What is at the Root of the American Global Crisis?

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Abstract

The rising defaults on subprime mortgages in the US triggered a global crisis for the money markets. The fact is the global financial crisis started with the US policies. What began with elevated losses on US subprime mortgages has spread beyond the borders of the United States and the confines of the mortgage market. Many of the world's leading investment banks have collapsed as a result. Depression, a thing of the past, has made a striking comeback. Will it come back again in the future? Who is to blame? What should be done to avoid future incidence?

Keywords: Global Crisis, Financial Crisis, Bretton Woos.

A. INTRODUCTION

The Indonesian economy had not yet fully recovered from the 1997-1998 Asian financial crisis, followed by the 2008 global financial meltdown, a severe global economic crisis, the worst since the Great Depression of 1929. This crisis knocked down financial institutions and giant banks throughout the world, without exception. Economic growth has slowed, product demand has declined, commodity prices have fallen, which has resulted in massive job cuts and threats continue to this day.

The next question is whether this financial crisis will be repeated in the future? It is very heartbreaking, that the answer to this question is "history always repeats itself." Grant (1998), a capital market observer who conducts research in financial history writes in his book "The Trouble with Prosperity", that finance has a cycle of prosperity which then will always be followed by a bleak period or vice versa.1 Although the triggers are different, the basic causes are the same. This is because money whose main function should be as a medium of exchange, units of accounts or stores of value have now evolved into commodities. Money is traded, traded, invested, used to speculate, often moving across national borders, in order to reap greater results, regardless of the consequences of the cause of the problem.

The background of the current crisis is the fluctuation of exchange rates between global currencies. At present, it can be said that money (from certain countries) does not have a definite value to currencies from other countries. The general opinion in accordance with financial economic theory, if money functions as a medium of exchange, a unit of account or store of value, then the amount of money owed has a certain benchmark value, and if at any time is needed, the money can be exchanged and the money will get fixed value. In fact, this opinion is no longer relevant.

The Asian financial crisis occurred in 1997 when Soros speculated that the currencies of Thailand, the Philippines, Malaysia, and Indonesia were overvalued. Whereas the 2009 global financial crisis is a "made in America" crisis in many ways. The case of buying from this global crisis is that America has exported securities based on consumer debt and mortgages from assets that are overvalued (overvalued) and ultimately resulted in bankruptcy in the world financial system.

Why does this happen? If traced, America is the one who can be blamed as the source, cause or root of all this chaos. The chaos of the world financial system was due to the fact that in 1971 America decided to abandon the Bretton Woods system, the world financial system that was formed at the end of World War II.

In the beginning, starting in 1876 until World War I, almost all world financial systems (America and Western Europe) were based on a gold standard. The world monetary system experienced a period of stability at the beginning of the gold standard because the currencies of each country must be supported by gold reserves from the country concerned. The gold standard abolished the practices carried out by kings and local rulers who sometimes when they needed money printed more money than they could afford and caused inflation and chaos (Crabbe, 1989).

But the gold standard is not without weaknesses. When a country's economy grows, that country must import the materials needed. Countries that have limited gold reserves will find it difficult to increase the circulation of their currencies because they will lack the gold reserves to support their currencies. As a result, the money supply will decrease, interest rates rise, and economic activity will slow down, causing a recession.

B. RESULT AND DISCUSSION

During World War I, the gold standard was abandoned, but was immediately used again after the war ended because there was no monetary certainty when the gold standard was ignored. In October 1929, the WallStreet stock index fell, starting what was called the Great Depression. In the early 1930s, after the recession hit western European countries.

These countries began with Britain (1931), which nearly spent its gold to buy ammunition and weapons leaving this gold standard again. These countries began to implement a floating value system which in later development became out of control.

Some countries deliberately weaken their exchange rates to make their goods competitive in export markets.

The exporting countries even use currency devaluation in addition to government subsidies and all kinds of protection to increase the superiority of the products of the exporting countries in order to reduce the trade balance deficit. Each country issues its own rules in international trade, which is sometimes excessive protection or even isolation, without regard to the interests of their neighbors or trading partners. The growth of the world economy in this period was hampered by the attitude of self-interested countries.

