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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 monstruous distorsion for common global interert

Triffin Dilemma (TD) <u>second corollary</u> : 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 **<u>hierarchy</u> of "<u>moneyness</u>"** 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 <u>global boom/bust cycle</u>** 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)

$\Rightarrow$increased demand for “safe-assets” = basis of reversed pyramid of GL

$\Rightarrow$GL depends upon a relative shrinking basis of first-quality safe-assets

$\Rightarrow$But collaterals use to co-vary more with the financial cycle

$\Rightarrow$Financial cycle amplifies differences in “moneyness” across currencies

$\Rightarrow$GL reversed pyramid exposed to boom-bust in private GL

$\Rightarrow$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

$\Rightarrow$Too low yield in US$ (too high price for T-bills) = proof of impossibility for the Fed or the US Treasury to regulate GL

$\Rightarrow$Dangerous spillover on the global economy

$\Rightarrow$Demand for safe-assets by n-1 economies sustains the vicious circle of GL instability and global imbalances

$\Rightarrow$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 <u>Multilateral safe-asset</u> that is not anymore, the debt of an economy = better than US$

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

⇒Interoperable <u>**CBDC**</u> 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