principles, which have been envisioned for a proposed remodeled IMF. The paper, as has been made clear earlier, is not too rigid about an entirely new outfit (as it may not be practical to have one fast enough to meet the emergent needs) and as such runs within the wavelength of current understanding of the issues. The proposed model is also in line with the seven point criteria suggested by Miskin for central banks to ideally execute, especially the crucial last three, namely accountability, transparency/communication and financial stability. All these can be best discharged if we have NSCB/NFSC, RSCB/RFSC and GSCB/GFSC with the necessary characteristics discussed above. The paper thus gets the satisfaction at least of not making an attempt to project something 'weird' or to defend the 'indefensible'.

It would be worthwhile to re-engage a bit more on the functions on the proposed WFA mooted by Eatwell and Taylor via-a-vis the proposal of GSCB/GFSC. WFA is supposed "to set regulatory standards for national authorities" and "assist" them "to adhere to them" by using a "carrot" (general market acceptance) and "stick" (poor ratings for poor adherence) method. With WFA surveillance in place, the "IMF could be restructured as true lender of last resort, drawing on its own (expanded) resources and coordinating the efforts of national central banks. Its interventions would be infrequent and credible precisely because it would lend only in circumstances in which WFA criteria were satisfied". Regulatory stances and capital market regimes will be taken by countries "after due consultations with the WFA". IMF/WB's 'one size fits all' policy packages "would become things of the past". It would also devise better ways of optimizing size and scope of capital flows. It would also be quite useful to draw attention to the

currently-run hot debate on the status of global surveillance by the Bretton Woods Institutions (especially the IMF and the WB) so as to conceive an appropriate menu of action-points, the GSCB/GFSC should be concerned with from the very outset.

For this purpose, a few fundamental issues may be taken for brief analysis. The *first* is the role of "an impartial arbitrator" (or a 'neutral assessor'-as envisioned by Ostry-2013-discussed elsewhere) as expected of the IMF by its founders, J.M. Keynes and H.D. White (Rajan-2006). This was amply reflected upon by the remarks of Paul Volcker in as far back as 1992. "When the Fund consults with a poor and weak country, the country gets in line. When the Fund consults with a big and strong country, the Fund gets in line" (quoted by Buira-2004). Another case in history of IMF reflecting its inability to be unbiased was seen during post-Asian crisis. "In exchange for providing financial assistance, the IMF required South Korea to raise interest rates and to cut government spending. That is the exact opposite of what the U.S. and Europe have done when faced with a very difficult crisis. One potential reason why this happened is that the IMF is a European and U.S. dominated institution. The head of the IMF up to now has always been a European while the head of the World Bank has always been an American. Asian countries are not represented at the highest levels" (Allen and Carletti - 2010). "….the Fund remains reluctant to bite the hand that feeds it; we have yet to see it launch withering critiques of Chinese currency manipulation and U.S. fiscal profligacy" (Eichengreen-2011).It "should be understood as behaving most consistently not in its commitment to the allocative efficiency of markets, but rather in its commitment to furthering the interests of key groups of economic and political elites" (Buckley-2012)……"acts as an honest broker between strong political and national interests…..tries to avoid figure-pointing; it tries to avoid putting Japan, China or any other big power in dock" (Pringle-2014).

The system of quota and the way it was decided to be fixed gives ample reason to believe that this was meant to be breached even by definition from the day one. As described by Raymond Mikesell, the person who had been requested by the US Treasury to estimate the first quotas: "White called me to his office and asked that I prepare a formula for the... quotas that would be based on the members' gold and dollar holdings, national incomes and foreign trade. He gave not instructions on the weights to be used, but I was to give the US a quota or approximately $ 2.9 billion; the UK (including its colonies), about half the US quota; the Soviet Union an amount just under that of the UK; and China somewhat less. White's major concern was that our military allies should have the largest quotas..."(Mikesell-1994). Moreover, countries that wanted to contribute more, like Australia, Iran and France, were not allowed to do so" (Woods-2000).

There can hardly be any improvement in such a position now, since any quota increase (the only vehicle for adjusting quota sizes) is required to be approved by 85 per cent of the vote and the US holds over 17 per cent; and the EU combined accounts for over 30 per cent of the votes. The collective quota and voting shares of the members of the European Union are currently 31.9 and 30.9 percent respectively. Even the revised model being considered by IMF (2014) would drop

the EU combined calculated quota share to, at the most to 22.1 percent "illustrating how disproportionate European influence is in the IMF relative to its true economic size" (Truman-2015).While on one hand, the developing countries are apportioned lesser votes hence lesser say in the decision making. Moreover, the structure in terms of membership is also perceived to be negatively skewed in favor of developing countries. Though IMF has 188 members, it is seen to be run by seven of them – the US, Japan, Germany, the UK, France, Canada and Italy….. The bigger a country's financial quota, the more weight it has over the proceedings and deliberation over the running of the IMF. This means that it is run by the countries that are least affected by its policies[21].

This does not speak well of the standards of corporate governance and the accountability system as they seem to pursue the interests of a subset of the international community, often to the detriment of the general interests of peoples and governments or even the collective interest of the world economy (Nayyar Court-2002).A committee approach of decision-making is better than a hierarchical one in line with ethics of corporate governance as it relies on more brains than one. If allocated voting power decides the number of brains one individual member can count for himself, then the spirit behind the 'committee approach' gets defeated and the system remains no better than a hierarchical one, because the member having more power in terms of decision making (by virtue of more voting power) deems to be hierarchically superior to the other having lesser voting power.

