Published by Telegram & Gazette of Worcester-MA on June 26, 2012,
http://www.telegram.com/article/20120626/NEWS/106269923/-1/asiseeit

The IMF is hit by BRICS

A few months ago the BRIC countries, with South Africa, together representing 43 percent of the world's population and 18 percent of the world's GDP, met in New Delhi for their fourth annual convention. In this meeting of five countries, now attracting more than half of total global financial capital, a plan was announced to establish a BRICS-focused development bank, to be funded solely by BRICS countries, no longer having to rely on the World Bank and the International Monetary Fund (IMF), which, for nearly 70 years, have served as omniscient monetary levers for Western interests.

Assuming BRICS countries maintain current growth trends, within the next eight years they may have the ability to fund this bank, challenging Western advanced economies. In addition to being able to devise its own economic and monetary policies, another implication for a BRICS' "IMF-like" international bank is the rise of an alternative global currency to the dollar. At that point, would the world prefer a debased fiat money of the Anglo-American led debtor countries or a currency backed by nations whose citizens are soaked with savings and whereby economies are producing goods and services the world actually needs?

Looking back to Bretton Woods, one cannot ignore the massive debt incurred by the U.S. Treasury alone; $15.4 trillion and rising. Conversely, the BRICS have accumulated impressive cumulative reserves topping $4 trillion. Moreover, while American politicians plan on increasing the U.S. debt even further by at least $1 trillion a year into the foreseeable future—the stock market rebounded in mid-June on comments from the Federal Reserve Bank President Charles Evans of potential for more stimulus in the horizon-- the European sovereign debt crisis is an ongoing financial crisis that has made it nearly impossible for some countries in the euro zone to refinance their government debt. On June 13, Spain's borrowing costs skyrocketed to seven percent yield on the 10-year bond after Moody's downgraded its bond rating. Italy, too, is struggling to sell its bonds, as the national Treasury was forced to sell 4.5 billion euros ($5.6 billion dollars) of debt, including three-year bonds at yield of 5.3 percent, up from the 3.9 percent it paid a month earlier.

I am a strong believer in a free-market system. Therefore, I also believe government programs and stimulus tend, all too often, to be a waste of money. Every policy, rule and regulation sponsored by government and imposed onto its larger masses of citizens—i.e. printing of fiat money—appears to be a type of price fixing; in this case, to promote currency debasement. In the long run such strategies simply aren't sustainable. It only degrades society's wealth and over time pools more and more of society's assets into the hands of unscrupulous leaders and financiers. Inevitably, the printing press creates an overabundance of money, which in turn makes people feel rich and overspend, creating yet another (false!) boom that leads to another real bubble. Eventually the bubble bursts, turns to a bust and the cycle repeats itself.

With that in mind, and with the two major currencies and economies in the world struggling to stabilize, global markets may begin to falter if the continued monetary dominance of an Anglo-American currency is still warranted, as it was in Bretton Woods' times. Even more worrisome is the lack of real compromise over the prospect of money and power among these major global markets: the U.S. and the EU. Meanwhile, the BRICS, led by China, seem to favor an alternative to the U.S. dollar, especially considering these countries are currently barred from trading with Iran, if they want to continue trade relations with the U.S., and asked to rely on a monetary system with increasingly shaky economic fundamentals.

Not surprisingly, the BRICS are pushing for the rapid realignment of control for international funding. In all likelihood, struggling countries, mainly from Africa, East Europe, and Latin America, may also express their desire to align themselves with this new *BRICS Monetary Fund*. It is even possible that other resource rich nations, such as Chile, Bolivia, and Indonesia, may throw in their lot as well.

I would not be surprised if the U.S. continues to overheat its monetary printing press, to the delight of Wall Street, to the point where some savings rich Western nations, such as Germany, Switzerland, and the Nordic Countries may also be tempted to join the BRICS in their quest for an international reserve standard based on sounder currency. I would argue for monetary competition in lieu of currency value fixing, as money has proven over the course of history to be whatever we decided it would be.

Dr. Marcus Goncalves
Assistant Professor of Management
International Business Program Chair
Director of Academic Programs at GPS
Nichols College