

THE IMPACT OF DISTRIBUTION OF THE GREAT ECONOMIC POWERS ON THE FUNCTIONING AND STABILITY OF THE INTERNATIONAL MONETARY SYSTEM

Doctoral dissertation

prepared under the scientific supervision of

prof. dr hab. Bogumiła Mucha-Leszko

Auxiliary supervisor: dr hab. Tomasz Białowas

The subject of the doctoral dissertation was the rules of functioning and stability of the international monetary system studied in close connection with the shifting of the great economic powers, i.e. the position of the main economic centres of the world economy. Empirical analysis of the stability of IMS during the whole period of its functioning was based on the assumptions of hegemonic stability theory. This theory is a collection of ideas that, in a liberal international economic system, balance can be ensured by the existence of a dominant (hegemonic) centre that performs leadership functions¹ (Ch.P. Kindleberger², R. Gilpin³, S.D. Krasner⁴, R. Keohane⁵, B. Eichengreen⁶, D. Snidal⁷, D.A. Lake⁸, B.J. Cohen⁹, M. Vermeiren¹⁰ and J. Wang¹¹).

¹ Ch. P. Kindleberger, *The World in Depression: 1929-1939*, Berkeley, 1973; A.A. Stein, *The hegemon's dilemma: Great Britain, the United States, and the international economic order*, "International Organization", vol. 38, no. 2, 1984.

² Ch. P. Kindleberger, *The World in Depression: 1929-1939*, Berkeley 1973.

³ R. Gilpin, *War and Change in World Politics*, Cambridge University Press, 1981; R. Gilpin, *Global Political Economy. Understanding the International Economic Order*, Princeton University Press, Princeton and Oxford, 2001.

⁴ S. D. Krasner, *International Regimes*, Cornell University Press, New York 1983.

⁵ R.O. Keohane, *After Hegemony. Cooperation and Discord in the World Political Economy*, Princeton University Press, 1984.

⁶ B. Eichengreen, *Hegemonic Stability Theories of the International Monetary System*, "NBER Working Paper Series", no. 2193, 1987; B. Eichengreen, Yung Chul Park, *Global Imbalances and Emerging Markets*, [in:] J.J. Teunissen, A. Akkerman (eds), *Global Imbalances and the US Debt Problem: Should Developing Countries Support the US Dollar?*, FONDAD, The Hague, 2006; B. Eichengreen, *Exorbitant privilege. The Rise and Fall of the Dollar*, Oxford University Press, 2011.

⁷ D. Snidal, *The Limits of Hegemonic Stability Theory*, "International Organisation", vol. 39, no. 4, 1985.

⁸ D. A. Lake, *British and American Hegemony Compared: Lessons for the Current Era of Decline*, [in:] J. A. Frieden, D. A. Lake (eds), *International Political Economy. Perspectives on Global Power and Wealth*, 4th ed, Routledge, London and New York 2003; D. A. Lake, *International Political Economy: A Maturing Interdiscipline*, [in:] B.R. Weingast, D.A. Wittman, (eds.), *The Oxford Handbook of Political Economy*, New York, Oxford University Press, 2006.

⁹ B.J. Cohen, *Global Monetary Governance*, Routledge, London and New York, 2008.

¹⁰ M. Vermeiren, *Power and Imbalances in the Global Monetary System. A Comparative Capitalism Perspective*, Palgrave Macmillan, 2014.

¹¹ J. Wang, *The Past and Future of International Monetary System. With the Performance of the US Dollar, the Euro and the CNY*, Springer 2016.

Despite the intensification of the internationalization of business activity and globalization processes in addition to the growing interest of economic theorists in the effects of structural changes in the global economy, the literature on economics and international finance has been deficient in detailed analyses of the relationship between the distribution of the great economic powers and stability of the international monetary system. In spite of numerous publications and significant achievements in the field of financial and monetary stability, this problem is usually treated quite fragmentarily. There is, however, a lack of research work in which the problem of the influence of great economic power systems on the stability of currency relations in the world is comprehensively considered. Admittedly, in some works this problem is addressed in relation to the period of Pax Britannica and Pax Americana in order to indicate the rationale for the transformation of the contemporary international monetary system. This confirms the existence of **a research gap** in the scientific literature in this area, both foreign and Polish.