There have been suggestions in the literature of global surveillance reforms to embrace 'globalization' on the back of 'regionalization' thus reflecting the fact on the ground that trade and exchange rate policies are taking on an increasingly regional character with intra-regional business outpacing inter-regional business. "Regional surveillance can be improved and that spillovers can be addressed better by grouping bilateral consultations by regions, whether or not the region has formal arrangements….Another useful change in IMF governance….would be to reconfigure and consolidate the constituencies of the Executive Board around regional groupings….This is particularly important in the case of Europe and other complete monetary unions but applies well to regions in which monetary and financial integration is less advanced but in which cross-border effects are nonetheless prevalent" (Henning -2005).

[21] "Quotas that also determine voting power at the IMF are especially low for rapidly growing emerging markets such as Brazil, the PRC, and India. Kelkar, Choudhry, Vanduzer-Snow, and Bhaskar (2005) found that these three countries had 19% fewer votes than Belgium, Italy, and the Netherlands collectively, although they had 21% more nominal GDP, 400% more purchasing power GDP, and 2,800% more population. On the other hand, Europe controls directly or indirectly 10 chairs out of 24 on the IMF Executive Board, even though it has a common monetary policy and about 30% of quota and voting rights. The charters, quotas, and voting rights of IEIs were designed in the interest of like-minded original core members in 1944 and are inflexible and difficult to change as membership expands. In comparison with the 44 countries that participated in the Bretton Woods conference, membership of the IMF and World Bank now stands at 188". There have been proposals to reform the quota and voice in the IMF in 2008 and again in 2010. "The proposal to shift 6% of the quota to dynamic emerging markets and developing countries and to reduce European representation at the IMF Board by two chairs has not yet been ratified" (Rana-2013).

This idea gets special focus in the proposed model. RSCBs/RFSCs are supposed to discuss and sort out *national issues* having *regional ramifications* on the pedestal of a Regional outfit with representatives from all the concerned nations in a *democratic* manner. Representatives of the Regions then carry these regional voices to the GSCB/GFSC, the ultimate altar of discussions on *regional issues* having *international ramifications*. The Executive Board of the GSCB/GFSC gets constituted with the representatives of various RSCBs/RFSCs, which by definition would be *non-residential* in character while carving out policies for international systemic risk management in an on-going manner. The nominations from the nations and then from the regions being decided in an issue-specific manner, the nominees for specific policy-deciding meetings at the RSCBs/RFSCs or the GSCB/GFSC would necessarily be outside-cherry-picked-experts, being rotated thus ensuring impartiality and transparency of decisions "that differentiate constructive from unconstructive regional financial facilities" (Henning-2005) backed by sheer parochial bias.

As such, the GSCB/GFSC could "function as a trusted, independent and expert secretariat for policy makers around the globe" as also act as a true "custodian of global governance" with considerable and well-defined homogeneity in the "forms of representation, goals and authority". The proliferation of "second or third generation emanated institutions" namely, G7/G10/G20 (agenda setting and rule ratification), IMF/WB/IFC/BIS/FSB (rule making and enforcing), IFAC/IASC/IOSCO/IAIS (rule setting) with inherent "overlapping jurisdictions", which the current inertia has given birth to, would eventually stop. All aspects of global governance will be taken care of by the NSCB (NFSC)/RSCB (RFSC)/GSCB (GFSC) by way of Internal Working Groups consisting of the well-identified global-expert-pool available at their disposal. While, on one hand this would tend to sharpen the focus of the very rationale of their formation, they would mean restraining the avoidable sub-optimal use of man and material resources on a global plane, on the other.

The approach to global monetary and financial surveillance in the model proposed in the paper would rely extensively on the philosophy of 'homogeny' rather than 'hegemony' with little trace of 'democracy-deficit'. Experts in the countries both at national, regional and global level will be sitting together to decide which concept is the best for which country and region and at what point in time so that global imbalances are tackled in a practical manner. There would not be any concept of one authority being superior to another in terms of decision making and with provision for being mandatorily consulted. In such a system where regulatory guidelines are framed taking the regulated parties within the umbrella of confidence, the possibility of non-adherence and use of 'carrots' and 'sticks' for that purpose may not be needed. Such strategies may be considered at the national level but not at the regional or global level. With the current trend of diluted internationalism and inverted economic power structure, expectations for any involuntary adherence will have chances to be bellied while voluntary compliance will be respected as an exception than a rule. In this respect, the proposed model has better scope for being accepted and because it also involves a metamorphosis of existing structures, (and hence minimum tinkering in the men and money availability), it should be a more "sensible

international action" (Eatwell -).Further, the puzzle of the possible "governance trilemma"[22] that the current outfits face are well handled by the proposed model.