The floating of the exchange rate in the 1930s hindered world economic growth and trade investment between countries, led to speculation that led to instability and decline in the value of the currencies of the countries concerned, and hampered global economic growth. This chaotic exchange rate is because there is no standard procedure for conducting intergovernmental consultations. This caused the recession to develop into a continuous depreciation and to cripple the capitalist world in the Great Depression. Monetary turmoil in this period produced valuable lessons and proved that the uncontrolled floating exchange rate (fundamental disadvantages of unrestrained flexibility of exchange rates) was basically detrimental.

The end of World War II began a new era in the world economy. Large industrial countries began to turn away from policies of isolation and protection because they realized that international trade was important for world economic growth. In a liberal economic system, to maintain economic and political stability, intervention and cooperation are needed not only between economic actors, but also the state. Countries must agree to work together to regulate the international economic system and international economic management because if there is no cooperation, chaos will arise. Because it needs to be formed an international body in charge of regulating finance and trade.

In the early 1940s, the US and Britain submitted proposals to establish an international financial body that would regulate exchange rates and increase international trade. On 1-22 June 1944, 44 countries gathered in the city of Bretton Woods, New Hampshire, United States. The long meeting, which was attended by John Maynard Keynes of the United Kingdom and Dexter White of the US, finally made the decision to build a world monetary system, hereinafter known as the Bretton Woods System, in which the establishment of the International Monetary Fund (IMF) was wrong. one pillar. The conference also gave birth to the International Bank for Reconstruction and Development (IBRD) which later changed its name to the World Bank (World Bank) and the world trade organization (originally designed in the form of the International Trade Organization), which later appeared in the form of General Agreements in Tariffs and Trades (GATT) in 1947, the new one in 1995 changed to the

World Trade Organization (WTO).

The points of agreement spawned at the Bretton Woods conference include: member states must associate their currency units with pure gold on a particular balance sheet, but do not give freedom to each individual or organization to exchange their currency for gold at the Central Bank. This exchange rate system bases itself on the premise that each country must maintain a balance of payments. If there is an imbalance in the balance of payments (mainly export-import), corrective measures need to be taken, both temporary (for example with IMF assistance) or more structural, through devaluation or revaluation. The Bretton Woods Agreement is intended to maintain monetary stability so that money does not move across national borders and limit currency speculation.

The Bretton Woods system is based on a fixed exchange rate system against the US dollar, while the US dollar is associated with gold, where every 1 troy ounce of gold (around 31.1035 grams) is priced at the US $ 35. Other countries The world no longer associates its currency with pure gold but must associate its currency at a certain exchange rate with the money issued by America called the US dollar. In the Bretton Woods system, IMF member countries agree to a fixed exchange rate system that can be adjusted in reference to the difference with the US dollar or with IMF approval to be changed to the exchange rate which is the balance point of the balance of payments. In this way, the exchange rate between currencies outside the US dollar also becomes fixed. If a country has excessive reserves of US dollars as a surplus of its trade balance, that country can exchange US dollars into gold.

The Bretton Woods system is called the Gold Exchange System. So-called because the country's currency in the world can be exchanged for a replacement currency from gold, namely the US dollar. Only US dollars can be exchanged for gold if ascribed to their availability. In this Bretton Woods system, America can freely exchange its currency for gold, but conversely, a country that keeps US dollars in its central bank is not free to exchange its dollars at the American Central Bank.

Such provisions are based on two reasons. First: At the end of World War II, the world economy pursed in one footing of strength, the United States (US). The United Kingdom suffered economic bankruptcy due to recession since the end of the 19th century and almost ran out of its gold reserves, while the production capacity and infrastructure of Western European countries were destroyed as a result of world war. Likewise with Japan. At that time, the only country that had the ability to produce and was not interrupted by war was America. America has the largest gold reserves in the world, which is 2/3 of the total gold availability in the whole world, the value is equivalent to 26 billion US dollars1. Second: American ambitions to dominate world politics and economy.

The Bretton Woods system was used from 1946 to 1970. When President Charles de Gaulle came to power in France, France reduced dollar reserves and exchanged them for gold from America. The aim is to reduce America's influence abroad. America, which drained its foreign exchange and transferred its gold reserves to finance the Vietnam War, could not fulfill de Gaulle's request because it would cause all other countries holding US dollars to act in the same way and would eventually drain the US gold reserves. In 1971 President Nixon finally decided that the dollar was no longer associated with gold and this was what caused the collapse of the Bretton Woods system. The reason given by Nixon at that time was that the existence of limited gold would hamper the development of the American economy if printing US dollars had to be linked to the presence of gold reserves.