The main objective of the study was to assess the stability of the IMS and to identify the most important factors destabilizing exchange rates and the currency market, depending on the distribution of the great economic powers, rules of the IMS functioning and stages of development of the world economy. This goal was possible to achieve due to the implementation of detailed auxiliary objectives of an epistemological and utilitarian nature, i.e.: 1) reviewing the theories on the links between the distribution of the great economic powers and stability of the world economy and the IMS (chapter 1), 2) synthesizing the discussion around the concept of international currency (chapter 1), 3) identifying the constraints on the development of the world economy under the conditions of the gold standard (chapter 2), 4) assessing the extent to which the United Kingdom pursued policies aimed at maintaining global monetary stability during the Pax Britannica period (chapter 2), 5) assessing whether the weakening of the UK's position in the world economy was a major factor in the destabilization of monetary relations in the 1930s and what other factors exacerbated this phenomenon (chapter 2), 6) presenting the effects of dollar domination during the Pax Americana period (chapter 2), 7) evaluating the United States' policies on the stability of the IMS between 1945 and 1971 (chapter 2), 8) presenting the effects of the change in the rules of functioning of the IMS after the collapse of the Bretton Woods system and evaluating monetary cooperation during the triad system (chapter 3), 9) evaluating the impact of the collapse of the dollar-gold system on the development of regional monetary integration, including in particular the "European Bretton Woods" and, consequently, monetary union (chapter 3), 10) identifying the main factors of

exchange rate instability at the present stage of the IMS (chapters 3 and 4), 11) presenting the reasons for the low effectiveness of currency policy coordination at the international level (chapters 3 and 4), 12) presenting proposals for solving the problem of global payment imbalances (chapter 4), 13) assessing the possibility of fundamental changes in the functioning of the IMS, taking into account the role of gold, key currencies, as well as the introduction of the international currency unit (chapter 4).

The following research hypotheses were positively verified in this dissertation: **Hypothesis I:** The assumptions of the hegemonic stability theory are confirmed in monocentric economic power systems provided that the main centre is interested in maintaining currency stability and its global impact is adequate in terms of economic potential, market and the role of the currency in the functions of international money. **Hypothesis II:** Currency stability in systems based on fixed exchange rates depends on the adjustment mechanisms they contain, which respond to changes in the macroeconomic environment, in particular the increases in current account surpluses and deficits. **Hypothesis III:** The following two factors are essential to ensure the stability of currency relations in a polycentric great economic power system - floating exchange rates as the basis of the IMS and the free movement of capital: 1) rate management that alleviates the misalignment of the foreign exchange market and the contradictions between countries' macroeconomic policy objectives, and 2) the reduction of global payment imbalances.

The following research methods were used to achieve the aim of the study and to verify the research hypotheses: analytical studies of scientific literature on international political economics, international economics and finance, and retrospective comparative analysis based on statistical data and expert group reports as well as critical analysis of IMS reform scenarios.

The analysis carried out in the dissertation confirms that the distribution of the great economic powers was a key factor influencing the functioning of the IMS, the stability of which requires adjusting the rules to the ongoing changes in the world economy. In a monocentric economic power system, the dominant country assumed the function of a stabilizer of the currency system and while it had sufficient economic potential, enough clout on other countries and readiness to bear the costs of maintaining the system, IMS was stable, as exemplified by the gold standard and the Bretton Woods system. The greatest currency instability was observed in the periods of wars, accompanied by changes in the economic power structure, as well as in the 1970s, when significant changes in the economic power were also taking place (gradual loss of the US economic advantage in favour of Western Europe and Japan).

In the currently increasing polycentrism of the world economy and strengthening of the position of developing countries, the necessary direction of the IMS changes is to increase the

role of the currencies of systemically important countries, including developing countries, and enhance effectiveness of countries' cooperation in the area of currency policy coordination or to create an alternative to the system based on national currencies, i.e. the creation of global money.

The weaknesses of the contemporary international monetary system, identified as a result of the conducted research, have been treated as a premise for developing recommendations for the transformation of the IMS. For this purpose, guidelines formulated by various research groups on the directions of reforming the international monetary system were presented, advantages and disadvantages of particular scenarios were discussed and the rules of functioning of the IMS were indicated as an alternative solution to the problem of currency stability in the system of economic powers transforming under dynamic globalisation of economic processes.

However, at this stage, it is difficult to clearly define which direction of IMS changes would best ensure stable and efficient functioning of the system. The implementation of alternative solutions has numerous limitations and, depending on the time perspective, seems more or less realistic. The probability of implementing the most radical scenarios increases in periods of crises, when defects of the contemporary system are highlighted. Whereas the relative stability in the functioning of the world economy favours slow and evolutionary changes, which argues for the system based on a few national currencies persisting in the coming years, with the importance of these currencies likely to change. Nevertheless, there is no doubt that without at least a minimum degree of cooperation, especially between countries of systemic importance, no future IMS will remain stable in the long term.

The scope of the research work does not fully cover the problems of the stability of the international monetary system, so the research conducted in this dissertation may contribute to stimulating discussion on this issue, including in particular the development of more effective rules for ensuring monetary stability and policy coordination at the international level.

Katarzyna Twarowska