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TOWARDS A REGIONAL APPROACH FOR REBUILDING THE INTERNATIONAL MONETARY SYSTEM

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TOWARDS A REGIONAL APPROACH FOR REBUILDING THE INTERNATIONAL MONETARY SYSTEM

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Abstract

This paper focuses on the risks and opportunities implied by the present fragmentation of the world economy for proposing a practical way to reform the asymmetric International Monetary System (IMS) by seizing the opportunities provided by the current trend towards regional monetary arrangements. This new regionalism is at a crossing-road: either it leads to the use of monetary competition to move from a hegemonic key currency to a multi-key-currency system, which does not solve the Triffin Dilemma and would make worse the fragmentation in geopolitical blocks in a zero-sum game due to the amplification of financial destabilization, or it provides a real opportunity to channel the legitimate emerging forces towards a geopolitical rebalancing to develop a positive-sum game. This option consists of using the multiplication of regional monetary arrangements as a game-changer for eradicating the defects of the present IMS and making it an efficient public good, ensuring soft re-balancing and global stability. This favourable option could be feasible as the endogenous momentum of cooperation created by regional monetary arrangements could make the need for a multilateral tool for managing global liquidity more evident. De-dollarization makes no sense without a multilateral LOLR with a new safe asset that is not a national debt. Efficient Regional arrangements require joint monitoring of national policies, which should develop mutual trust among national policy-makers, helping to break the «prisoner dilemma» which blocks cooperation. Regional integration would be spurred as long as economic cooperation and governance are improved. The resulting convergence of interests among national policy-makers will ease the perception of the joint need and individual incentives for making possible multilateral management of global liquidity. This global management would be perceived as a world public good which does not require any loss of sovereignty. National sovereignties exclude, by definition, the imposition of a sufficiently strong international coordination of macroeconomic policies. Therefore, the only practicable way compatible with sovereignty is to set up a multilateral LOLR issuing or withdrawing multilateral safe assets according to pure technical macroeconomic criteria. These multilateral safe assets, being not any-more a national debt, will eradicate the Triffin Dilemma and constitute the tool for ensuring a better global financial stability benefiting all. A multiplication of regional monetary arrangements will ease the building of inter-regional dialogue and improve trust, making it possible to reach consensual views to organize an orderly and consensual de-dollarization, which will be a win-win game for all, including the US economy.

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Towards a regional approach for rebuilding the International Monetary System

by Christian Ghymers

Introduction

The global economy has entered a so-called "perma-crisis," *i.e.,* a stage of extended global crisis that generates permanent instability and insecurity and threatens welfare, democracies, and peace. One of its key symptoms is the geopolitically driven fragmentation at the very moment that the world is facing significant global challenges on intertwined problems that issue important spillovers which should only be tackled efficiently at the multilateral level and with a significant improvement in international cooperation: climatic changes, global macroeconomic crisis and the consequent weakening of democracy are all expressions of the same incoherence of the present global economic system. This fundamental incoherence condemns our present socio-economic world to unsustainability.

A fundamental aspect of the current crisis that all contemporary political regimes share is the concept of unmanaged "market failures". These are instances of mispricing that cause harm to others and the future because the biased relative prices do not account for fatal external effects. This is evident in the too-low prices (or lack of pricing) for carbon emissions and the excessively high returns for financial activities compared to productive activities. The third type of inappropriately managed spill-overs, essentially the macroeconomic externalities issued by the international role of the US dollar as the central international reserve in the International Monetary System (IMS), is less obvious. From a microeconomic perspective, its visible effects are the excessively high prices for safe assets in the US dollar that are too scarce (i.e., too low relative yields; see Caballero, R. & others, 2017). Its macroeconomic effects are the empirically observed global financial cycle created by the US monetary policy (Shin H. S. [2012], Rey, H. [2013])[1], that we qualified as pro-cyclical global liquidity waves, provoking a global financial instability which implies damaging real economy crisis (Ghymers C. [2021])[2], but also an obstacle to financing de-carbonization (Ghymers C. [2021, 2024]. Following Robert Triffin [1959], with RTI [2014], we identify the deeper cause of the systemic "built-in destabilizer" implicit in the use of a national currency, the dollar, as the central international currency.

Although generally observed or even acknowledged by economists, the trilogy mentioned above of systemic flaws in the working of the global economy has remained amazingly untouched by policymakers despite existing multilateral institutions and available tools. The main reason is merely what Triffin [1957] already qualified as "*the fundamental dilemma of international economic relations*

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[1] Shin H. S. (2012), "Global Banking Glut and Loan Risk Premium", *IMF Economic Review*, Vol. 60, No. 2; Rey H. (2013), *Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence*, Federal Reserve Bank of Kansas City Economic Policy Symposium.

[2] Ghymers C. (2021), *The systemic instability of ballooning Global Liquidity as a symptom of the worsening of the Triffin Dilemma*, RTI Paper no. 15, Torino: Centro Studi sul Federalismo.

which lies in the inadequacy of national sovereignty as a framework for policy decisions [...] in an interdependent world"[3]. As regards the macro-monetary flaw, Triffin [1957] considered that the origin of this irrational paralysis lies in "*the immense weight of inertia which always blocks international action*" and in "*the jealous zeal with which many central bank officials insist on safeguarding their full - even though often merely formal - independence of decision against international institutions* [...]"[4]. This amazing status quo among monetary authorities, denounced by Triffin, remains all the more potent as financial risks increase in a world in the process of fragmentation and weakening of multilateralism, while, more than ever, a strengthening of international cooperation would be the only rational option to face the shared global challenges. The geopolitical fragmentation adds a potential worsening to this typical 'Prisoner Dilemma' as it makes it more challenging to improve the international cooperation necessary to preserve and develop a multilateral order able to internalize the main spillovers between sovereign national policies and monetary systems.

Under conditions that draw upon some lessons from different past experiences in regionalism, a new dynamic regionalism could emerge to contribute to solving the mentioned trilogy of systemic market failures. In particular, a specific kind of cooperative monetary regionalism could be instrumental as a game-changer for updating and rebuilding multilateralism coherent with pressing economic and environmental constraints and adaptable to new geopolitical forces.