Kawai and Rana (2009) and Rana (2013) sound optimistic on the slow but steady progress towards decentralized decision making in the global arena, and, as such, their ideas echo the one proposed in this paper. Based on their experience with the Asian financial crisis, they argue that efforts "to prevent and manage a capital account crisis[23]required actions at the global, regional, and national levels or a multilayered global financial safety net". They go on to envision a multilayered decision-making structure where national, bilateral, and regional initiatives are given cognizance based on "functional federalism" and "the principle of subsidiarity" that believe in taking on board decisions made at the lowest possible administrative level for decision making globally. This will lend flexibility and credibility to international decisions as they are taken out of decisions within countries, which typically involve several layers of government. Such global public goods managed by a regionally decentralized decision-making process would encourage emerging economies to take leadership in the whole process. It would be easier to have national and regional decisions tailor made to allow for globally coherent measures that act as building blocks of a global system. These principles tend to gel quite well with those enshrined in this paper.

The semblance of such a decentralized architecture[24] is getting visible in the ongoing configurations at the currently existing global bodies. They feel that replacing G20[25] by "the

[22] "There is broad agreement that IEIs need to become (i) more democratic, (ii) more effective in delivering public goods, and (iii) universal by accepting all countries that apply for membership. These requirements add up to a trilemma; achieving any one two objectives makes achieving the other more difficult. For example, the United Nations (UN) is democratic and universal, but suffers on effectiveness. Similarly, the IMF and World Bank are universal and effective but not democratic. The G20 represents 4.2 billion people of the world but not the other 2.6 billion people. (Kawai, Petri, and Sisli-Ciamarra 2009: 13)" Rana-2013.

[23] "Financial globalization is associated with "large inflows and sudden reversals of capital flows, thebursting of asset bubbles, and a banking crisis "tending "to affect an economic entity's balance sheets and solvency positions. The costs of balance sheet recessions tend to be higher and recovery from such a crisis takes longer. They also tend to be systemic, affecting most or all sectors of the economy, with strong contagion to neighboring countries (which may be innocent bystanders)" (ibid).

[24] In the developmental architecture, the World Bank is complemented by four regional development banks. In the financial architecture, we have the Financial Stability Board at the global level and the European Systemic Risk Board, the three European bodies for banking, insurance, and securities market, and the proposed Asian Financial Stability Board (AFSB) at the regional level. In the international monetary architecture, the G20 is at the apex. The IMF has various multilateral safety nets. There are the bilateral safety nets (BFSNs) among central banks that were triggered when Singapore and the Republic of Korea faced liquidity problems in late 2008. In Asia, about a dozen and a half bilateral swaps were established between central banks of the region under the Chiang Mai Initiative in the aftermath of the Asian financial crisis. In March 2010, these were combined and expanded to become the Chiang Mai Initiative Multilateralization (CMIM). In April 2011, the ASEAN+3 Macroeconomic Research Office (AMRO), an independent surveillance unit for the CMIM, was established in Singapore. AMRO's mandate is to "monitor and analyze regional economies…(ibid)".

[25] G-20 - is an "extremely differentiated and heterogeneous set of countries, whose conditions and priorities differ both in the short term and over the long run. It would be extremely naive to expect that such a group would be able to reach agreement on anything beyond the immediate crisis at hand, despite their ambition to tackle structural issues" (Gokarn-2010). "the G20, the forum in which 19 countries plus the European Union bargain over solutions to pressing international problems…..is a dysfunctional institution that will create as many problems as it solves……20 negotiators never agree on anything of substance unless and until they feel threatened by the same problem at the

Global Economic Coordination Council (GECC) and the Financial Stability Board by a World Finance Organization (WFO)" and "establishing the proposed Asian Financial Stability Board (AFSB) by involving the region's regulators and supervisors" as in Europe to assist the Financial Stability Board would be useful.

Schinasi and Truman (2010) also favor a global financial architecture that persuades remedial actions- in times of crises - at the national, regional, continental, or global level. While they like to "establish the conditions for closely coordinated policy development and implementation" and to let the process to start from below – at national levels –, and to "collectively and equitably create, manage, and capture the benefits of global public goods" they do not appear to be in favor of dislodging the applecart of the IMF and FSB whose financial stability roles, they feel, should be enhanced individually and collectively through the means of cooperation and collaboration. While "the IMF must focus on macroeconomic and macrofinancial stability, the linkages between them, and the implications of macroeconomic policies for the stability of the global financial system, the FSB "must focus its efforts on sponsoring the adoption of new international supervisory and regulatory standards that improve the ability to assess, monitor, and hopefully maintain systemic financial stability in addition to the safety and soundness of financial institutions". To address 'legitimacy issues', FSB should report to the IMF's International Monetary and Financial Committee (IMFC) in addition to the G-20 ministers and governors and G-20 leaders. Accordingly they would like to see the IMF having more power and authority "to facilitate the dialogue between member countries" and to get the FSB to "call on the IMF to consider and deliver on certain issues".

This paper does see some similarities in the configurations for the NSCB (NFSC)/RSCB (RFSC)/GSCB (GFSC) proposed by it with these proposals. These are however, not democratic set-ups and are based on hegemonistic principles, while this paper recommends something quite different in their inherent characteristics. It is however, in alignment with Hannoun (2010) who feels that the global framework would be effective to handle both "price stability and financial stability" concerns if it carries policy contributions from microprudential, macroprudential, monetary, fiscal and market disciplines in a holistic manner. It would accordingly need to "rely on close cooperation between central banks and supervisory authorities, both within and across borders". The institutional setup of the mechanism of international coordination must be "based on precise mandates and clear accountability". Both versions of coordination mechanism reflect such thoughts.