The American rejection means that since then the US dollar in circulation has not been supported by the presence of gold at the American Central Bank. America can print the dollars they need and the holders of US dollars only believe because the American state guarantees that the money will act as proof of official American debt to the holders of the money. The guarantee does not specify the true value of the currency relative to other goods. The release of America from Bretton Woods made printing US dollars out of control. The US Federal Reserve supplies dollars according to the needs of the American and global economy. The US dollar, which became the de jure world currency in the Bretton Woods system, remained the de facto world currency after the US left the Bretton Woods system. This is due to the stability of the US dollar for more than 25 years guaranteed by gold, the extent of the spread and its easy to obtain and the high liquidity of the US dollar is believed by its holders to remain stable supported by the size of the American domestic market and political stability in America, causing the US dollar to remain able relied on to become the world's reserve currency (better known as the foreign exchange reserve). Even the enemies who hate America also use US dollars for their purposes to fight against America. The study also showed that 9 out of 10 US $ 100 denominations were held by foreigners (Porter and Judson, 1996).

What is the world's reserve currency? The world's reserve currency is the currency that is widely used in the world and is used to provide a benchmark price for goods traded on global markets. This is to facilitate the determination and transactions that occur. The world's reserve currency to date is the US dollar - must be held in large quantities by (almost) all governments and institutions as part of their reserve funds to carry out international transactions, and to guard against the entry and exit of foreign capital in amounts big.

The advantage of being a world reserve currency: countries that have reserves in US dollars as if giving loans without interest to America. The disadvantage: their ability to control foreign currencies circulating is very limited, even though these funds also affect the money supply and domestic monetary conditions (domestic money supply and monetary conditions). Fortunately for America, about 2/3 of the world's foreign exchange reserves are currently in the form of US dollars, the rests are euros and pounds, generally only stored in the central banks of the countries concerned.

According to billionaire George Soros, the current crisis is not only because the home market is growing too fast and then falling out, but is actually a result of the continued development of credit from the dollar as the world's main currency. American consumption exceeds their ability, but America continues to print dollars and seek debt from exporting countries.

The problem is that the American government under President Ronald Reagan introduced Reaganomics - based on supply-side economic theory - giving the biggest tax cut in American history to the rich in their efforts to get the business world moving. The increase in defense funds in the Cold War caused the budget deficit to enlarge, while the current account deficit in America also widened causing the United States to owe the debt at home and abroad to cover the budget deficit. American debt grew from 700 billion US dollars to 3 trillion dollars in the Reagan administration, making America from the largest creditor country (the creditor) the largest debtor country (the debtor) in the world (Boskin, 1987).

American national debt continues to grow in the days of Reagan's successor, George H. W. Bush, William J. Clinton, George W. Bush and almost certainly Barack H. Obama. The economic stimulus program programmed by Barack Obama, even though his aim was good to drive the American economy, might eventually cause problems for America because of the number of funds disbursed. This means that there will be an additional 2 trillion US dollars in debt to the global money market. There is a possibility that the US deficit will double by the end of 2014.

Didn't America worry about what would happen if they owed too much and had to print new debt? Will there be an oversupply of US dollars on the global market? What will happen if no one wants to buy American debt securities? Are America not worried if the value of their currencies weakens if they continue to make new debt and print new money. Doesn't the currency actually reflect the state of the country concerned? Doesn't a strong currency reflect the success of the country concerned in managing natural resources, the productivity of the country's workers and the country's ability to control its monetary and inflation policies?

This is the paradox of currency. In fact, no country likes its (too) strong currency. If their currency is strong, their exports will be expensive, while imported goods from other countries will be cheap.

Strong currencies are good for their international image, but not good for their domestic economy. So, is America's attitude in allowing its currency to weaken? In economic theory, known as the "J" curve theory, a weak currency is not good in the long run. A weak currency in the short term will increase import prices and increase exports because it will make export goods cheap and able to compete. In the short term, a weak currency will help uncompetitive international companies to accept higher domestic prices for exports at relatively cheaper export prices. Exports from domestic inflation are represented by scribbles down from the letter "J". In the long run, a weak currency will also make the price of imported goods more expensive, and ultimately encourage the level of domestic inflation, which is represented by an upward stroke of the letter "J". Theory of the "J" curve shows that a weak currency is profitable in the short run, but will cause high inflation in the long run. This inflation will eventually force an increase in interest rates money to offset inflation and increase production costs (Suranovic, 2007).