1. The main cause of the global macroeconomic instability: the Triffin's built-in destabilizer

In 1959, Robert Triffin warned in a hearing at the US Congress that the "*use of national currencies as international reserves constitutes a totally irrational 'built-in destabilizer' in the present world monetary system* […]" which is bound "*to endanger the stability of the whole monetary superstructure erected upon these key currencies*" [Triffin 1959][5]. Updating Triffin's analysis – coined the Triffin Dilemma – we have been sustaining for many years [Ghymers C. 1986][6] and later, thanks to RTI [2014][7], that the growing amplitude of financial crisis is the direct consequence of the unsolved Triffin Dilemma through the development of an endogenous generation of global monetary waves that constitute a systemic cause for recurrent global crisis. This Triffin's 'built-in destabilizer' – due to the asymmetry inherent to the role of a national currency as an international reserve – has been working with an increasing amplitude since the end of the sixties through two intertwined mechanical channels: first, as the growing world demand for dollar reserves is a growing indebtedness of the US economy, the external monetary discipline disappears together with the easing to finance US fiscal deficits with cheaper bonds demanded outside as foreign reserves; second by provoking significant monetary spillovers on global liquidity conditions, which tend to become suboptimal and difficult to manage by central banks. While the first channel (the lack of external constraint) explains that the asymmetric role given to the US $ tends to exacerbate macroeconomic imbalances, increasing the US

[3] Triffin, R. (1957), *Europe and the Money Muddle*, New Haven: Yale University Press, p. 303.
[4] *Ibid*, p.286
[5] Triffin's hearing before the Joint Economic Committee of the US Congress, 28 October 1959, Employment, Growth, and Price Levels (Google Books)
[6] Ghymers C. (1986), "Réagir à l'emprise du dollar", in M. Aglietta, *L'Ecu et la Vieille Dame*, Paris: Economica, 1986.
[7] Triffin International Foundation (2014), *Using the Special Drawing Rights as a Lever to Reform the International Monetary System*, RTI Paper No. 1, https://www.triffininternational.eu/images/RTI/articles_papers/SDR-WP_Final-Report-May-2014.pdf.

indebtedness, the second one (the multiplier effect on global monetary policy) explains the strong spillovers generated by the US monetary policy upon global liquidity conditions, and the combination of both channels provides a plausible explanation for the dangerous course of the world economy towards a process of crisis amplification, with boom-and-bust episodes, leading to huge losses of global welfare and consequently increased populism.

The combination of these two channels biases the policy mix of the issuer of reserves. It creates a mutually supportive process of systemic imbalances, generating pro-cyclical excess of fluctuations in international liquidity, which in turn worsens the imbalances in a destabilizing and costly cycle: the US economy tends to suffer from a dollar over-valuation, which implies the need for increased doses of Keynesian policies to support domestic demand. The inescapable spillovers from global liquidity waves generate a vicious circle, which is a systemic cause for recurrent global crises with boom-and-bust episodes. Therefore, all countries' welfare loss, including those issuing reserve currencies, is inevitable.

Furthermore, the present IMS based upon the dollar cannot fulfil its two essential public good functions: to provide an adequate volume of global liquidity and to favour the resolution of external imbalances. On the contrary, the dollar-based IMS tends to polarize the world by developing a vicious circle that allows for maintaining opposing policy mixes, leading to US dis-saving and feeding emerging economies excess savings. The role of the dollar makes it possible to sustain opposed macroeconomic imbalances, which do support each other: the accumulation by emerging economies of long-term US bonds are combined with artificially low interest rates on these bonds, which are themselves made possible thanks to this demand for reserve, while the excess demand for reserves responds partially to the need of protection against external financial instability. This circular causality tends to perpetuate the policies explaining the external disequilibrium with the US economy becoming the '*consumer and borrower of last resort*'.

Although this systemic polarization had played a positive role in financing the extent of globalization and the high-speed development of some emerging economies, it led to several negative geopolitical consequences, each of them endowed with a conflictive potential:

1) A strange coalition of interests between the US debtor and some of its Emerging Economies creditors maintains this perverse generation of imbalances based upon costly policies; the US domestic growth and employment objectives call for ever more external financing for increasing US Keynesian demand policies, which the FED can feed indirectly through the spillovers of its own stances; this, in turn, allows for more net exports by Emerging Economies able to maintain mercantilist trade and exchange-rate policies, leading to more accumulation of excess reserves by these creditors of the US, who buy so more geopolitical lever upon the US administration.

2) A distortion in the net flow of savings, which constitutes a perverse paradox since the capital is not flowing from the advanced economies to less advanced, even though developing countries have lower levels of capital per worker, *i.e.* the savings of the less prosperous economies is absorbed by the consumption of the richest one; this paradox was named the 'Lucas paradox' [1990][8] although it was formulated well before and loudly (in the seventies) by Triffin as a corollary of the Triffin Dilemma.

3) This paradox constitutes a severe obstacle to decarbonization in LDCs and EEs, urgently requiring increased capital import flows. These economies need to increase their investment ratio without further compressing their low consumption level [Ghymers 2021, 2024].

[8] Lucas R. (1990), "Why doesn't Capital Flow from Rich to Poor Countries?", *American Economic Review*. 80(2): 92–96.

The mentioned "built-in destabilizer," with its global monetary waves creating financial fragilities, is combined with these conflictive processes, developing counterproductive policies, making the IMS an economically inefficient and incoherent system. Since economists are supposed to promote rational policies, they have no excuse for postponing actions that could improve an incoherent system, which is also unethical.

2. The first-best option: upgrading the SDR as a multilateral currency issued by the IMF according to technical criteria

This ideal solution for eradicating the Triffin Dilemma with its 'built-in destabilizer' is technically simple. It consists of transforming the IMF into a global central bank, which issues a genuine multilateral currency against national reserves (eligible assets). This means issuing a (n+1)th currency above the «n» national ones to solve the 'redundancy issue' due to the obvious fact that with "n" currencies, only n-1 exchange rates and autonomous policies are feasible. The currency, which meets the conditions for being demanded as the international reserve by the n-1 others, is condemned to lose its policy autonomy by becoming increasingly a net debtor as far as the n-1 economies consider beneficial to increase their external reserves and to hold them in this currency. This redundancy gives an asymmetric role to the key-reserve currency, which generates the so-called *Triffin Dilemma*: In such a system where global liquidity is entirely demand-driven, would this economy be able to maintain the capacity (and the size) to answer to the huge global demand for liquid debt in the dollar, destined to be held as safe assets for supporting the reversed pyramid of global liquidity? The answer is no, as proved by the shortage of safe assets in dollars that is observable in the structural trend in their decreasing yields and the pro-cyclical behaviour of private global liquidity provoked by the US monetary policy [Ghymers, 2021]. Indeed, the US economy has become relatively too small as a share of the world economy with respect to the huge demand for assets. Indeed, the high development of debt worldwide has continued to be conducted mainly in US dollars, and the structural evolution of the global financial market demands a growing proportion of safe assets in dollars. This higher need for dollars is explained by the growing role of the non-bank sector, in which transactions need to be backed by collaterals in a much higher proportion than the banking sector. The needed collaterals (asset-backed securitization) are preferably the most liquid safe assets, *i.e.* US T-bills and US certificates of deposits, the higher liquidity of which being due to the character of dominant key currency of the dollar backed by the Federal Reserve. The insufficient supply of these dollar-safe assets is the present expression of the 'old' Triffin Dilemma: a national currency, like the dollar, cannot cope efficiently with the role of international reserve currency because it cannot supply the necessary quantity of global reserves. These structural changes mean paradoxically an increasing demand for the dollar but also a worsening of financial fragility since the hyper-development of global liquidity relies upon a shrinking basis of dollar-safe assets, *i.e.* imposing higher leverage. In turn, this increases the systemic risks of the global financial system and implies a decreasing trend in their yields. This growing scarcity of dollar-safe assets, visible in their lower yields, explains what we qualified as the new form — and the worsening — of the Triffin Dilemma (Ghymers, 2021).