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same time and to more or less the same degree" (Bremmer-2012)…..Paul Martin (Canada's finance minister - 1993-2002, then prime minister - 2003-2006) "was the man who created the G20. ……He didn't put forward the G20 idea mainly to improve global governance. Instead, it was the product of his careful calculation of what was best for Canada. His country had long been a member of the G7, a privileged position. But years before the market meltdown of 2008, Paul Martin understood that the world's balance of power was changing more quickly than many realized and that the G7 was fast becoming irrelevant. He became convinced that Canada needed to exchange its first class seat on a sinking ship for a secure spot on a bigger boat. By leading the effort to build that boat, Martin believed that Canada could win valuable new friends. The G20, dysfunctional or not, is now a fixture of international politics" *(ibid).*

Regional financial and monetary cooperation may be strengthened so it can promote regional macroeconomic and financial stability by coordinating capital inflow or outflow controls to minimize any spillover impacts. This is particularly so if economies in the region encounter common capital inflow or outflow pressures. They can also have informal exchange rate policy coordination for collective currency adjustment which would help to achieve each country's macroeconomic and financial sector stability while maintaining intraregional exchange rate stability. They can also bolster Regional financial safety nets. The countries under a group can analyze any international spillover effects together and provide consistent, coherent advice to the global body.

While deciding on macroprudential policies for a nation (or for that matter a region[26]), the Financial Stability Councils would address international issues, including the imposition of negative externalities of their policies on other countries and vice versa. The other related issues, viz. cross-border regulatory arbitrage, "leakage" effects, and home-host authority conflicts arising from the supervision of financial institutions that operate in multiple jurisdictions can also be judiciously handled in these outfits. National and supranational authorities in the nature of NFSCs/RFSCs as a matter of their mandate will need to spot and contain risks cross borders and globally via efficient practices of information sharing and on-the–ground decision making[27]. By its very preamble for creation, the authorities need to avoid economic nationalism as a matter of rule and especially in the time of crisis. Home bias will harm all the members[28].

Regulatory harmonization has made great progress, however, continued national variations make full harmonization elusive. The approach to move into a regional model would take into account the levels of liberalization and harmonization. Only those member countries that have achieved the requisite development milestones should move on to higher stages of integration and regulatory harmonization which can implement best practice regulation, promote mutual recognition in areas such as fund management, harmonize market infrastructure, and promote cross-border supervisory MOUs[29]. These regional regulatory institutions can then strengthen ties with their respective global institutions.

The process by which both the RSCB/RFSC and GSCB/GFSC would be funded for its day-today running and also for keeping a 'buffer fund' for unforeseen contingencies would have to be

[26] Regional architectures such as ASEAN, ASEAN plus 6 and the East Asia Summit are amongst those forums that attempt to create a more resilient regional block with respect to trade, finance and mobility of resources.

[27] The Spanish housing bubble, which affected Spain directly and Germany indirectly, is a good example of a case in which cross-border information sharing and actions would have been helpful.

[28] German banks had lent large sums of money into Greece, Spain, and other peripheral European countries. When they pulled their funds back home as a result of regulatory pressure and a shortsighted view of their own self-interest, it severely harmed the borrower countries. That harm rebounded on Germany as the Euro Crisis accelerated, damaging confidence, trade, and the overall economy across Europe, including Germany.

[29] The EU has committed itself to shifting financial regulation from the national to the regional level by way of a region-wide regulatory framework which will include the Single Supervisory Mechanism headed by the ECB and region-wide resolution and deposit insurance structures.

thought of in a serious manner considering the current arrangements in place and their perceived drawbacks. It should not be on the basis of proportionate share in the capital pool nor should it be on the basis of size and status of the economy concerned. In such a Board-approach of decision making, each member's opinion should be given equal attention. This fundamental difference in structural change should not get compromised on the issue of mobilizing financial wherewithal. Each financial unit can have a deposit with the NSCB/NFSC (to look after the operational expenses of RSCB/RFSC and GSCB/GFSC) and/or can have a floating provision to meet unforeseen systemic crises to be used when an occasion arises or can contribute to central insurance fund based on the size of the business. It should also have a "provision of bridge finance to stave off particular dangers" (Crocket-2005) or an attractive insurance facility in the nature of a "global version of the Chiang Mai initiative, where countries offer to lend reserves to each other…..or a…… formal pooling of country reserves…..that would offer far more automatic access in times of trouble….." (Rajan-2006 as a part of an IMF reforms program).

While thinking of these kinds of means and the available pools of contingency funds, a need would arise to ensure that moral hazard does not work to reduce risk-awareness. To this end, regulatory or supervisory policies can be evolved to reduce such behavior. If the scheme of compensation is linked to supervisory opinion on genuineness or legitimacy of the claims made, such tendencies may be expected to be kept at minimum.

This is in no way an easy task. But given the potentials for collective rewards as along with systemic risk looming large, such edifices need to be erected. While globalization of the economic world is distinctly discernible, the shadows of close-knit geographic zones are visible too. So long as they reinforce each other's vitality, there is no harm. The so called "Chairs and Shares"[30] mode of global governance must give way to 'CARE and SHARE' mode made up of the 'Voice' of all. Let the chronology of monetary history (which has been) driven by "warfare"[31] be steered in future by "welfare" of the human race.

