

RTI/ELEC Conference Session 3

Could the Internationalization of the euro become a stepping stone towards a broader reform of the IMS , enhancing the role and the authority of the IMF, along the lines of the recommendations of the 2011 palais Royal Initiative?

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Chairman of RTI

Paris, 16 June 2023

Could the Internationalization of the euro bring us closer to a solution of the Triffin Dilemma (TF)?

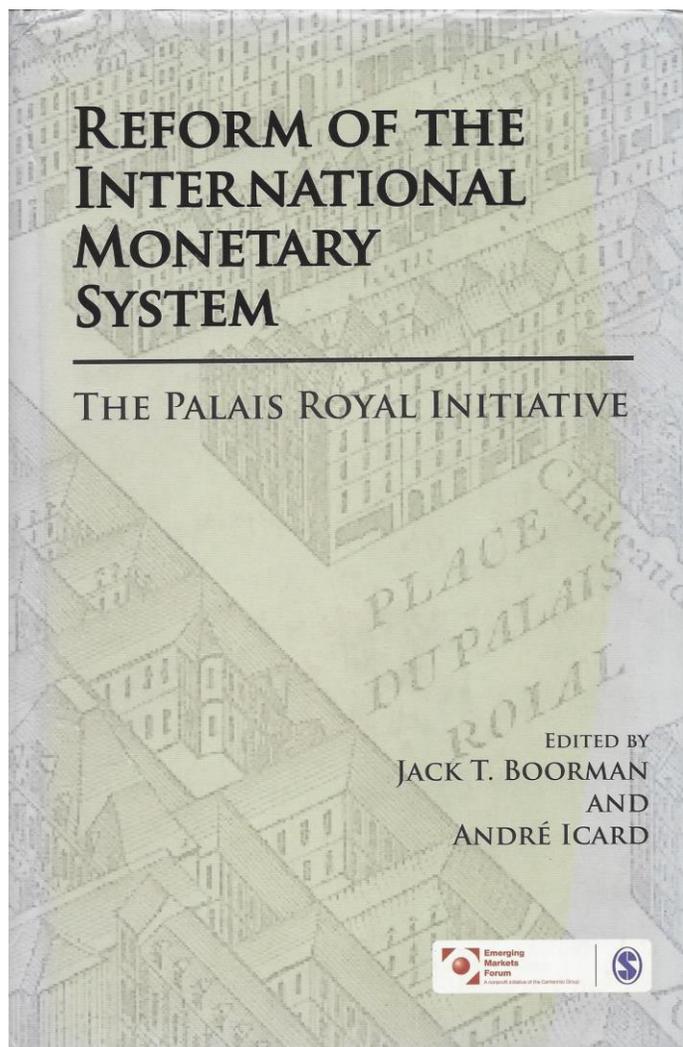
- TF 1 : potential reduction in the US external indebtedness as the Eurozone would also incur an external debt, sharing in the « exorbitant privilege » and the « exorbitant burden » of becoming consumer and lender of last resort.
- TF2 : the reduction of US dollar dominance could reduce the adverse spillovers of the US monetary policy on the EMDEs; but they would have to cope with possible adverse spillovers of the ECB policy; in any case, the asymmetry continues to prevail.
- TF3 : euro safe assets, alongside US safe assets might help extinguish the insatiable thirst for safe assets but the system could become unstable as a result of monetary and/or macroprudential policy divergences or sudden changes in currency preference (remember case of Sterling versus US dollar in the interwar period) . Can we avoid « currency wars »?

None of the systemic defects of the IMFS is solved but crisis might be postponed

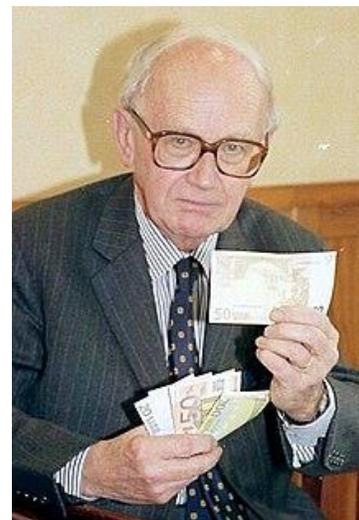
The issue of managing global liquidity remains

- « Des conditions monétaires adéquates au niveau individuel des différentes grandes économies peuvent se traduire, sous l'effet des flux de capitaux internationaux, par des excès ou des insuffisances de liquidités au niveau mondial » André Icard
- How can we insure a close monitoring of global liquidity and the adoption of concerted decisions in crisis time? Who (IMF, FSB, BIS, Regional Safety nets, etc.) does what and with what resources?
- It boils down again to the question of cooperation between the major central banks. Do they use similar and compatible methodologies and instruments? Do they have common or compatible macroprudential policies? Do they share common objectives as concerns the desired level of inflation? More fundamentally, given the size of a possible global crisis + the size of global challenges, should we not have a global blueprint?