The increasing fragility provoked by the impossibility of the US economy to provide sufficient liquid debt as safe assets for responding to demand from the global financial markets that need to be covered by backed assets demonstrates the major flaw in the present IMS and the urgent need to

be able to agree upon an alternative way to issue a sufficient quantity of safe assets without increasing the external debt of a national economy or a region, and without depending so much on the monetary stance of a single economy. The most rational solution is undoubtedly to issue a multilateral safe asset, a perfectly liquid asset that is not the debt of a single economy and is issued according to global needs under purely technical criteria for stabilizing global liquidity. The best option is to use the existing tool and legitimate IMF institution to upgrade the SDR into a genuine multilateral currency. On the balance sheet of the LOLR (the reformed IMF), the issuance of this $(n+1)^{th}$ currency consists of increasing the IMF asset-side by buying national reserve assets to national central banks paid in new SDR by increasing the IMF liability-side as the counterpart of the purchased national assets (Ghymers, 2022).

3. Three common objections to the first best option of a single multilateral reserve currency

Unfortunately, despite intense debates and numerous attempts, this perfect solution has remained unachievable due to the lack of political consensus at the multilateral level. The present geopolitical deterioration, with the multiplication of international conflicts and the trend towards weakening multilateralism, makes the blockade even stronger, re-enforcing a dangerous status quo.

The first objection comes from the argument of the loss of sovereignty represented by the transfer of reserves from each national central bank to a supranational institution. Since the national reserves are exchanged for more stable multilateral reserves, there is no loss of national power. National monetary policy and exchange-rate regime remain entirely unaffected by the creation of a genuine multilateral currency. As regards the possible divergences in the assessment that an individual central bank could have about the IMF global monetary stance, this central bank remains free to act on its own monetary base, which impacts the flexible exchange rates of this currency. So, internalizing possible impacts from global liquidity changes is ensured, meaning that any central bank remains free to diverge from the IMF global assessment by following opposite policies. Furthermore, the move from national key currencies — out of control by the other central banks — to a collegial management of global liquidity constitutes a systemic improvement which actually increases the sovereignty of the national central banks by internalizing the spillovers generated by the issuers of the key currencies. The losses of sovereignty are thus completely wrong and reflect an illusion from the objection to any multilateral development by a mere emotional slogan from simplistic populism.

The second objection presents the option of a multilateral surveillance system as more realistic because it would imply fewer institutional impacts. This system, recommended by the IMF and most policy-makers, is the international coordination of macroeconomic policies. Since the existing international coordination does not work[9], this formula would imply significantly strengthened policy coordination, i.e., formally reducing the national policy room for manoeuvre. This would cause more losses of sovereignty than transferring part of the national reserves or using the SDR. The first best option of moving to a multilateral reserve currency does not impose any constraint on national policies; on the contrary, it would even restore more symmetry and room for

[9] Several experiences, from the G7 attempts in the eighties with the Louvre Agreements, for example, to the Stability Pact in the Euro-area, demonstrate the contradiction between sovereignty and coordination, especially for fiscal policies, because a budget is a national law voted annually by sovereign national Parliaments.

manoeuvre to national policies.

The third one is merely the necessary approval by the US political authorities because the changes in the IMF statuses implied by the creation of a multilateral currency issued by the IMF require 85% of the votes, while the US alone has a voting weight of 17%. The dollar's international role is felt as a strategic and financial advantage for the US economy; this belief constitutes the real obstacle.

Already at the end of the fifties, Triffin [1957, 1961][10] developed the idea that reforming directly at the multilateral level (IMF) was illusory either by coordination or systemic change, "*by lack of close contacts, understanding and mutual trust between very different countries*» while «*a decentralization will remain necessary for organizing in a realistic way an efficient international administration*, this requires to work first a regional level between likeminded people …and…" *I believe that it is within this framework that it is most feasible and most necessary today to initiate the fundamental reforms that I propose*"

Therefore, alternative proposals for a multipolar monetary system respond to this blockade and are favoured by current international developments. This emerging new monetary arrangement should urgently be assessed.

4. The profound error of the proposals for a currency competition to reach a multi-polar monetary system

In an IMS based on key currencies, the relative diminution of the weight of the US economy and the rapid geographic extension of economic development make the idea of a monetary multi-polarity obvious, ensuring coherence with the current multi-polar real economy. In conjunction with this pure logical argument, the legitimate notion of reducing the asymmetrical impacts of the dollar has been strengthened by geopolitical events since 2014. As a consequence of the Russian aggression wars, the dollar was 'weaponized' and, in reaction, the «Global South» felt under threat and claimed more independence from the Western North. The US unilateral sanctions, the extraterritoriality rules applied by the US to the use of the dollar, and the dollar exchange-rate risks justify a beginning drop in the market share of the dollar, mainly in the exchange reserves (a fall of more than 10% in 2023 compared to the beginning of the 2000s) and in trade invoicing. However, it cannot yet be qualified for 'de-dollarization' for two reasons: first, the dominance of the monetary role of the dollar and its asymmetrical effect remains visible and robust; second, there is still no competitor currency able to join all the characteristics for taking on its role.

Both reasons cannot exclude that the inertia explained by the network externalities and economies of scale maintaining the dollar supremacy would be suddenly erased with the inevitable increase in the relative importance of China, leading to a reshuffling of the IMS towards a monetary three-polar world. Nevertheless, even in this very probable case (which is actually going on), we sustain that it is a naive error to expect an IMS based upon three (or more) main key currencies as a solution. Such a regime would be inevitably unsustainable for being systemically unstable. Our argument is merely that the legitimate need to put the monetary system in coherence with the real economic weight cannot be done inside the same system of national key currency. The reason is that the monetary domain is based upon a centripetal force, different from the economic one. A single standard is

[10] Triffin R. (1957) op. cit. and Triffin R. (1961), « Grandeur et décadence de l'étalon-or », *Stato Sociale*, n°10, Turin, p. 827-838. (our translation from French). This argument for starting at the regional level was already expressed in 1949 when he proposed the EPU at the OEEC.

required for both market dealers and the stability of any monetary system. Regarding stability, this centralization of the monetary functions allows for optimal global liquidity management by adjusting the monetary base made up of a single reserve currency. Therefore, the only way to quickly and safely change the monetary world in a multi-polar economic world is by creating a multilateral reserve currency, which becomes the primary tool to adjust the global monetary base at the collegial, legitimate, multilateral level: the IMF transforms in LOLR.

Although the geopolitical realities should and will also imply a political and a monetary re-balance, it is a big mistake to translate so naively this requirement in terms of currency competition as a way to re-balance the IMS. Currency competition does not solve the Triffin Dilemma and cannot lead to a stable monetary system, neither at the national nor international level. Let us transpose at the national level the belief into a better stability provided by a system based upon several competing key currencies: this would imply expecting national financial stability to result from the management of liquidity by several commercial banks issuing competing currencies without any central bank. This corresponds to what pretends those who believe that the IMS could work better with several ('m') national key currencies playing the role of international currencies, rejecting the need for a single common international currency issued by a Lender-of-Last-Resort (LOLR). The few 'm' key currencies would compete to issue the demanded reserves, sharing the lost "nth" degree of policy freedom as global debtors. Except for total coordination among the central banks issuing these key currencies, this option cannot escape the Triffin Dilemma. The only two ways to solve this Dilemma are either to suppress policy sovereignty by imposing perfect coordination or to create a '(n+1)th' currency managed by a single LOLR above all the "n" national currencies, which does, in fact, improve national sovereignties.