Section IV

CONCLUDING COMMENTS

Financial crisis begets call for international cooperation primarily because the international regime remains under great stress as international interdependencies tend to be especially visible. Perceived stakes are also seen to be the highest in such occasions. In history, there has been a pattern evident of financial crises where great efforts are made to cooperate with various stakeholders including: in the 1992 EMS crisis, to avert the breakdown of Bretton Woods, in response to the 1931 financial crisis – the threat to gold-exchange standard.

[30] Rana (2013)

[31] Bordo, Michael and Angela Redish quoted by Christian Noyer in his Speech "Spheres of influence in the international monetary system" 8 June 2015

The Bretton Woods System was 'born' in 1944 then morphing into the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT), the predecessor of the World Trade Organization (WTO). The creation of G5, G7 and G8 was prompted by the need to oversee the process of provision of international public goods. The FSF is the product of the Asian crisis. The call for the New Bretton Woods (NBW) system in the wake of the global economic crisis (GEC) of 2008–2009 has thus far expanded the G8 to the G20. Finance ministers and central bank governors group were also moved into the G20 Summit of Leaders - designating it as the "premier forum for economic cooperation," while upgrading the Financial Stability Forum to the Financial Stability Board by expanding membership.

However, all these changes and voices of concern fetched only peace-seeking solutions[32] which were merely transitory in nature. With the intensity of the crisis blowing over, the regime of mistrust would relapse. Hence when the prospects for international policy coordination become difficult" in this top-down configuration/s attempted so far, it might be "better understood working from the bottom-up?

Quite curiously and as a counter effect, in crisis situations, with high and mounting financial stakes, collective action failures[33] are very likely to arise especially because there will be every likelihood of dominant, ex-post efficient and implementable strategies not being able to get germinated. Thanks to the probable tendency on the part of countries acting in their own "self-interest"[34] (i.e., in line with their nationally-based accountability), information-sharing (notwithstanding any MOUs) will not occur since each will endeavor to minimize the loss to its own country's treasury. The tensions arising from each national authority acting in isolation without taking into account the impact of its actions on other authorities across its borders will spring up a sort of "prisoner's dilemma" giving rise to a solution "not ex-post Pareto optimal", i.e., at least one player will be losing heavily unnecessarily (Cihak and Decressin – 2007).

The need for innovating structures that can help withstand periodic economic blows will encourage formation of Sub-Regional economic blocs as the possible solution. Political dislike

[32]There was an attempt in 2006-07 to bring together a handful of countries (the U.S., the euro area, China, Japan and Saudi Arabia) to discuss and arrive at consensus on mutually-advantageous adjustments in policies. This was led by the IMF. Similarly, G-20 rose to the occasion (after the collapse of Lehman Brothers) to jointly prevent disorderly failure of another systemically significant financial institution and also to resist succumbing to a protectionist response to the subsequent recession. Further, the speed with which Basel III new measures were conceived and put under implementation vis-à-vis the same in peace time under Basel I and II could be another example to stand together to contain the severity of the financial crisis (Eichengreen -2011).

[33] "To take two prominent examples of specific (and related) coordination problems - , strategies of national self-insurance through foreign reserve accumulation by emerging market economies (EMEs) requires steps to limit real currency appreciation which relies heavily on nominal exchange rate management. A key message is that a diverse set of potential asymmetries among sovereign member states provides fertile ground for a variety of coordination failures" (Obstfeld-2011).

[34] "National governments acting alone cannot be expected to internalize all the negative implications of domestic financial instability on foreign markets. The temptation to under-regulate in the quest for market share will remain in the absence of international cooperation. Regulators evidently understand both these facts and the urgency of their task" (Eichengreen-2011).

may prevent the process from gathering momentum, though the legitimacy of economics and common welfare will pull it out of cold storage. Political confederation will remain in the agenda however it may be pushed down as the final item. A case in point is the matter of Euro and also in the case of Gulf Cooperation Council and East Africa, in which the idea was to plant a common market, a monetary union and then ultimately a political federation - in that order. A genuine financial integration program in the face of a shock, (which will be with all probability, reasonably common and well correlated) may even turn into a political package and tool. "Moreover, what is sacrificed at the national level (monetary monopoly or even political sovereignty???) is recouped at the group level. Authority is not surrendered but pooled and - delegated to the joint institutions of the….. Partnership, to be shared and in some manner collectively managed by all the countries involved. Each partner's loss, therefore, is simultaneously also each other's gain. The individual state may no longer have much latitude to act unilaterally, but every government retains a voice in decision making for the group as a whole. They are all, in this sense, gainers.Net effects for participants, therefore, could turn out to be distinctly favorable" (Cohen-2008). Crises will tend to cure the 'economic-attention-deficit disorder' and structural innovations on Regional lines will take the center stage.

