Summing up of the Panel of 2017 Annual Triffin Lecture

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To-day's conference, with the Annual Triffin's lecture delivered by Marco Buti, Director General, DG for Economic and Financial Affairs, European Commission, has demonstrated once more the continuing relevance of Robert Triffin's ideas, following up on the Triffin's lectures of preceding years delivered by personalities such as Tommaso Padoa-Scioppa, Lorenzo Bini Smaghi, Michel Camdessus and Jose Antonio Ocampo.

Marco Buti placed the questions raised a long time ago by Robert Triffin in the context of the renewed search for Global Economic Governance in the aftermath of the 2008 economic and financial crisis and the rising role played by the Group of Twenty (G20), trying to answer the question RTI had put to him, namely how significant has been Europe's role in shaping the new global governance. Marco Buti broadened the issue, arguing that « it is high time that the international community shifted its focus from « winning the war » - i.e responding to the 2008 crisis – to « winning the peace » - i.e. overcoming the legacy of the crisis and creating conditions for strong, sustainable, balanced and more inclusive growth ».

Marco Buti put this question in the context of long term demographic, GDP and productivity trends as well as in an historical perspective, reminding us of the impact of the financial crisis as an accelerator of global economic policy cooperation, with the G20 becoming the key global forum, the emerging powers asserting themselves, the international monetary system becoming more multipolar, with the euro, the yen and the renminbi growing in significance alongside the dollar.

Has this put an end to the Triffin dilemma? Buti says no. The fundamental tension between short term domestic policy incentives and the stability of the international monetary system is still there. « Key issuers and holders of reserves currencies pursue domestic objectives independently of what would best serve the global system and even their longer-run interest. To the extent that these policies pay insufficient attention to negative externalities for other countries and longer-term macroeconomic and financial stability concerns, they tend to produce unsustainable imbalances and fuel vulnerability in the global financial system ».
In Marco Buti's eyes, there is no doubt that the G20 has demonstrated its capacity to take swift and decisive action when dealing with the global financial crisis in 2008-2009, to reduce the mistrust between advanced and emerging countries: it provided the platform countries were looking for to exert influence on partner countries' policies that were producing significant spillovers. One of the most important G20 decision was the tripling of the financial resources of the IMF (including an allocation of 250 billion dollars in SDRs) and the IMF quota reform. However, to stay relevant,

the G20 needs to develop itself from a short-term crisis response forum to addressing more long-term challenges for the global economy. Unfortunately, this coincides with new challenges to multilateralism, coming among others from US disengagement from multilateral fora and preference for bilateralism. In this difficult context, we should prevent the renewed rise in global imbalances from becoming the trigger ending multilateral cooperation. The global imbalances are becoming more an advanced economies problem rather than an emerging markets one. The combination of a historically high Euro-Area (EA) current account surplus (underpinned by the excessive German and Dutch current account surpluses and over-reliance on monetary policy) and the unbalanced policy mix in the US (over-expansionary fiscal policy and more rapid normalisation of monetary policy) could generate serious tensions.

Buti showed us that in order for the EU to make a difference in global governance going forward, it will need to meet a number of preconditions, including completing the EMU architecture, addressing the current account surpluses, which appear now as a sign of economic weakness and a source of vulnerability, and overcoming the dispersion of its external representation. The implementation of these conditions requires strong leadership and political will but they would make it possible for the EU to enhance its soft power in the G20 and other fora, building on the attractive features of the European social and environmental model and the EU's strong commitment to effective multilateralism,