Interestingly, there is a general belief – especially among central banks and IMF -that coordination should be the best option for being less demanding than moving to a multilateral currency. In fact, the necessary coordination for making manageable a multi-key-currency system would be much more challenging in terms of abandonment of sovereignty than it would be the case with the multilateral single key-currency which, not only does not impose any coordination and any loss of sovereignty but even restored sovereignty through the internalization of the spillovers once the key-currencies face external constraint and exchange-rate risks. The conclusion is that — paradoxically — the more realistic way to eradicate the fundamental flaw in a key-currency system is also the most legitimate and logical: a genuine multilateral currency issued by a multilateral central bank.

Money must be based upon a universal standard, either by a hegemonic power or a consensual international convention and multilateral institutions. Past experiences, as well as the inner logic of money, make clear that currency competition could only be destabilizing (Kareken J. & Wallace, N. [1981][11]. A monetary system cannot work efficiently with competing alternative tools, all the more that the reserve currencies are closer substitutes. Without formal agreement on a single standard, any news affecting the *moneyness* (liquidity) among competing currencies will imply massive substitutions against the less liquid ones. These substitutions would seriously affect the ability of the central banks to regulate their own liquidity, with damaging consequences for Global Liquidity (GL) provoked by their impact on the global monetary basis. Furthermore, for operational reasons, the daily business of dealers could not work by managing simultaneously competing standards in their intra-day fast operations.

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[11] Kareken J. and Wallace N. (1981), "On the indeterminacy of equilibrium exchange rates", *The Quarterly Journal of Economics*, 96(2), pp. 207-222. See also the early work of Ragnar Nurkse [1941] Fahri E., Maggiori M. [2018]

Currency competition means exchange-rate instability, generating difficulties in controlling national liquidities. This leads to higher instability of private global liquidity, negatively impacting real economies and increasing demands for trade protectionism and populism. Controlling these adverse effects would require an unrealistic degree of international cooperation.

5. The present trend towards regional or strategic payments arrangements

In the present geopolitical context, favourable reactive pressures appear for some forms of regional monetary areas. This evolution results from the conjunction of growing uncertainties due to the weaponization of the dollar, which is incompatible with a universal monetary standard, and also from the impacts of exchange rate and capital flow volatility, especially those from the spillovers from the macroeconomic policy of the US. In addition to these two factors, the spectacular progress in electronic payments adds a new reason to lessen countries' dependence on the dollar for regional trade and investment transactions. These payment innovations provide a crucial facilitator to using local or regional currencies for cross-border payments. In this security strategy, China has taken the lead, in line with its official policy to promote the international use of the RMB, with its Cross border Interbank Payments System (CIPS) accessible now to 123 countries and coupled with a network of currency swap lines across 40 central banks (Hung Tran [2024][12]). This system offers compatibility with SWIFT but permits bypassing it, significantly augmenting the RMB share in international payments. Combined with the Chinese leadership in digital payments and its credit/debit card internationalisation, this successful strategy has made the RMB the first currency used in cross-border payments with China in a few years.

Other cases are also taking speed, along with this increasing reaction to dollar dependence coupled with the opportunities offered by new payment technologies. This is the case in the ASEAN region and among the BRICS and its recent extension. In particular, the coming adoption of CBDCs, cutting significantly—and faster than between the dollar and third currencies—the transaction costs between local currencies, should spur the success of regional or ad hoc groups of countries for currency diversification.

Nevertheless, this probability of a multiplication of successful regional arrangements is insufficient to imply an automatic de-dollarization. The essential feature of a dominant key currency is that it does not rely so much on cross-border transactions but instead on its capacity to become the borrower/consumer of last resort. The unrealistic aspect of the belief in a trend towards a multi-competing currency dethroning the dominant dollar also allows for making clear that nowadays, the main determinant for assuming the role of the main reserve currency is the existence of a fast-growing stock of high-quality (liquid) debt, *i.e.* to be also the dominant debtor. This implies for dethroning the dollar to be:

- either a new dominant economy able to sustain significant current account deficits becoming the *consumer of last resort*, which automatically would imply - by accounting definition - that the other big economies cannot simultaneously do the same for being in surplus of saving,
- or that this new dominant economy would want and be able to attract substantial liquid

[12] Tran H. (2024), *De-dollarization via local currency cross-border payments: democratization and fragmentation of the global system*, Paper prepared for the Lisbon conference.)

liabilities for transforming them into long-term external assets. In fact, this is contrary to what emerging economies (like China) have been doing.

Therefore, the dollar could only be dethroned in a key-currency system when another economy could compete with the US by issuing as much or more high-quality debts in its own currency than what the US uses to do in the dollar. Neither the EU, China, nor the BRICS seem willing or able to meet all the conditions for playing this role. Furthermore, the global economy would experience uncontrollable world inflation if this happened. So, even the weaponization of the dollar could not reverse its dominant monetary role in a reasonably predictable horizon, although geopolitical reasons do justify it.

It is crucial to understand that de-dollarization without creating a better, safer asset would be either impossible or, in case to be implemented, would lead to worse by provoking a global disaster. It is often forgotten that the dollar system, although imperfect and destabilizing, has used to play a significant positive role[13] due to the counterpart given in accepting to be the debtor/consumer of last resort, but also providing "insurance services"[14] (Gourinchas & others, [2017]). Therefore, this systemic mission should be better fulfilled at the multilateral level, eradicating the Triffin dilemma in a legitimate collegial way.

Once again, why try to satisfy the global need for safe assets only with national debts? The easiest solution is the simplest, the less conflictual, the most legitimate, the less risky for the world economy, the more stable, the most able to get rid of spillovers, and the less demanding in terms of sovereignty: the alternative way to provide the demanded safe assets is by issuing debt-at-sight perfectly liquid which would not be the debt of a single economy but the liability of a multilateral institution issued by buying reserve-assets to national central banks. The systemic progress is that the international reserves would be created without generating net debt, precisely as a central bank does not create net national debt but increases liquidity by buying other assets on the money market. For the same principle, technical management of global liquidity becomes immediately available by adjusting the global monetary base. Furthermore, a multilateral reserve created from a basket of the primary key currencies would be necessarily more stable than any national key currency compounding this basket.

Therefore, the present trend towards strategic reactions against the dollar dependence is at a crossing road: either to lead to use of monetary competition to pursue a fragmentation in geopolitical blocks in a zero-sum game due to the amplification of financial destabilization or to seize the opportunity of the legitimate emerging forces towards a geopolitical rebalancing to develop a positive-sum game by using the multiplication of regional monetary arrangements as a game-changer towards eradicating the defects of the present IMS and improve its efficiency in the global interest.

