



THE ROLE OF THE EURO IN RELAUNCHING MULTILATERALISM THROUGH REGIONAL ECONOMIC AND MONETARY INTEGRATION

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FIVE POINTS

1. The current IMS, the EU, and the coming challenges
2. From Hope to Disillusion
3. Rebuilding Hope: the Role of the €
4. What Europe can Support an Increasing International role of the €
5. The Way Forward

1.

THE CURRENT IMS AND GLOBAL CHALLENGES

- Need to provide global public goods: collective action problem (unanimity, no enforcement)
- Need to overcome previous shortcomings: global liquidity provided by national currency (Triffin Dilemma); built-in destabilizer (global imbalances and financial fragility)
- Need to (re)start multilateralism through strengthened regional integration and a more accountable global governance

1.

EU CHALLENGES

Getting rid of the negative externalities of hegemonic instability

EU growth model relied on outsourcing:

1. Security to the US
2. Low-cost energy to Russia
3. Low-cost mass-production to China

Total factor productivity problem: no systemic industrial policy

All this has to change... and is indeed changing

Several challenges, one solution?

2.

FROM HOPE TO DISILLUSION, WHAT NEXT?

- After 2008-09 hopes for a Bretton Woods 2 to fix previous shortcomings (global market regulation, multilateralism)
- Revision of IMF quotas and renminbi into the SDR
- Threefold shock: pandemic, war, inflation...
- ... with broken global value chains, nearshoring, friendshoring and country specific (asymmetric) responses that compensate for inflation that generate cumulative, diverging effects

3.

REBUILDING HOPE

- Designing today the world of post-(triple)-crisis: pandemic, war, inflation
- Creating a post-hegemonic IMS and EU
- The role of the euro:
 1. Providing a model for the provision of supranational public goods and multilayered governance, hence helping building an alternative safe asset to the USD
 2. Advising on the success and flaws of its path of regional integration

4.

WHAT EUROPE?

- Completing a multilayered system of economic governance (Robbins) and creating the institutions for timely discretionary policies
- Reducing public expenditures and increasing public investment, meant to push on innovation and bring the (European) economy on the frontier of technological possibilities (the costs of non-Europe)
- Getting rid of deficit spending as a taboo
- As TPS suggested: rigour at national level, growth at the European level

5.

THE WAY FORWARD

- Potential role of the euro as leader in driving green investments, thus providing a liquid market for euro-denominated safe assets
- Pushing the IMF towards an increasing role of SDRs for development, not just as a reserve asset
- Potential role for MDBs as second-best solution to the provision of global public goods but aimed at increasing regional dialogue, common strategic efforts, and greater economic and monetary integration

CONCLUDING REMARKS

- Pending a dramatic revision of the IMS to address efficiently the forthcoming challenges...
- ...the euroarea can do a lot:
 1. completing an architecture to provide supranational, regional, public goods, such as innovation in the green transition;
 2. Issuing safe assets and creating a liquid market offering all possible yield/maturity combinations linked to long-term strategic projects;
 3. providing assistance for more regional integration processes worldwide;
 4. encouraging the IMF to use SDRs as a currency at the service of development, possibly through an enhanced role of MDBs