In the American case, the "J" curve theory (at the moment) has not yet occurred. This is because the unique position of the US dollar in the world greatly benefits America as a reserve currency, political stability, behavior, and level of consumption of American consumers and the large American domestic market.

The American population, which is only 5% of the world's population, consumes almost 40% of the world's products. The growing consumption of the American population is able to grow the American economy and the world economy. Labor costs and high production costs in America have forced many American companies to outsource developing countries and then import them back to America. Fortunately, to import the goods needed, America only has to pay for goods in US dollars. American trade balance must be funded by the influx of funds from all countries in the world. The US trade partner countries that receive the results of the import generally keep the funds as their foreign exchange reserves.

This increase in consumption causes Americans to reduce their ability to save, which could theoretically reduce their debt to other countries. But instead of reducing consumption, they actually increase debt so that they are able to consume at the same or even more levels. Banks and credit institutions also open up opportunities for those who want to be in debt, because besides this consumption causes the economy to grow, it also provides additional benefits to them. As a result, the Federal Reserve has to increase the supply of money in circulation so that deflation does not occur in their domestic markets.

To balance the trade balance, America should work hard to increase productivity so that they are able to export in an amount equivalent to imports. But America does something better than having to work hard to compete with global exporters, doing something that is their specialty: debt! Very different from other countries, America is an optimistic nation, and always relies on its future. Almost all purchases of goods are made through credit.

America's low export capability is not without cause. The large American domestic market has caused American producers to let their guard down and ignore the global market in the early 80s and 90s because they were busy serving the domestic market. As a result, they are unable to export because they do not market efficiently because they do not understand what the needs of other countries are, and their goods are relatively expensive, because of the high cost of American production. Fortunately, the problem of American exports actually has very profitable export products. In addition to banking technology and services, the largest and most profitable export from America is US dollars, mainly denominations of US $ 100. The current cost of making US dollar banknotes is around US $ 6.2 cents. This US $ 100 denomination is rarely used in America, meaning that almost all of these denominations are exported outside the United States.

It's not just American consumers who like to be in debt. The American government also did the same thing, by carrying out the current budget deficit. To cover the current budget deficit, the US government issues securities and sells them on the money market. A money market is a place where short-term money instruments such as Treasury bills, commercial paper, bank securities are traded. In recent decades, financial markets have developed into global financial markets. With the advancement of computer technology, the money market has now become a global financial market for short-term lending and borrowing. Restrictions on capital flows have been removed in most countries, allowing market forces to freely determine exchange rates according to their views (and needs).

This global financial market is the work of the IMF and WTO coupled with financial deregulation on Wall Street after the stock exchange crisis in America in 1987. Wall Street asked the American Treasury Secretary not to interfere in financial markets. They asked that exchanges in New York and Chicago, in the context of restructuring, may determine their own rules. Since then the authority to regulate markets is not in the hands of the government anymore, but with stock exchange officials who are directly inclined to serve the interests of investors and speculators.

Post-deregulation Wall Street introduced the discipline of financial engineering: the ability to create new financial instruments to maximize profits, and also to create unimaginable monsters. Hedge funds for biological children of money market deregulation in America are investment funds that do not have regulatory control. They play an important role in this restructuring process. Mutual funds manage the capital of large capital investors, and their names are often associated with large financial institutions. These mutual funds carry out speculative derivative operations, options, futures, index funds, etc. that often even undermine the meaning of real stock transactions on the stock exchange, and have nothing to do with real economic activity.

The restructuring of American finance creates unimaginable concentrations of global financial power. Deregulation of the American financial system coupled with outrageous trade speculation and investor greed to cultivate wealth through financial manipulation are the main driving factors in this global financial crisis. This global financial crisis occurs because of high-risk speculations that exploit technological advances that are still unable to be regulated by bureaucrats.

Every day around the world, large sums of money are traded, with just one tap on the computer, a short conversation between money traders in different countries, or a short electronic message. Technological advancements have spurred the development of global financial markets into giants that were unimaginable decades before. A small portion of this money crosses national borders to invest, but most of these funds are only looking for greater opportunities and returns in the short term.

This money do not have nationalism, they are operating under mutual fund management institutions and commercial banks that are trying to get maximum results for their investors. In 2005, the daily transaction value on the global money market was estimated at 9 trillion dollars, almost one-fifth of the annual Gross Domestic Product value (Caruana, 2007), and the number continues to grow. This money crosses national borders in search of a safe place, breeding opportunities, move and change into whatever is beneficial, regardless of the consequences. This large amount of money is more likely to be a factor that will cause damage than vice versa. Soros had proven this when he forced the British to devalue their ponds currency in 1992 and destroy the Asia Landmark financial system in 1997.