As shown, the legitimate reaction against the flaws in the present IMS should not derive either into a wild multi-key-currency system or in protectionist blocks. It should be used as an opportunity to anchor the emerging regional monetary arrangements to a reshuffled multilateral one by betting on the present SDR in order to promote the later use of a superior multilateral standard for rebalancing the IMS and rebuilding an efficient monetary multilateral order based upon a federation of regional monetary systems. As developed in section 7, the best option would be to set up a *decentralization* of the IMF by creating regional monetary funds that decide their own rules and

[13] Would it have been possible for the fast success of emerging economies like China without the dollar system?
[14] Gourinchas P. O., Rey H. and Govillot N. [2017], *Exorbitant Privilege and Exorbitant Duty*. IMF Working paper.

conditionalities for making a regional clearing of intra-regional payments better than relying on national key currencies associated with regional financing of the intra-region deficits.

The only way to prevent a return to protectionism with a costly fragmentation and to make possible a broader coalition among regions for a sound reform of the IMS would be to jump directly into the SDR for the cleating of regional payments and their financing, allowing so to benefit from multilateral financing from a stronger bargaining position and strengthening their financial credibility on the globalized markets. This is also the best way to rebuild a multilateral IMF that covers and complements the different regional schemes and funds, as Triffin proposed long ago [1961 and before].

Such a new monetary architecture is necessary to make possible the urgently required flows of funds to address decarbonization in EEs and LDCs, which should be the first priority in the interests of all nations. This urgency should underscore the importance of the proposed reforms and the need for immediate action.

6. A proposal in three basic steps for making macro-monetary regionalism a game-changer of the IMS

6.1. The basic rationality of an ideal efficient reform: an IMF decentralization for channelling monetary regionalism towards a common multilateral reserve currency and safety net managed by a new representative federal IMF.

From a collective point of view, the present IMS is objectively suboptimal, as explained by the Triffin Dilemma, which results from the lack of a global representative LOLR issuing the optimal volume of safe assets without increasing national debt. In a fragmented world of competing national sovereignties, the option of perfect international coordination is excluded by definition. However, creating a multilateral currency is compatible with a multi-polar monetary system based on regional monetary arrangements with no need for explicit coordination, but only to agree upon creating and using this better multilateral safe asset for inter-regional transactions and with the IMF. Despite the superior rationality of this win-win game, a resilient status quo has been impeding any progress, as policymakers are trapped in a typical *Prisoner's Dilemma*, which has worsened recently with the present fragmentation and geopolitical conflicts. In order to resolve this political economy obstacle, it is worth starting with what should be the final ideal system. Indeed, in theory, the only rational and efficient solution is a 'subsidiary' one. It consists in channelling the legitimate reaction of the emergence of new regional monetary blocks in the double dimension of the subsidiarity principle applied to monetary institutional features: firstly, a *monetary decentralization* of some traditional IMF functions (surveillance and safety-net) according to conditionality defined at the regional level, but, secondly, with *a simultaneously new re-federalization* of the monetary functions through an upgraded super-IMF acting as Multilateral LOLR for issuing the multilateral super-SDR as its liability which plays the role of super-safe assets used as international reserve and for conditional global safety-net. This super-IMF and its super-SDR should increase their legitimacy and respective credibility, with new rules reflecting progressively the relative weights and quality performance of the different regional arrangements. As for the Euro, the monetary representation of the regions would ideally be organized according to the respective weights of the local (common or not) currencies used for intra

and extra-regional operations, according to objective criteria to be agreed. All these different regional arrangements would have access to the new IMF (multilateral) safety net (merging all the existing multilateral facilities) under multilateral conditionality based upon the objective results of the regional conditionality, but according to a joint decision of both multilateral and regional funds. As a result, a *competition-cooperation* between the Regional Monetary Funds (RMF) and the super-IMF should appear, the best effective regional conditionality being awarded higher credibility on financial markets (lower spreads) and, according to objective growth, a progressive increase of its weight in the super-SDR and the voting rights in the super-IMF. This kind of *monitored market incentive* favouring the best adjustment policies would spur the adoption of better governance, significantly improving the new multilateral order's rationality and legitimacy. The potential competition between some performant regional currencies could not generate systemic instability, thanks to the management by the multilateral LOLR and the safe-haven role of the super-SDR attracting deposits from the rest of the world since this multilateral reserve absorbs the relative exchange-rate movements. The expected generalization of CBDCs should make this super-safe asset a digital one — the super e-SDR — becoming so the most competitive one as a common reserve for the central banks and as vehicle currency for clearing on exchange-rate markets as well as for the private markets for other international/regional operations. Strong market dynamics would "vote" for converting national currencies into a private super-SDR, making merging official SDRs with private ones inevitable. This new standard would be the successor of the present SDR once it becomes a genuine complete reserve currency, *i.e.* a perfectly liquid liability of the federal IMF/LOLR, similar to the European change-over from the ECU-basket to the Euro issued by the ECB.

6.2. Triffin's recipe: Regional monetary systems could drive towards a new monetary multilateralism

On one side, any multilateral reform of the IMS remains frozen in an amazing status quo, despite the damaging absence for all the countries of a global LOLR issuing the optimal volume of multilateral safe assets; on the other, a consequent reaction for lessening countries' dependence on the dollar is developing as indicates the recent trend towards regional monetary arrangements. Both sides are exposed to systemic risks: the status quo implies accepting the increasing costs of the worsening of the pro-cyclical bias of the dollar system, and the regional monetary arrangements could worsen the fragmentation and lead, as explained elsewhere, to a devastating currency competition.

Following Triffin's ideas [1961], a possible solution could, however, emerge from a monetary regionalism, which would serve as a game-changer under certain conditions. Indeed, the analysis of the present status quo indicates that this collective irrationality is paradoxically the product of individual rational behaviour from the point of view of competing countries facing a high level of uncertainty as regards their partner behaviours, the economic knowledge on the effective working of the world economy, and about the future. This situation qualifies as a *prisoner dilemma* trap provoked by the lack of trusting communication between actors.

Since all policy-makers face the same kind of uncertainties, it is logical to think that this general high degree of uncertainty should reduce proportionally more the chances of success of any significant multilateral cooperation initiative than it should be the case at regional or sub-regional levels. It is clear that the difficulties in reaching a consensus at the multilateral level are more severe than at the regional level, where cross-border communication and mutual knowledge are better among closer cultures. Indeed, among like-minded countries, the degree of uncertainty about the future behaviours

of the members is generally lower and could and should be reduced more easily by institution building, all the more that, in case of facing common threats, regional partners tend to benefit from a faster perception of shared regional interests, provoking spontaneous reaction of increased cohesion. More interdependencies exist, are more visible among them, and are easier to incorporate. In addition, they have more potential means and opportunities to create common tools for tackling joint interests or even for defence or retaliation purposes. These common-sense ideas were the basis upon which Triffin [1957][15] organized in 1949 the European Payments Unit (EPU), leading to the successful post-war return to convertibility in Europe, contributing significantly to the multilateral order. He also extended his method and proposed regional schemes for Latin America [1964] and Africa [1964]. Overall, regional partners have more possibilities and incentives to reduce uncertainty among themselves than at the multilateral level, which is too heterogeneous.