Since systemic risk does not recognize geographical borders, with financial activities running on a global plane in order to be viable as a commercial business, arrangements for internationalization of regulatory/supervisory architecture need to look for GSCB/GFSCs to motivate financial innovations to manifest itself in an orderly manner across the global village. Thus, it will help ensure that monetary stability and financial stability remains the order of the day. The complex issue of evolving Level Playing Fields in such a system has been enunciated through the idea of a "Garland Maker's" Model (version 1 – 2006). Super central banks discharging both the functions of monetary management and financial market regulation/supervision could be a superior bet in such a scheme of things. Such edifices may be put in place both at a Regional and Global level. They should be structured in such a manner that they retain the ability to motivate financial innovations to occur in an orderly manner across the global village. Thus it will ensure that monetary stability and financial stability remain the order of the day. Appropriate regulatory and supervisory measures would be the necessary pre-requisites. Similarly, the concept of national financial stability councils (or Systemic Risk Boards or Macroprudential Authority) as a post-crisis development could be leveraged into one covering issues of regional and then finally global vulnerability. By their nature, they will be dealing with both monetary policy and regulatory/supervisory systems. Since a universally acceptable financial regime will warrant complex process of negotiating and compromising (where different national interests, industry interests, financial democracy etc. may be brought to terms), such governance architecture could do the job optimally.

The IMF and the BIS under the current regime are not in sync with the avowed objectives. Role of IMF in the international monetary system is limited to applying promoting macroeconomic stability-surveillance and economic policy advice, while BIS provides food for thought processes on various emerging international issues to the member countries. The World Bank acts more as

a development finance institution. “Sadly, the American-dominated World Bank cannot serve as a model for the AIIB. It is now well known that the World Bank has served as an instrument of American foreign policy. Joe Stiglitz has documented how the World Bank punished Ethiopia at the request of private American banks, which had lost revenue on loans to Ethiopia” (Mahbubani – 2015). The FSB is evolving into a better-fit but not of the expected genre. “The G20 and the Financial Stability Board do not have the full competences to fulfill the role of the “fourth pillar” of international economic governance” (Constâncio– 2015).

Since a universally acceptable financial regime will warrant complex process of negotiating and compromising (where different national interests, industry interests, financial democracy etc. may be brought to terms), the suggested concepts of GSCB/GFSC could do the job optimally. But now on, they can hardly be ‘the band masters’ for the international monetary orchestra. The order has changed. Britain had given it away to USA and there is no heir-apparent in sight. The history of international cooperation arrangements shows that there had been one-off such endeavors based purely on commercial quid-pro-quo. Perhaps this is reason that they were so transitory. Center-periphery hegemonic arrangements would find it difficult even merely to take shape let alone gather momentum. The GSCB/GFSC would be in line with that reality of change in international economic order in which the orchestra would be played by many masters with equal stake on the show and without malice to each other.

This idea is in line with the vision of Jose Antonio Ocampo (2006) of the future IMF. He would love to view it “as the apex of a network of regional and sub-regional reserve funds and swap arrangements—that is, a structure more akin to that of the European Central Bank or the United States Federal Reserve system than to its current centralized structure. In turn, competition among global, regional, and sub-regional institutions is probably the best arrangement in this area”.

By global governance some “imagine blue helmets and maybe black helicopters”, while some others feel “a ring of panacea and utopia about it” (Talbott-2003). But the real issue is “to welcome a democratic system in which there are distinct mechanisms for people to make their voice heard and also to make their decision makers accountable. There should also be an agreement about the issue of the legitimacy of the wings of global governance and the extent of transparency they are expected to display” (Florini-2003). All these can ensure the sort of cooperation needed of “multiple actors dealing in a common way with problems rather than a system of top-downness” (Steinberg-2003) that the prevailing system propagates. The Garland Maker’s model of global governance seems to meet most of these requirements, though it does not presage major dislocations in the existing physical and human capital systems. Most importantly it relies heavily on a ‘Bottom-Up’ approach of consensual decision making. Interestingly, Sheng - 2015 also shares this idea. “In the past, IMS reform proposals were from a “top-down” financial architecture that was designed by G7 or G20…IMS reform can only come from a competition of ideas from “bottom-up” - from different EMEs and within EMEs…. It is the

competition of a bottom-up race to solve the key problems of our era that will shape our global economy and our IMS".

International cooperation – organized in a Bottom-Up ('Nation-Sub Region, Region and Global') design could be the anti-dote to the operation of fallacy of composition – financial resilience-boosting national actions could be detrimental to other nations and hence the international system. "The more cooperation, the more carefully coordinated national policies are in timing and nature, the lower will be the need for international liquidity to finance imbalances". A global systemic liquidity arrangement may be the need of the hour to supplement to the macrofinancial approach to address systemic risk. "The degree of … international cooperation … influences the amount of liquidity needed to finance imbalances in the face of temporarily divergent and conflicting national policies" (Cooper-1969)[35] . The idea of such a cooperative approach[36] to global liquidity provision looks more relevant today. "A collateral benefit of such cooperation is that it can mitigate other coordination failures in national economic policies" (Obstfeld-2011). Accordingly, such a system would "likely operate near an international cooperative equilibrium in which each country optimises its economic performance" (Taylor-2013).

Managing financial instability with a global perspective "is in everyone's interest but it involves solving a collective action problem". The availability of global schemes of large unconditional insurance pools would dampen the perverse incentive of accumulating precautionary reserves by the emerging economies. This will thus rid them of the associated damaging macroeconomic policies such reserve accumulation tend to force upon them. The risk of spiraling global macroeconomic imbalances and the attendant risks of crises and their spillover effects may thus get automatically mitigated. Further, this method-also creates a transparent mechanism taking all concerned on board and the global costs of a country's policies would be internalized to some extent or, at a minimum, made more visible (Prasad-2011).