The blueprint is available in the Palais Royal Initiative



Michel Camdessus
Born in 1933
Governor of Banque de France 1984-87,
Managing Director of the IMF 1987-2000



Alexandre Lamfalussy
(1929-2015)
Managing Director of the Bank for International Settlements 1985-93,
President of the European Monetary Institute 1994-97
Chairman of RTI 2002-14



(1940-2010)
Member of the Executive Board of ECB 1998-2005,
Minister of Finance of Italy 2006-2008



Paul Volcker (1927-2019)
Chairman of the Federal Reserve USA 1979-87

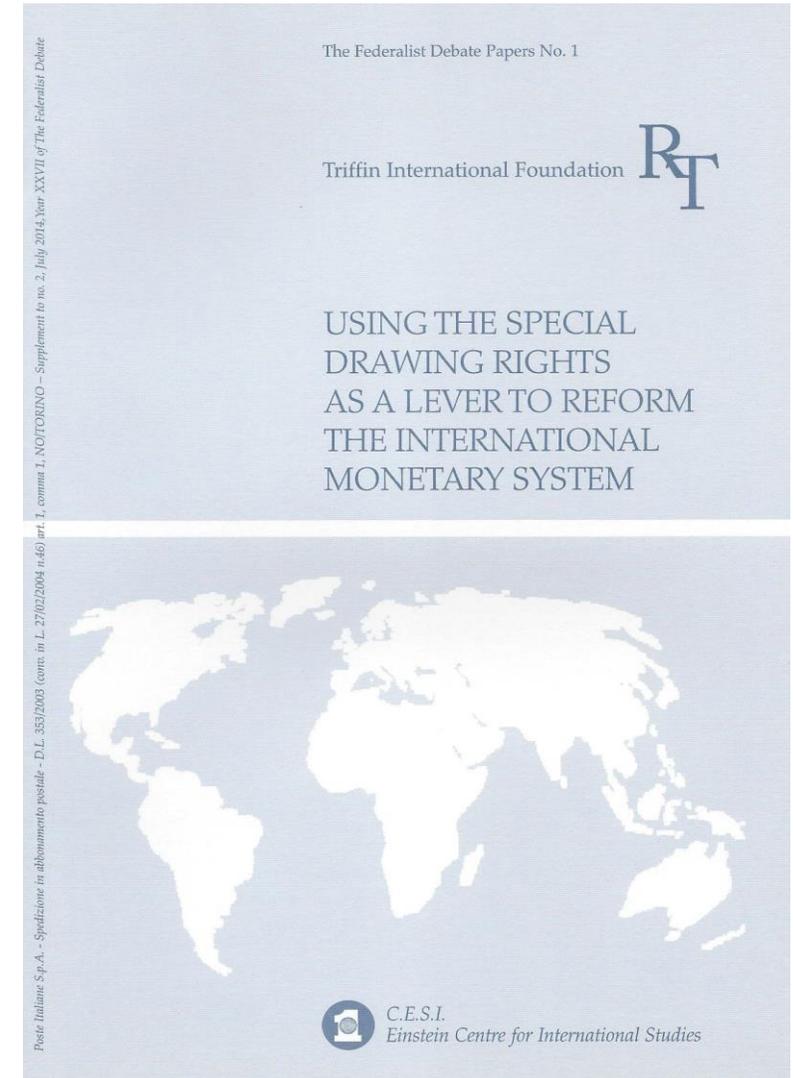
MICHEL
CAMDESSUS
WE HAD
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THE IMF