In her comments on Marco Buti's presentation, **Stephany Griffith-Jones** (IRELAC and Professor at Columbia University), focused also on the links between current account imbalances in the EU and growth. While the burden of adjustment has fallen excessively in the past on the deficit countries, she argued that adjustment in surplus countries such as Germany and the Netherlands, via higher wages growth, some expansion of fiscal policy and higher public investment, would be good for growth and improved income distribution not only in these countries but for the Euro Area as a whole and for the world economy.
On financial regulation, although much progress has been achieved since the 2008 crisis, she expressed concern that the new US administration could trigger a reversal of financial regulation. Referring to the change of attitude of the IMF on regulating capital flows, she wondered whether, also in developed economies, macro-prudential regulation on capital flows should be part of the regulatory toolbox.
On the current global reserve system and the Triffin dilemma, she echoed Jose Antonio Ocampo's statement that « the world needs a less erratic and capricious system for providing global reserves, one that is not hostage to the macroeconomic policies and the potential effects of the deterioration in the net investment position of the US ». She also stressed the inequity bias of the current international monetary system, requiring emerging economies to self-insure, both due to fluctuating terms of trade and volatile capital flows. Instead of borrowing to accumulate large foreign exchange reserves, she proposed, in the Triffin tradition, « to increase the role of the SDRs to fund IMF operations, in a countercyclical way, whilst simultaneously guaranteeing that the supply of SDRs reflects the additional global demand for

foreign exchange reserves ». Going one step further would be to finance all IMF lending with SDRs, thus making global monetary creation similar to how central banks create domestic money, a very Triffinian proposition that RTI considers as the first best solution for the International Monetary System, as explained by the RTI working group on SDR[1].

Alfonso Iozzo, Vice Chairman of RTI, referred also to the current system as the "International Monetary Scandal". In parallel with the Juncker Plan at the EU level, he advocated at the global level a recycling of the surpluses of the advanced countries in the form of investments in deficit developing countries.
In his view, the multi-currency system represented a transitory phase. We are moving towards a system with three major currencies, all of them being part of the SDR basket. Fortunately, the US Congress had ratified the change in IMF quotas before the end of the Obama Presidency. Also the inclusion of the Renminbi into the SDR would not have been possible without the support Obama. This was a legacy on which it would be impossible for President Trump to go back. It was important to exploit the situation created by the quota change and the enhanced composition of the SDR. He also strongly supported Buti's call for a stronger and unified EA representation in the IMF. In his view, the challenge in the future would be not only to preserve multilateralism but to move from multilateralism to supranationalism.

Reacting to these comments, Marco Buti was more ambivalent about the wider use of the SDR. The inclusion of the Renminbi in the SDR was a positive development but it was only a measured step as the foundations of the Chinese capital markets still needed strengthening. The inclusion of the renminbi was part of an evolutionary trend, a transition period for the SDR which would need to be managed. It would provide more opportunities for diversification. In the meantime, the IMF would need to concentrate on the policy coordination challenges and the consolidation of the multilateral safety nets both at the regional and global levels. Fortunately, the Federal Reserve was willing to help emerging countries with swaps. In the EA, completing the Banking Union and the Capital Markets Union was a key condition for recycling the surpluses of Germany and the Netherlands towards the EA deficit countries. However, the EA as a whole would remain in surplus as a result of imbalances in the US policy mix and other trends at global level.
As concerned the external representation of the EA, there was a massive resistance of the Member States to the proposal of Commissioner Moscovici to have a unified representation of the EA in the IMF. Bureaucratic vested interests and inertia were still prevailing. A less ambitious proposal, which would send a powerful political signal, would be to start by unifying the French and German representations.
Currently the EU had more open issues with China than with the US. We were still in a learning period with the US Presidency. The jury was still out.

[1] Triffin International Foundation, « Using the Special Drawing Rights as a lever to reform the international monetary system », The Federalist Debate Papers N° 1, CESI Einstein Centre for International Studies, 2014. Also published in English/Spanish version by the Robert Triffin International Association, in International Monetary Issues n°2, ed. Versant Sud, Brussels, 2015

A participant (Gary Cohn) expressed concern that the world was becoming a market place where everybody wanted to work only for his/her advantage. Transactional approaches and zero-sum views appeared to prevail. Values were ignored. He asked also what were the priorities for the EU. Marco Buti answered that, despite a difficult environment, unprecedented steps in policy coordination had been achieved since 2008. For the EU, the priority was to safeguard the EA. But he agreed that in the future, Europe had to count more on itself.