Homogenizing policy formulations emanating from heterogeneous country units as panacea for global ills would need institutionalization of the spirit of 'spontaneous cooperation' (Baldwin-2010) as displayed in Asia. Even "Europe's founding fathers…did not start with grand designs…. exploited windows of opportunity…national interests permitted establishment of long-lasting institutions that in turn fostered deeper economic integration".

[35] Taken from Trauman, Edwin M. (2011),Three Evolutionary Proposals for Reform of the International Monetary System, Rremarks at the Bank of Italy's Conference in Memory of Tommaso Padoa Schioppa, December 16.

[36] The Asian Bond Market Initiative is a specific example to show the efficacy of cooperative policy making in promoting more resilient local financial markets. "Through coordinated efforts between national policy makers to strengthen and harmonize institutional and legal frameworks and the setting up of pooled bond funds the initiative sets out to promote the development of local bond markets and create a "spare tire" in the event of disruptions to still bank-dominated funding channels or global finance" (Pongsaparn et al-2011) .

The Last Words

The relevance of such architecture of global governance of monetary policy and financial stability at the current juncture, not withstanding, it is incomprehensible "to get USA on board" (Engel-2015 – email) as the new structure implicitly calls for its consent "for ceding any decision-making power to an international body". Going by the current approach of the lawmakers in US on quota reforms in the IMF – surrender of its huge share in decision making –and on the hesitation "of giving the Fed independence", such an idea that does not envisage special privileges for any country would be difficult to sell to the US. And he suggests that an "opt-out" clause – any country who does not find it useful can be excluded. But the approach will not solve this dilemma and could be self-defeating. The idea needs to take the US, the star player on board and to rid the countries of the false signals of the 'fallacy of composition', 'tragedy of commons' and 'prisoner's dilemma'.

The reluctance of the US Congress to ratify a 2010 agreement providing China and other large emerging economies greater voting power in the World Bank and the IMF and that of France, Germany, and Italy - to give the emerging powers an appropriate voice in the established international financial institutions is proving to be counterproductive. It is driving the creation of new parallel institutions such as the AIIB and the New Development Bank, founded in 2014 by the BRICS countries (Brazil, Russia, India, China, and South Africa)[37]. "By founding the AIIB and the New Development Bank, China and other emerging powers have signaled that they will not wait for their voices to be better heard….And decisions like that of the UK — and France, Germany, and Italy — show that they are not alone" (O'Neill – 2015).This development embraced by close allies of the US "is also seen as the further devolution of the U.S.-centric economic order organized under the Bretton Woods agreement in 1944" (Levine-2015). "Perhaps America's opposition to the AIIB is an example of an economic phenomenon - firms want greater competition everywhere except in their own industry" and/or "it simply wanted hegemony. In an increasingly multipolar world, it wanted to remain the G-1" (Stiglitz-2015). But it is heartening to note the gentler tone of the U.S. Treasury Secretary Jack Lew (31 March 2015) as he declared –"the U.S. stands ready to welcome new additions to the international development architecture."

[37]Emergence of AIIB or even the BRICS should usher in a new form of global financial governance that is both fragmented and multilayered. There may be legitimate concerns about this decentralizing trend, but they may be marking the beginning of an end to the display of the dangers of highly centralized power vested in overarching global institution/s as hitherto. It would sow the seeds of a system of effective coordination – with necessary "checks and balances," - among global, regional and bilateral institutions to pursue public goods together. "Moreover, a decentralized system would also resonate with the normative structure of the post-global recession world: namely, general skepticism of one-size-fits-all solutions. Multilayered international financial governance could prove to be compatible with regional diversity and national variations in capitalism" (Sohn-2015).

But necessity is the mother of invention and the US would well remember Benjamin Franklin's famous warning: "If we do not hang together, most assuredly we will hang separately". A lot has changed since then. "US of the 21st century is unlikely to possess the capacity or the will to shape geopolitical order in the way it did in the 20th….economic interdependence would soften national competition and that global supply chains would beget more effective global governance….never signed up to the idea of sharing national sovereignty…..As they operate their multi-nation supply chains and just-in-time production processes, businesses should understand that the world has changed"(Stephens-2015). "The G-Zero" position "can't last, because it will create too many problems that demand cooperative solutions….. regionalization appears the likeliest result because it's the path we're already on" (Bremmer-2012).

The Pacific Alliance (officially launched by Chile, Colombia, Mexico and Peru in June 2012) has emerged as one of the leading economic integration projects in Latin America. There has been talk of linking NAFTA with the Pacific Allianceto forge a pragmatic economic agenda for cooperation as a reaction to the failed U.S. initiated FTAA which was part of an agenda to consolidate corporate control. There is also a move to end the destructive cycle of investment treaties and replace it with an alternative economic structure that better respects the sovereignty of nation states (Gabriel–2013).