When income from conventional sources such as stocks and deposits decreases, these companies invest their money in any form. They make high-risk investments, which provide better returns such as derivatives, options, futures, index funds, etc., as well as the creation of bonds (bond likes) by combining a number of debt obligations as collateralized debt obligations (CDO). Not enough with CDO, Wall Steet also publishes CDO based on CDO, called CDO square (CDO rank 2) and even CDO cube (CDO rank 4). These securities are then sold to investors, pension agencies or other banks throughout the world. As a result, the risk is really spread throughout the world. And when the feared risk occurs, the rupture of housing bubbles in America and the high level of bad loans in subprime mortgages and floating mortgage rates (ARM), it really spreads throughout the world, in the form of a global crisis.

On paper, the rationale for this CDO issuance is - 100 or 1000 investors who want to get high returns with high risk, is far better than a bank must carry the risk itself 100% - is true. CDOs, like junk bonds, provide higher returns compared to deposits and other traditional investments. Another advantage is that the sale of the mortgage provides additional liquidity and low-cost funding to banks to provide new loans again. Moreover, usually, the mortgage buyer gets a guarantee that if the mortgage is bad, the seller will buy back the mortgage.

This is the source of the problem. Because banks and mortgage brokers who initially provide mortgages do not have to hold mortgages and assume risks during the life of the mortgages and they get services (fees) when carrying out these debit transactions, they become greedy and not careful. They relax credit standards, ignoring the principle of caution so that if initially the income of the mortgage loan taker must be proven by showing evidence, it is ultimately considered true without having to show anything. A minimum down payment of 20% for a home purchase will also be removed. Many people with inadequate credit can also get debt. The purpose of the bank or mortgage lender changed from giving a mortgage to facilitate the purchase of a house with the aim of being able to sell more mortgage letters to investment companies that would issue securities based on the mortgage letter.

This easy and inexpensive credit encourages Americans to buy a home. Many people who actually have inadequate income from a mortgage can get a mortgage to buy a home. This is what caused the rise in house prices (real estate boom) in America. The more people buy houses, the more securities that can be issued, the more cheap funds flow to the bank which ultimately must be channeled again as a loan. Because house demand is greater than supply, house prices rise unnaturally (real estate bubble). The number of cheap funds that must be channeled and the amount of commission (fee) obtained if successful in closing a mortgage transaction, banks and their intermediaries even persuade people who already have a house so they can submit additional debt (refinance) on their debt based on rising home values.

So that more people can afford to buy a house, the bank also becomes creative. They created new mortgages, hybrid loans, a combination of subprime mortgages and adjustable-rate mortgages (ARM). This hybrid loan, like a 2/28 mortgage, is actually an example of a bad loan. On a 2/28 mortgage, the first two years of the mortgage bears lower interest rates than enterprise interest rates - often called teaser rates - interest rates are around 3% and are fixed - but for the remainder of the mortgages interest rates are higher and adjusted with a market offer (adjustable rate), around 9-14% or more per year.

People dare to take these loans because they think that their house prices will rise and this increase will be large enough to cover their underpayment of mortgage payments. In general, they think if they do not buy a house now, maybe they will not be able to buy a house because house prices continue to rise.

This is compounded by irresponsible intermediaries providing untrue advice to consumers who don't really understand mortgage issues and choosing a credit package that only benefits them but harms consumers (predatory lending).

What happened was that when the loans entered the third and fourth years, homeowners had to struggle to pay off their mortgage installments. This was detected in the second half of 2006 when a group of mortgage lenders saw an increase in mortgage holders who could not pay their installments. The increase became an upward trend and also occurred in the third semester of 2006 and thereafter. Then followed the bankruptcy of several mortgage distribution companies because they were required to repurchase bad mortgages.

In the first six months of 2007, the bankruptcy of mortgage lending agencies increased, including Countrywide Financial, the main mortgage dealer in America. Some large investment companies that buy securities experience turmoil. In June 2007 two Bear Stearns mutual funds fell. Then in July, the rating agency gave a warning that securities issued under a 2006 mortgage might be downgraded. This is what triggered the panic in the stock market in early August 2007.

