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Imagining Emerging Economies in a Post-COVID World
Session III: Rethinking Monetary System and Debt

2 important corollaries from the Triffin Dilemma

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Triffin Dilemma (TD) first corollary:

1) Global Environmental unsustainability

Triffin Dilemma (TD) = only (n-1) degrees of freedom between « n » different currencies in the IMS

⇒ Important global spillovers explaining big liquidity waves with boom/bust

⇒ Global Liquidity (GL) necessarily unstable and damaging for real economy (built-in destabilizer)

⇒ 2 main corollaries:

1) **Damaging distorsion in net saving flows** going to North and not to South

Consequence upon Global environment: making impossible to decarbonize Emerging and LDCs

Paris Agreement 2015 implies at least US$ 1 trillion flows North to South

Survival of humankind at stake: urgent need to correct this monstrous distorsion for common global interet
Triffin Dilemma (TD) second corollary: 2) Global Liquidity inner unsustainability

TD explains impossibility to regulate GL with national tools

Why? Because stabilization of banking liquidity needs a LOLR:

Any liquidity = Official + Private, official one is the stabilization tool

- At national level: best safe-asset = liability of the national Central Bank
- At international level: best safe-asset = liability of the Fed + US T-bills

=> big asymmetry => quality hierarchy of “moneyness” across national assets and currencies: only US$ behaves without external constraint and direct access to its LOLR (only US global banks have direct access to the Fed)

=> big amplification of global boom/bust cycle because financial markets are pro-cyclical (demand and supply of credit are correlated with GL, no stable equilibrium possible) = unstable pro-cyclical variation of the “moneyness” with respect of US$
TD second corollary: Growing Global Liquidity (GL) instability

Since 2008-09 QE => major structural changes in financial markets:

Shift from bank loans to wholesale money markets which require more collateral assets (Repo and asset-backed commercial papers)

⇒ increased demand for “safe-assets” = basis of reversed pyramid of GL
⇒ GL depends upon a relative shrinking basis of first-quality safe-assets
⇒ But collaterals use to co-vary more with the financial cycle
⇒ Financial cycle amplifies differences in “moneyness” across currencies
⇒ GL reversed pyramid exposed to boom-bust in private GL
⇒ a growing systemic risk (fast scarcity of safe-assets in case of economic slowdown or interest-rate rise).

This fragility is due to the asymmetry of the US$ = due to Triffin Dilemma
The paradox of GL fragility and the IMF only solution

Triffin Dilemma second corollary of his “built-in destabilizer”:
Reduction in the **term premium** is wrongly interpreted as an indicator of high GL
Rather a proof of the US$ global destabilizer: **too narrow basis of US$ safe-assets** = too scarce supply for facing fast growing international demand for safe-assets
⇒ Too low yield in US$ (too high price for T-bills) = proof of impossibility for the Fed or the US Treasury to regulate GL
⇒ Dangerous spillover on the global economy
⇒ Demand for safe-assets by n-1 economies sustains the **vicious circle** of GL instability and global imbalances
⇒ No way to stabilize without a (n+1)th currency
The paradox of GL fragility and the IMF only solution

⇒ Only way to stabilize GL is to issue a (n+1)th currency = a **Multilateral safe-asset** that is not anymore, the debt of an economy = better than US$

⇒ Only legitimate possibility is a liquid liability of the IMF = a **Multilateral Drawing Right** available not only to Central Banks but to any private agent

⇒ Interoperable **CBDC** will make this very easy by making bundling and unbundling SDR/MDR instantaneous and costless, or to get US$ for operational reason.

⇒ Make automatic the Keynes/Triffin multilateral clearing union

⇒ Make feasible to control global monetary base by issuing/withdrawing MDR against Central Bank national assets