The reflection of the current financial crisis prompting international cooperation led by the US to stem its intensity "was the US dollar swaps with various central banks instituted by the Fed in order to provide US dollar liquidity. The IMF was not able to act as lender of last resort and its role in the Euro-debt crisis was largely advisory. The Fed extended temporary dollar liquidity facilities to 14 central banks during 2008 and many of which were even renewed in October 2013" (Nakaso – 2014). On the same occasion (October 8, 2008) - the immediate aftermath of the Lehman collapse – there was a coordinated reduction of 25 - 50 basis points in the policy interest rates by the central banks of six advanced economies to ease "global monetary conditions" (Board of Governors of the Federal Reserve System, 2008a; Eichengreen, 2013b). As a sign of acceptance of the idea that "coordinated action could be better than unilateral action" (Mohan 2014), the FOMC members were on record appreciating act of "the policy makers around the globe…working closely together" carrying "a similar view of global economic conditions" with the willingness "to take strong actions to address those conditions" and thus reflecting the fact that "coordinated action could help to bolster consumer and business confidence and so yield greater economic benefits than unilateral action" (Board of Governors of the Federal Reserve System, 2008b).

In the face of rapid integration of US economy with the global economy, the general view (including the emerging economies in particular), is that the US monetary policy should be implemented unilaterally without regard to developments elsewhere to take care of the possible detriment of the US economy could be 'practical' but 'short-sighted' since "if a change in US policy leads to better performance in other countries it is likely to have positive feedback on the United States, which would certainly be in the interest of the United States" (Taylor-

2013). As such, “international considerations will impinge more directly on the objectives of price and economic stability in the US” (Eichengreen-2013b) and hence the US “should worry about the effects of its policies on the rest of the world” (Rajan-2014a) and accordingly, the Fed should “take into account the external impact of its actions” on others. “Through trade and financial linkages, financial and economic distress in foreign markets can come home to roost” (Buiter-2014).

In this context, the argument that “it is naïve for EME governments to expect major financial centers to adjust their economic policies in response to economic conditions elsewhere" (Rodrik, 2014) and hence “rather than fulminating about other countries’ monetary policies” (Prasad-2014), “the best solution lies in having each individual country keep its own house in order” (Frieden-2011) in “delivering low inflation and financial stability” (Prasad-2014) does not sound persuasive. Robust health of individual financial institutions does not guarantee the system rid of risk. A risk afflicted system is likely to contaminate the robustness of the individual institutions. As such, “the incentives for countries to act unilaterally rise substantially in times of crisis; and the seriousness of the negative externalities unilateral action can impose also rises substantially” (Jeffry-2011). “……..we would like to live in a world where countries take into account the effect of their policies on other countries and do what is right, broadly, rather than what is just right given the circumstances of that country” (Rajan-2014a). International coordination/cooperation is generally appreciated as the “logical solution” but is considered “misplaced” (Rodrik-2014) as “it is unlikely to work” (Prasad-2014) considering “the difficulties of coordination” as great (Frieden-2011). But since the scope for “uncoordinated macroeconomic policies could seriously deepen a financial crisis”, the “desirability of coordination is almost certainly growing” (Jeffry-2011).

Fratzscher-2013 has shown empirically that “part of the effect of QE policies on foreign economies is related to risk, and that sound domestic policies and strong domestic institutions help insulate countries from US monetary policy spillovers”. This pleads for “more coordination at the global level in order to deal with policy spillovers and externalities”. The global economy is and will remain very interdependent. Advanced countries will continue to spill negative effects of their domestic policies over other economies. It would be smart of thinking of possible “large gains to be realized through intelligent coordination” (Izak-2013). Active domestic policy reforms to directly internalize certain perverse elements of such externalities are the necessary conditions for the dynamics of coordination to fructify. “Summers reveals the epochal nature of these changes; moving from the present system which places the onus of adjustment on borrowing’ countries in favour of a symmetric system, with pressure also placed on ‘surplus’ countries”(Nissan-2015).

An international coordination framework for economic governance will benefit every country including the USA. Apart from raising regulatory standards all over the global financial space, it would constrain “…harmful behaviors in the United States that (it) would wish to limit anyway…… Economic activities abroad can have significant negative spillovers on US well-being,

as well as present opportunities for (mutual) gain to be unlocked…Unnecessary financial volatility and misbehavior abroad transmitted to the US economy directly, rapidly, and strongly (can be considerably reduced)" (Posen-2015). There is the rest of the world economy that is kicking in terms of growth and progress. They are increasingly leaving the US behind by way of incremental growth "in size and financial depth relative to the US economy" (*ibid*) and would not bear the patience to continue to pester the US "to engage with (them) in discussion of the rules by which it is partially governed" (*ibid*).

It is worthwhile and heartening to note that the US has started taking "the potential international implications of Fed policies seriously". Though their domestic policy mandates are "out of simple self-interest", they remain actively conscious of the possible "international effects of Fed policies" to "spill back onto the U.S. economy and financial markets" as also their special responsibility "given the dollar's role as the international reserve currency". They would as such "remain attentive to the risk that the onset of Fed policy normalization could bring a new round of market pressures on EMEs" (Dudley-20 April 2015). They sound to be in sync with the expectation that "(N)o matter what a central bank's domestic mandate, international responsibilities should not be ignored" (Rajan-25 June 2015). Similar views were echoed by Stanley Fischer. "As we consider the decision of policy rate normalization, we are mindful of possible spillovers to other economies, including emerging market and developing economies. In an interconnected world, fulfilling the Federal Reserve's objectives under its dual mandate requires that we pay close attention to how our own actions affect other countries and how developments abroad, in turn, spill back into U.S. economic conditions (June 30, 2015)".

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