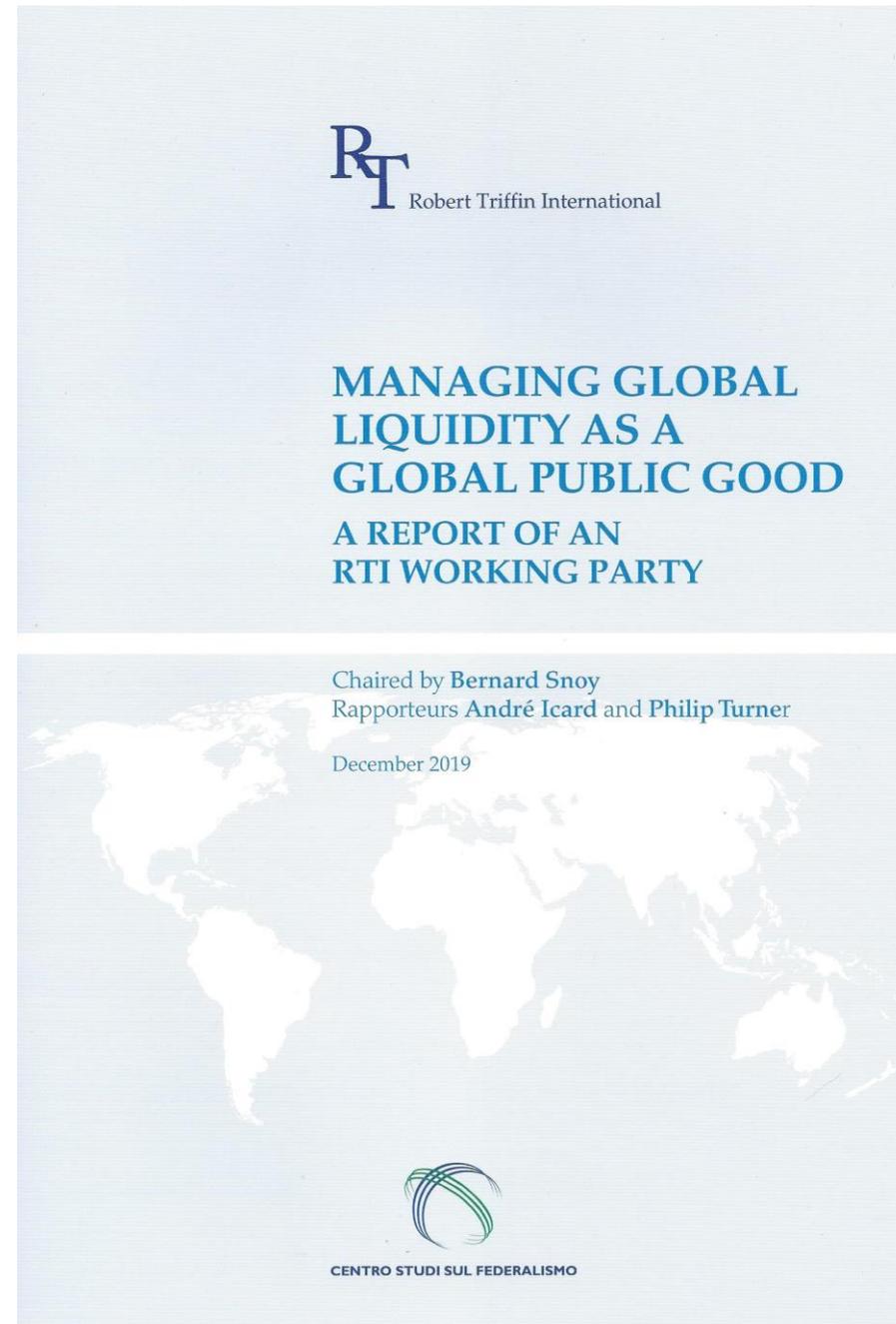
Memoirs of Michel Camdessus

RTI supported the Palais Royal Initiative 2010-11 and persisted in promoting its essential messages.