The demonstration of the higher easiness of regional monetary cooperation — which was already observed in Europe in 1949 — is again demonstrated by the fast emergence of arrangements to use local currencies for cross-border payments as a way to lessen countries' dependence on the dollar for regional trade, investment transactions and promotion of non-dollar reserve currencies. The same is observed in the enlarged BRICS, as well as in the ASEAN, taking monetary and financial initiatives to strengthen their geopolitical power. These arrangements are essentially motivated by reactions against the asymmetric IMS and constitute a ***first step***.

Although this step could not trigger such a regime change or an effective de-dollarization of the IMS, regional initiatives could be the catalytic motor of the dynamic process for getting out of the prisoner dilemma at the regional level, allowing for a beneficial deeper regional integration in the main regions (Africa, Asia, Latin America, and other sub-regions). ***This second step*** has the potential to launch genuine macroeconomic cooperation, leading to the formation of a series of regional monetary systems with the clearing of payments in local currencies and financing regional mechanisms, which will spur the real and efficient integration (trade and investment) of these regions still miss in various degrees for their sustainable development. As far as step 2, thanks to macroeconomic cooperation improving effective regional integration, the question of the emergence of a regional currency should lead to a ***third step***: the creation of a regional monetary system with exchange-rate mechanisms or even with common currency projects. These integrated regions endowed with compatible regional funds and the ability to speak with a single voice will quickly be aware of their common interests and increased bargaining power with the Hegemon(s) and the IMF. Therefore, they would engage in intense inter-regional dialogues to cooperate and to look for consensual positions, forming a coalition for reforming the IMS by moving to the multilateral reserve currency they already have adopted among them.

Three major objections characterize generally the conventional sceptical view about regionalism:

(i) The European success story is not exportable because it started from a higher level of real integration and was too context-based in a very favourable growth environment, not reproducible now;

(ii) the expected dynamic process would be a utopian view due to the institutional and governance weaknesses which could deviate or exploit regionalism for protectionist appetite or vested interests for postponing the necessary reforms;

(iii) the basic process would be too risky for being too long to gather on time sufficient momentum and power;

[15] Triffin R., *op.cit.*

On the first objection, although, indeed, the European case is not transferable as such to other regions, European experiments illustrate a trial-and-error process that wasted too much time but allowed for finding out pragmatic methods which are universal as they reflect human being behaviours and not economic or institutional aspects. These methods could be successfully adapted to each region and applied to launch a process tailored to the specific needs of each group of countries. A first, very important (forgotten) lesson to draw from the historical experience of the European case is that this region actually started its integration from pure monetary cooperation — contrary to the conventional view which used to present monetary and macroeconomic cooperation as a result of trade integration and a *coronation process*. Indeed, the European Payment Union (EPU) in 1949 filled the vacuum left by the failure of Sterling's convertibility in 1947 and the insufficient resources of the IMF dollar-denominated borrowing rights for the European members. The macro-monetary stabilization was a precondition for an effective trade integration. This fundamental principle was easier to fulfil in the 1950s in the fixed exchange-rate regime of Bretton Woods. Today, in a much more unstable world, this basic law remains even more valid and is the priority.

The European success story demonstrates two essential facts: (i) the decisive contribution that a monetary regional agreement can bring to the multilateral order and (ii) the regional monetary cooperation launched a concrete practice of macroeconomic policy coordination, which was the keystone for the post-war recovery and the creation of the European customs union with the European Economic Community (institution-building).

These lessons bring to *the second objection* about governance, which is implicitly based on a Eurocentric view. In the new geopolitical context combined with the still high pressures of globalization, regionalism becomes an effective way for improving governance and making up for the weaknesses of national governance because this new context has reversed the relative importance of the advantages of regional integration in comparison with the European historical case: the static advantages of preferential trade have become less important than the dynamic advantages of institution-building and of improving the decision-making process. The regional level has the power to compensate for the lack of sufficient checks and balances at the national level, becoming so a critical learning and emulation process for policy-makers. A regional dimension is a powerful tool with which to make up for institutional failures insofar as it provides tangible net gains to national policymakers; these benefits can quickly be struck through mutual monitoring of macroeconomic policies at the sub-regional level that focuses on their compatibility and acts as a catalyst for cooperative attitudes among national policymakers as well as for strengthening the institutional underpinnings of economies. In turn, a higher rate of sustainable growth should result. Such a positive process works when it uses both *carrot and stick* to both incentives to be cooperative and deterrent to penalize divergences.

This new reality allows for the rejection of *the third objection* about the time necessary to launch a successful integration. Again, this objection reflects a static Eurocentric view based on the idea that European slowness should be the required model, spending half a century to reach a partial integration. However, precisely, the higher importance of national governance for engaging in monetary cooperation associated with the effective scrutiny of neighbouring partners should trigger and accelerate the dynamic process of regional cooperation. Indeed, integration is neither a linear process nor a static one because it generates tipping points, creating a positive-sum game in which the positive outcome increases as the game is repeated and extended, becoming rapidly a cumulative wave acting upon policymakers' incentives and public opinion awareness. This allows for beneficial regional institution-building and the emergence of a macroeconomic regional public good, both improving governance. Such *cooperation for learning* could spur the dynamic process necessary for

creating macroeconomic regional cooperation. The important lesson is that, because of the endogenous nature of the gains from cooperation (and integration), the more time goes by and the more countries interact (and the more interdependencies emerge), the higher the gain from coordination and the lower the interest in defecting. Furthermore, as explained by Axelrod (1984), "*the most promising finding is that, if the rules of cooperation theory are known by the participants in advance, the evolution of cooperation can be speeded up*". Hence, given the dynamic dimension of cooperation, the incentives to play cooperatively emerge insofar as cooperation is effective, visible and credible, and they displace the incentives to act non-cooperatively, weakening the national populism.

In addition to these systemic aspects, a new sense of urgency is taking speed under the perception of the global warming threat, which requires regional actions and financing means. Combined with the new external context of geopolitical threats, greater financial instability, and the growing power of market sanctions, there is a decisive premium on the quality of national institutions and governance: policy-makers incentives are higher than they used to be in Europe half a century ago. At that time, the geopolitical considerations with the Soviet threat were already a significant cohesion factor for regional integration in Europe. The same kind of factor is again present in the world, but it is combined with new competition pressures, explaining that the speed of change could be much higher than it used to be in the European integration. Consequently, the political economy principles extracted from the European case have become more robust and universal. This is especially true for the pragmatic ways of breaking the trap of the prisoner dilemma that blocks cooperation when national actors are politically independent of each other but economically interdependent.

The main valid lessons drawn from the European experiments (both good and bad) are some basic political economy principles related to escaping the prisoner dilemma and reaping the benefits of macro-monetary cooperation at the regional level.

