Reforming the International Monetary Non-System. An Ocampo’s Lecture

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Josè Antonio Ocampo held, on the 11\textsuperscript{th} of May this year at the University of Louvain-la-Neuve (Belgium), the fourth lecture of the “Robert Triffin International” on “Reforming the international monetary non-system”.

The timing could not have been more encouraging for the theme addressed by Mr Ocampo. The IMF had just agreed to include the renminbi in the Special Drawing Right (SDR) basket and increase the weight of emerging countries in its governance, thereby strengthening the stability of the basket and the legitimacy of the Fund.

The analysis by José Antonio Ocampo started from pointing out three fundamental deficiencies of the world monetary structure: 1) a continuing risk of a global recession, due to the asymmetrical burden of adjustments required to the countries encountering significant and cumulative imbalances of current accounts: only the countries in deficit are asked to reduce spending, not those in surplus; 2) an intrinsic factor of instability of the system, consisting in the use of a national currency as the main international currency. This problem is known as the “Triffin dilemma”, since it was Robert Triffin to formulate it in the sixties. In 1969, after limiting the convertibility of the dollar into gold only to central banks and before Nixon declared the final stop to convertibility, Triffin, then at the IMF, along with Ossola at the Bank of Italy, created the SDRs with the intention, stated by the IMF itself, that they would become the world’s reserve currency; 3) inequities associated with the demand for reserves by developing countries as self-protection. In other words, an unfair incentive to the accumulation of foreign exchange reserves, mainly denominated in the currencies of countries with powerful financial systems, by countries that are subject to the speculative action of markets (a large accumulation of foreign exchange reserves in China and other countries followed in fact the Asian crisis of 1997). The accumulation of reserves subtracts resources for domestic investments, and finances instead the consumption of rich countries at interest rates close to zero or even negative. According to IMF data, in mid-2015, 63.8% of global currency reserves were denominated in dollars, 20.5% in euro, 4.7% in sterling, 3.8% in yen and 7.2% in other currencies.

What to do? Leaving for the moment in the background the ultimate goal, “a global reserve bank that could issue a new supranational reserve currency”\textsuperscript{2}, two paths are pointed out by Mr Ocampo. The first of these, a multi-currency international monetary system, is what would emerge spontaneously from the action of the “free market forces”. Something similar happened in the period between the two great wars of the twentieth century. In this framework, for example, China and Europe would promote the international use of the renminbi and of the euro, seen as competitors of the dollar. The multi-currency approach, however, may lead to currency wars, protectionism, new instabilities.
The second path sees a strong convergence with the goals of the Robert Triffin International: to fully exploit the potential role of SDRs, “the only truly global reserve asset that the world has created and ... particularly one that is not hostage to the macroeconomic policies and balance-of-payments of the US.” This is the path of international cooperation to correct fundamental macroeconomic imbalances, for the orderly financing of development and for the allocation of significant resources thus released to the solution of global emergencies. A “governed globalization.”

Even a “moderate” use of SDRs to satisfy world demand of foreign exchange reserves, estimated between 200 and 400 billion dollars a year, would reduce the three main flaws of the current non-system. The “seigniorage” would be to the benefit of all IMF members. The counter-cyclical issuance of SDRs would reduce the downward pressure caused by the asymmetrical adjustment of in-deficit countries compared to those in surplus. Allocations of SDRs would reduce the cost arising from the establishment of precautionary foreign reserves.

Mr Ocampo then sums up five practical suggestions: 1) a global reserve system that mixes the multi-currency arrangement with an active use of the IMF’s SDRs; 2) stronger mechanisms of macroeconomic policy cooperation, including management of the exchange rate system and capital account regulations; 3) additional automatic balance-of-payments financing facilities, and the complementary use of swap and regional arrangements; 4) a multi-lateral sovereign debt workout mechanism; 5) major reforms of the system’s governance.

We already discussed the first point and for the other four the same fundamental observation is valid: it is a comprehensive approach that introduces elements of supranational regulation of the currency, exchange rates, capital flows, development loans, public debt. This regulation can display its effects only through another step towards a fairer representation of the countries at the IMF, to align it with their actual weight in the world economy. We share this approach but do not think, as Mr Ocampo seems to do when he defines the two scenarios as complementary, that it can coexist – other than in a short period of transition – with its opposite, that is, with the neo-liberal governance of globalization that has caused so many disasters. The debate that took place in Louvain-la-Neuve between Mr Ocampo and representatives of the Robert Triffin International, has demonstrated the fruitfulness of continuous interaction.

The results can be found in his more convinced approach to the SDR and its potential: “Beyond the push to use SDRs more actively in IMF programs, governments could issue SDR-denominated bonds. Moreover, private banks could increase their use of this monetary unit, just as some European banks used the so-called European Currency Unit, helping to pave the way for the euro”.

And on the other hand, Mr Ocampo’s extraordinary knowledge of emerging countries and of their funding has allowed the Robert Triffin International to direct more precisely its thoughts towards the multilevel use (World Bank, regional development banks, sub-regional and inter development banks) of SDR emissions, in an increasingly unstable world, more and more in search of less volatile landmarks.

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1 Previous lectures were given by Tommaso Padoa Schioppa, Lorenzo Bini Smaghi and Michel Camdessus.
3 Ivi, p. 5.