A solution to the Triffin Dilemma has been proposed and outlined in the intellectual contributions of Triffin . The Triffin ideas have inspired the report of the Palais-Royal (2010) and the sequenced agenda (2016) proposed by Michel Camdessus and Anoop Singh whereas a Working Party set up by RTI has detailed the reforms necessary to transform the SDR into a multilateral reserve instrument issued and managed by the IMF. In normal times, the present huge challenges would provoke the convocation of a new Bretton Woods Conference? But the increasing geopolitical polarization is leading us in the direction of a multiple reserve currency system



In the meantime,
following up on one of the key recommendations of
the Palais-Royal Initiative, RTI initiated in 2019 a
Working Party on the theme « Managing Global
Liquidity as a Global Public Good »



Let us nevertheless look at what a sequenced agenda would look like to achieve the first best solution

Such an agenda was already outlined in the Report of the Palais Royal Initiative and spelled out more in detail by Michel Camdessus and Anoop Singh in a report prepared under Emerging Markets Forum auspices in 2014. It includes three steps :

1. Overdue IMF reforms, already proposed in the Palais Royal report
2. Introduction of a reliable mechanism for calibrating global liquidity in function of global needs
3. A new Bretton Woods : transforming the IMF into a full-fledged global monetary institution

Overdue IMF Reforms

- Reinforcing the IMF's surveillance function, making it more effective and more equitable, developing indicative guidelines of acceptable imbalances, broadening the surveillance on capital movements and capital accounts balances and developing a statutory mechanism for sovereign debt resolution, among others through the introduction of collective action clauses (CACs) in the issuance of sovereign bonds on international capital markets.
- Mitigating large swings in exchange rates among major currencies and addressing cases of serious misalignment: making countries' obligations of exchange rate policies more specific, through the use of benchmarks based on macroeconomic fundamentals;
- Strengthening the IMF's legitimacy and governance: adjusting quotas and voting rights to reflect the increasing importance of emerging countries and reforming decision making, entrusting final decision-making power to a Ministerial Council or to the existing IMF's International Monetary and Financial Committee (IMFC), comprising ministers and central bank governors, rather than the present Executive Board of senior officials.
- Reforming the make up of the G20, restructuring it along the lines of the IMFC, based on the 24 Bretton Woods constituencies, to ensure that the full membership of the IMF is represented.

A mechanism to regulate global liquidity

- Michel Camdessus and Anoop Singh proposed in 2015 the creation of a high level group of central bank governors (the governors of the central banks whose currencies are included in the SDR currency basket) , who would periodically submit to the IMFC a report on global liquidity and measures for calibrating global liquidity.
- Restoring the potential of the SDR by ensuring that the managers of the system have the power to use it much more flexibly and as needed by the global liquidity situation: SDRs should be promptly issued if needed and, just as rapidly, mopped up to stabilize global liquidity situation.
- More specifically, follow suggestions of RTI Working Party on the SDR of 2014 : reform of irrational present regime of allocations, based on quotas and change anachronic denomination, build the SDR competitiveness by developing use for both official and private payments and bond issues. SDR bonds should become the world preferred safe assets.

The long term need for a systemic reform eliminating the Triffin dilemma

- Doing worldwide what was done at national level
- Regulating in a collegial, rational way global liquidity needed for a globalized economy would imply the creation of a single global currency issued by a single multilateral central bank, as Keynes proposed in Bretton Woods. We need a new Bretton Woods for managing global liquidities.
- The best solution would be to create a multilateral reserve currency (e.g. Multilateral Drawing Rights), issued by an IMF transformed into a global central bank, in other words a liquid liability that is not the debt of any individual country.
- This first best solution seems today out of reach because political forces, voting, decision making processes and regulations remain mostly national (to some extent regional in the case of the EU), while economic and financial developments are global.

Second best solutions compatible with existing constraints

- Making international public opinion more aware of the ongoing risks of instability inherent in the current system leading possibly to a new large-scale crisis. « Never waste a good crisis »
- Drawing attention to vulnerabilities in international capital markets and « blind spots » in the current regulatory and supervisory framework.
- Using the SDR as a lever to reform the IMS towards a more balanced and representative way for managing rationally global liquidity creation: follow the recommendations of the RTI Working Party on the SDR.
- Look also for opportunities created by Central Bank Digital Currencies (CBCD) to facilitate interoperability and therefore the creation of a digital SDR , crossing the border between official and private SDR.
- Getting the support of the US for this transformation is essential. The decisions taken by President Joe Biden (SDR Allocation in 2021) , Janet Yellen (launching of Bretton Woods 2.0 Project under the auspices of the Atlantic Council) and Jake Sullivan (speech of 25 April 2023 on the search of a new post-Washington consensus) do not exclude that the US might move in the right direction.
- In the same way as Keynes started in 1942 to think about the post WWII international monetary system, let us think today about the new post-war era ahead of us and the kind of IMFS to would underpin common prosperity.