6.3. The political economy recipe for escaping the prisoner dilemma

The European case and other experiments in Africa and Latin America reveal the solution to the prisoner dilemma (Ghymers C. [2005])[16]:

> emerged from the development of personal contacts among policymakers within a collective effort to monitor each economy from a regional perspective, thereby allowing it to be viewed as a continuous game, which, it was hoped, would enhance the credibility of domestic policies. This multi-faceted approach created specific incentives for individual participants to cooperate at the regional level, thereby creating a positive-sum game in which the positive outcome increased with the iteration of the game. Hence, the prisoner's dilemma was resolved through the dynamics of the game: that players had to meet over a long and undefined period, that they could not escape the consequences their decisions had on fellow participants, that the incentives to defect diminished over time and were commensurate with the strengthening of integration, that players learned more and more about each other, that rewards and sanctions were administered progressively and allowed the balance of benefits and costs to be identified, reducing uncertainty regarding the results of cooperation —all these factors implied that the cost of non-cooperation rose rapidly with time, and positive outcomes increased with the iteration of the game.

The detailed recipe for initiating a pragmatic process of macroeconomic cooperation among sovereign policy authorities (step 2 mentioned above) could be built along these principles:

1) The *prisoner dilemma* relies on a lack of trusted information. Therefore, it is necessary to intensify

[16] Ghymers C. [2005], *Fostering economic policy coordination in Latin America; the REDIMA approach to escaping the prisoner's dilemma*, ECLAC book n°82, Chile: United Nations.

communication among the parties involved, thereby reducing the risks of misunderstandings and uncertainty and building trust. The following recipe proved to be the most efficient :

- To circumvent the traditional logic of formal international bargaining by *reversing the conventional way international relations* and integration diplomacy have generally been using to work: to start betting upon the technical experts (macroeconomists) by allowing them to create their own network for organizing regular, personal and confidential exchanges of views and information, in order to prepare the pertinent background elements for ulterior political decision meetings.
- This *two-tier system* engages a positive-sum game in which the beneficial outcome increases as the technical game is repeated since the participants have to meet in a long process without the possibility of escaping the consequences of their analysis. However, as players learn more and more about each other, their incentive to cooperate wholly increases. However, this dynamic process works only if the technical level — which does not take any decision — is based on personal contacts of technicians who enjoy some degree of continuity and autonomy. Thus, the permanent national members must be allowed to act strictly on confidentiality (*Chatham rule*) under their own personal, professional responsibility and not as the representatives of their ministers because they do not meet to negotiate but only prepare (*closed doors*) the information of their respective national authorities.
- This experimented method permits a fast development of a team spirit, building mutual confidence, collegiality and emulation among participants as they face common issues and constraints. This reduces uncertainty, improves *mutual understanding,* and leads to identifying differences and raising awareness of the common interests shared by all participants. Participants win motivation and increase their credibility inside their administration by providing their ministers with crucial insider information. Another advantage of this specific type of network is the greater motivation and continuity of technicians compared with political teams or officials directly linked to the cabinet.

2) *Applied to step 2*, the technical group is dedicated to:

- First, monitor the specific monetary arrangement (step 1) and issue recommendations to the decision-makers.
- Second, inevitably, this kind of monitoring will soon be obliged to *discuss exchange-rate development*, leading subsequently to examine each policy mix backing these exchange-rate movements. The key mechanism for moving from a pure monetary arrangement to a sustainable regional integration is to make the exchange-rate evolution a matter of common concern for the region, providing a tangible opportunity to undertake at the regional level a technical dialogue (closed doors) on each country's internal policies. This was the pragmatic way that emerged after many failed European alternatives (thanks to the European Monetary System and its Exchange-Rate Mechanism). This lesson is confirmed by the opposite practices in other regions where a lack of dialogue and cooperation on exchange-rate policies significantly contributes to the failure of regional integration.
- Third, in conformity with the primary purpose of these regional monetary arrangements, and as a consequence of the previous dialogue, participants will deal with the possible formula to use local currencies for intra-regional transactions, then setting a regional clearing among participants, and so on (i) the currency to use for the payments of their intra-regional balances, and (ii) the creation of a Regional Monetary Fund (RMF) for financing intra-regional imbalances and adjustment policies. At this stage, technicians have to discuss what would be the best option: to create their own regional monetary standard (like a regional basket of national

currencies) or to opt for a direct multilateralization by using the existing SDR, the cost of which for bundling it from key-currencies is decreasing with the new technologies. In the first option, the regional monetary reserve must be fully convertible, which could appear to be a necessary complication with respect to the SDR option. Indeed, the choice of the regional reserve currency conditions, the working of the RMF, and its possible relations with other regional schemes, as well as with the multilateral institutions and their resources. The best technical formula would probably be what Triffin had already proposed repetitively in the fifties and sixties to several regions: national central banks of a region in integration would deposit to the regional fund part of their own reserves, opening the possibility to finance national adjustment under their own conditionalities. The most straightforward formula is to convert these reserves and all regional financial loans into SDR. This also automatically opens the possibility of discussing new formulas of cooperation and coalition with the other RMF and the IMF.

Step 2 indicates a pragmatic scheme based on dialogue among autonomous actors, creating a *mutual trust to escape the Prisoner's Dilemma for the participants' own interests*. This dialogue is conducted in a way that recognizes that each government legitimately tends to act in its own national interest. This method makes it possible to arrive at a minimum consensus on policies and an acceptance of some basic common rules. In such a process, dialogue stimulates self-discipline by increasing the incentives of both technicians and policy-makers for reaping the benefits of successful integration and for preventing the costs of divergence: participants' cooperative attitude is moved by the best interests of each of them to extract benefits from the regional public good, *i.e.* individual rationality tends to become not opposed to collective rationality, so, the prisoner dilemma vanishes in this process. As already expressed by Triffin (1957)[17]:

National interests should coincide, through a double mechanism of deterrents and incentives, with the group's collective interests. Reciprocity and mutual help are the keystones of such a construction (Triffin, [1957]).

6.4. Step 3: Creation of several regional monetary systems, each endowed with its Regional Monetary Fund (RMF)

Regional monetary integration and economic integration are intertwined, and the role of monetary aspects in the integration process is largely debated. Without entering into this «religious war» on the «chicken and egg» origin, it is a pragmatic fact that the present emergence of regional monetary arrangements should help to move to step 2, in which the progress of cooperation and macroeconomic dialogue should make more tangible to policy-makers the national interests they could reap by cooperating. The incentives/deterrents (through financial markets and national public opinions) will ease a more profound development of monetary and financial cooperation, which, in turn, eases economic integration and then should ease the move to step 3 through an inter-regional dialogue for forging a common position. Again, the European trial-and-error process indicates some pragmatic paths which could be applicable elsewhere.

Any monetary arrangement must decide the monetary vehicle and financial needs for working their clearing houses between local currencies. In step 2, pooling reserves and financial mechanisms for the balance of payments and regional development banks would be easily converted into SDR using the almost no-transaction costs of the emerging Distributed Ledger Technology (DLT)

[17] Triffin R., *op.cit.* p.246

of blockchain for bundling or de-bundling SDR from or into key currencies as well as local ones (Ghymers [2020][18]).