Why does this happen? Are not the managers of financial managers who are experts and very well in their fields? The answer is because this CDO is still a new instrument so a number of ranking bodies have not touched them. There is still no risk rating for CDOs and assumptions about the diversification of the obligations on which they are based. Common CDOs are issued based on a number of components such as traditional mortgages, ARM mortgages, student loans, car loans and others that are combined in such a way that buyers cannot really understand what they are buying because of their complexity. It is very difficult to determine the true value of the CDO because a number of ARM mortgages are sometimes very high risk if the mortgage recipient is not worthy of credit.

As a result, when the news was heard that some of the CDOs had problems, the CDO holders became afraid and panicked and made large sales. This CDO can be likened to a computer virus, no one is sure if their computer is safe or infected. Financial institution stocks, in general, are also sold in this issue. Massive deposit withdrawals also occurred at banks suspected of having a portfolio in this CDO.

This panic of sales, coupled with rumors, and temporary activities of short sellers of certain companies, caused the fall of the Dow Jones index on Wall Street. Because the CDO was sold globally, this panic spread throughout the world. It can be said that there is no world capital market that is not affected by this mortgage crisis. This panic of sales and fear of people withdrawing bank funds caused almost all financial companies in the world and especially banks, experiencing a lack of liquidity. This also accelerated the fall of several large financial companies in America.

The collapse of the capital market is causing America to experience a lack of liquidity. So serious is this lack of liquidity, banks must tighten their lending and be very selective in lending. At this time it can be said that in America there has been a freeze in lending. This freezing of credit, in a society that is not used to doing cash transactions like America, is very dangerous for the economy. Sellers cannot sell the goods they produce and buyers cannot buy because they do not get credit. In addition, if the company cannot borrow money from the bank for operating costs, they cannot sell their shares to get money. If it is sustainable, the economy in America can also experience a slowdown or even a recession.

Because of that, the American government made a bailout plan to rescue liquidity and buy bad assets so that the owners of the funds were not afraid to invest in financial institutions again. This plan must be done, even though its impact on the American government's finances is clear: detrimental. It is feared that despite the large amount disbursed, the funds are still not enough to calm the panic that has occurred. But saving the financial institutions is still not enough so that the American government now has to increase funds to stimulate the economy by saving giant industries.

It turned out that the problem was, because of this global financial market, the impact of this crisis was not only on America. Almost all countries have to spend funds to save their banks and industries.

But where does all the money go? The amount is not small, around 5 trillion US dollars, almost 10% of the world's gross domestic product. As described above, money consists of currency and demand deposits. When the currency is deposited in the bank, the currency becomes demanded and the bank conducts banking activities such as borrowing and buying securities so that they are able to make a profit. Some of the money ends up in stocks and securities such as CDOs and others. The bank will record banknotes, shares, securities, tangible and building goods on the assets and debt side and liabilities on the liability side. The difference is bank capital and profits.

In contrast to currency, tangible goods, and buildings, the value of shares and securities changes daily, in accordance with market demand. In normal times, the change is not too big, and almost always the change is positive. But when an abnormal situation arrives, such as the 2008 global crisis, where stock prices and securities dropped dramatically, then the whole calculation changed. When a crash occurs, currency, tangible goods and buildings are virtually unchanged. Changing stocks and securities. Because the underlying assets turn out to be small in value, the records on the liabilities become small, while the debt and liabilities remain, as a result, bank capital and profits shrink and may even in some cases be minus.

This incident may still be repeated again. At the G20 meeting, the European Union issued a statement wanting the US and the world's major economic powers to create a new system to ensure the orderliness of the financial industry. The European Union wants the enforcement of the Bretton Woods II system that regulates world financial and trade transactions. The European Union's proposal came out because the chaos of the global financial system is now occurring due to financial sector activities in the US that do not heed the signs of safe business methods, which eventually gave birth to a wave of bankruptcy in a number of world financial corporations.

C. CONCLUSION

In the future, the strength of the American economy will diminish with the growth of the Asian economy (read China) and the European Union. It's just, whether Renimbi or the Euro will be willing and able to become a world reserve currency, they might be out of control of their monetary policy once the currency is preferred by the world?. Another solution is the establishment of a new body such as the BIS (Bank for International Settlement), which will issue gold certificates, and then these BIS members issue their local currency in accordance with the allocation. It belongs to the Bretton Woods system initially, which will lead to a fixed exchange rate system. Once again, are the member countries ready to fulfill their obligations?

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