Therefore, an attractive mechanism for the regions trying to achieve their integration consists of using each Regional Monetary Fund - RMF», as a carrot for spurring the macroeconomic dialogue and accelerating the coordination of national macroeconomic policies. This was also a fundamental mechanism used by Triffin [1957] in the EPU and was a key component of his successive plans for the European Community in the fifties and sixties. This kind of regional funds would be used as *solidarity financing* mechanisms that ideally should be *expressed directly in SDR*, which soon will be convertible without almost no costs in any currency. The access to these regional resources would be submitted to conditionalities fixed by the regional authorities, among which the obligation for each member state to participate in a «*regional monitoring exercise*» of the national policies for being eligible and having a say in the allocation of the resources of this regional fund. Triffin had already organized this idea for the EPU (1949) and repeatedly promoted it to the European Community since its creation in 1958 up to the European Monetary System. In intra- and inter-regional dialogues, the issues of exchange-rate movements, clearing systems, and RMF, along with the choice of monetary reserves, will become critical aspects to be discussed both inside and between regions. These exchanges should allow the identification of common interests and possible joint actions.

6.5. The game-changer of the multiplication of regional monetary systems and RMF

A generalization of these RMFs leads to imagine the scenario of significant ownership of effective coordination of national policies, implying a clear improvement in national governances everywhere, giving access to the dynamic process of deepening their respective integration, and benefiting from an added value through a higher credibility and effectiveness of decisions and public actions as a result of this regional coordinated approach. Regional monetary arrangements have so the power to create *regional public goods* generating credibility and incentives for policy-makers respecting the regional conditionalities as far as the practical results of regional monitoring and access to solidarity RMF reduce the risk-premium. In contrast, market sanctions act as a deterrent to policies opposed to regional monitoring recommendations.

Such successful results should produce a convergence between regions, making them more attractive for inter-regional dialogue. First, valuable exchanges of best practices could produce positive learning cooperation, and second, on this basis, the search for common interests and actions should lead to specific cooperation between the different RMFs. From this dynamic process, coalitions or alliances with potential impacts on the credibility of the respective regional schemes could emerge. In particular, an inter-regional kind of coordination among these regions on specific objectives would strengthen the resilience of each region. Overall, it would increase the weight of the coalition group of these cooperating regions. Rapidly, the interregional dialogue could so look for a consensus on propositions to reform the IMS.

At this point, a systemic negotiation with the IMF, the Hegemon and other countries would appear as an inevitable tipping point in improving the global monetary order for the benefit of all. An additional public good at the multilateral level would become the natural target of regional monetary arrangements and would generate a significant advantage for all participants. The most important

[18] Ghymers C. (2020), *The Emerging Revolution of Digital Currencies: a Technological Opportunity for Rebalancing the International Monetary System*, RTI Paper no. 13, Torino: Centro Studi sul Federalismo.

benefit would be the macro-financial stability by escaping the Triffin Dilemma and the risk of damaging currency competition. Also, combining the different RMFs and safety nets with access to multilateral financial resources would generate value through the complementarity between regional and multilateral funds. This would correspond to an agreement on a decentralization of the IMF missions. At the same time, the IMF would play the role of the global federal system, promoting a kind of coordination of the different regional schemes. In the same agreement, the national and regional reserves could opt for the SDR as a common reserve currency.

The expected new IMS would result from a pragmatic application of the *subsidiarity principle to the IMS*: on one hand, an effective decentralization of the IMF by mandates given to regional monitoring schemes, conditionalities, and RMF; on the other, a re-federalization by making each region to adopt a common multilateral safe asset which will be an issue as the liability of upgrading the IMF into a global LOLR *i.e.* a genuine global central bank, which will regulate the global liquidity by open-market policy controlling so the global monetary base. Under conditionalities, this upgraded IMF could provide additional resources to the regional schemes to bargain with each case, particularly by reshuffling all the existing financing multilateral tools and safety nets. In case of more liquidity or emergency safety-net needs, the global LOLR will buy eligible reserves from national central banks by issuing the new multilateral safe assets (the new SDR). This liability of the global system is no longer neither a basket of key currencies nor a debt of any economy; its increases (or reductions) do not change the degree of indebtedness of the issuers of national key currencies, making possible a technical increase or decrease of the global liquidity. In case of excess liquidity, the global LOLR will sell national T-bills or bonds to national central banks, which pay for their purchases with their multilateral safe assets, reducing the global monetary base and the resulting global liquidity.

The global LOLR operations would be entirely decided collegiately by all the central banks of the IMF members on purely technical criteria, proposed by IMF staff, debated with all the regions, and approved by a qualified majority of central bankers. This aspect is essential for preserving central banks' independence from the Finance Ministers and would imply the creation of a Central Bank Board inside the Board of Directors of the new IMF. The existing IMF Board would, of course, be endowed with the right to question the central bank board's decisions and criteria under the condition to make it public and engage in open debates worldwide among the economist profession.

Concluding remarks

The present trend towards strategic reactions against dollar dependence provides an opportunity to rebuild the IMS more balanced. Urgent challenges like the financing of de-carbonization and restoring financial stability will impose any way to eradicate the Triffin Dilemma, which perversely deviates saving flows towards US consumption. However, such a structural adjustment exposes the global economy to serious risks because de-dollarization implies that the positive roles of the dollar have to be fulfilled not by another key currency but at the multilateral level. Seizing the cooperation opportunity provided by regional monetary arrangements allows for escaping the dangers of currency competition among a few national key currencies, making the flaws of the present IMS based upon a dominant dollar worse. The recipe for making possible a genuine reform of the IMS is based

on overcoming the prisoner’s dilemma both at regional and inter-regional levels, thanks to the dynamic process of mutual trust that the regional monetary arrangements provide by creating regional public goods offering benefits to all the cooperative participants, especially by creating regional Monetary Funds (RMFs). Indeed, regular, autonomous and confidential free exchanges between national technical experts generated by monitoring these arrangements' modalities would create a dynamic process of mutual trust and common views. This dynamic also moves the national authorities to make tangible the joint advantages of their cooperation, giving access to RMF, with credibility win visible in the reduction of financial spreads (their respective risk-premium on financial markets). On the contrary, market sanctions act as a deterrent for uncooperative policies. Monetary regional cooperation speeds up regional integration by making the national benefits of being cooperative more tangible through a system of incentives and deterrents linked to the results of collegial monitoring through RMF access. The exact recipe is applicable in a second step to an inter-region dialogue, which leads to organizing joint research for common interests, in particular for gathering weight and speaking with a single voice for reconstructing a multilateral monetary order based on the need for a single multilateral safe asset issued by a LOLR able to control global liquidity. This single safe asset would no longer be a national debt but a liability to the multilateral system. To initiate this process, an important step would be to use the already existing SDR as the currency in which all regional operations and RMF would be libelled. The new technologies based on the blockchain will eradicate the transaction costs implied by bundling and de-bundling the SDR from and to local currencies.

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