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## THE ESSENTIAL REFORM OF THE INTERNATIONAL MONETARY SYSTEM

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**The Essential Reform of the International Monetary System**

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Let's face it squarely, the global economy is at an impasse. It is now obvious that the needs resulting from climate change, multiple attacks on the environment, threats of pandemics, the unbearable debt burden of many countries, demographic growth, the ravages finally created by the conflicts in Ukraine, Sudan, Ethiopia and so many other countries are upsetting the financial balance envisaged at recent major international conferences.

The resources necessary to meet the most reasonably assessed needs are scarcely available, even if we count on the full implementation of decisions which have just been taken or which should be taken in the aftermath of the Marrakech conference and the work of the Paris Summit in July 2023. In one word, the fundamental equation of the world economic balance does not come full circle! We cannot resign ourselves to this: it announces, in fact, an unacceptable future, it already feeds the concern and even the revolt of the world's youth, threatened with a future of growing inequalities and dramatic shortages unworthy of man. Facing it, the world community must therefore take a major initiative without delay, while working to restore peaceful relations and trusting cooperation between countries.

One of the central elements of this initiative should be the reform of the international monetary system (IMS). Some work has been done in this direction in recent years. It has led to the adoption of a few useful but limited measures; the complexity of the issues has too often led governing bodies to postpone the discussion or the adoption of a comprehensive program. Such a reform has never been as indispensable as today, but we must recognize that the present climate of confrontation among key-partners does not allow for the in-depth debates, which would be required. It should not prevent us, nevertheless, to prepare for the moment when the circumstances turn to be more propitious for these negotiations, by trying to identify the basic pillars of a renovated central institution of the system, namely:

- An unquestionable fairness,
- An adjusted mandate,
- A strengthened world monetary governance.

## I. <u>Fairness</u>

To make the system equitable should be the first pillar of a real reform. To reach the required level of fairness, the reviews of quotas[4] should ensure a fair and effective representation of each member country by corresponding closely to its real importance. The same principle should apply to the composition of the Board of Directors.

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[2] Bernard Snoy, Chairman of Robert Triffin International (RTI) Association, former Executive Director of the World Bank

[3] Honorary Governor of Banque de France, former Managing Director of the IMF (1987-2000)

[4] The next one being scheduled on December 2023.

The concern for fairness should apply to the status of the Special Drawing Rights (SDR) and lead to correct their distribution. The membership has recognized this need. Undertaken following the last allocation of 650 billion dollar equivalent in SDRs, one of the most innovative measures of recent months aims to correct the current mode of distribution allocating the new SDRs in proportion to the size of the countries' quotas, so very generally to the countries that need them the least. This initiative invites countries that have received the largest allocations to date to give a fraction of them to the poorest countries. This decision – if effectively implemented – would be a real step forward. For the future, we would suggest to the G20 to decide each time that it makes a new allocation, to put aside a percentage (around 20% of it) to top up the allocations of the poorest countries. Over subsequent allocations, one of the most aberrant and unfair consequences of the current system would be gradually corrected.

The concern for fairness making the Fund effectively universal would contribute also to the effectiveness of the IMF surveillance. Surveillance of the economic policies of its members is a central task of the International Monetary Fund. However, it carries a congenital flaw: it exerts itself firmly on the countries, which have recourse to its financing, but the countries in a situation of external payments surplus or whose influence is systemic too often allow themselves to ignore it. This anomaly must be corrected. Exercised as a priority, with particular attention, on a few large countries, this monitoring should focus particularly on the level of the external reserves, which, in a large number of cases, greatly exceed reasonable levels. This leads to a deplorable sterilization of a fraction of global savings invested in short-term, thus drying up a non-negligible amount of global savings and reducing our collective ability to meet the incompressible needs of our societies. By contributing to correct it, this equal surveillance would also significantly strengthen the effectiveness of the IMF in the service of global stability and growth.

## II. <u>Adjusting the mandate of the IMF to the world of the XXI century</u>

To put the Fund in a position to respond to the problems of today and tomorrow, and no longer those of the aftermath of the Second World War, five other reforms should be adopted as a priority.

1. Since we now live in a world where financial transactions greatly exceed by their volume and the risks they entail the monetary flows linked to fluctuations in current account balances, an effective surveillance of capital movements is necessary. In an intensely financialized world, this calls for the reform of article 6 of the IMF Articles of Agreement. This reform should no more be postponed.

2. To establish the basis of a cooperative management of the world liquidities by associating more closely to the Fund to the Central banks, it could be decided that every six months and on the basis of a report drawn up by a group of Central bank Governors (those, for example, whose currencies would be part of a new basket of SDR currencies), the IMF be invited to provide the G20 with its assessment of the level of global liquidity and its

recommendations on the measures to be taken to ensure the best possible evolution of the world economy .

3. To allow the SDRs to fully play an effective role in the management of liquidities, it would also be advisable to organize a market for these public and private rights. They could thus become an essential tool for regulating global liquidity. The IMF, by issuing this currency in the event of a shortage of liquidity or by withdrawing it from circulation in the event of an overabundance, could play the role of a sucking and pressing pump of liquidity on the world level, devolved to the National Central banks. We would not be very far then from the realization of the visionary dream of Keynes, who wrote in his Treatise on Money of 1930: "The ideal system would surely consist in the foundation of a supranational bank which would have with the National Central banks similar relations to those existing between each Central bank and its subordinate banks". This reform would be particularly welcome at a time when the global monetary situation is characterized by the overabundance of liquidity and the insufficiency of long-term savings.

By urging a more rational level of national reserves, this management of liquidities could contribute to free significant amount of resources for priority investments. For this contribution to be effective in all circumstances, it would be convenient to recognize *de jure* in the Articles of Agreement of the IMF the role of lender of last resort it has played *de facto* in several occasions over the recent years. This recognition would give to countries threatened by aberrant fluctuations in capital movements the assurance of being protected without being reduced to accumulate excessive and poorly productive reserves.

4. Finally, increasing the volume of resources available to the Fund should not be further postponed because their current size is clearly too limited compared to the amounts it would have to mobilize if several large countries were to find themselves in difficulty.

5. More incidentally, it would be wise to introduce in the Articles of Agreement of the IMF a provision explicitly recognizing the status of international common currency of the SDR and, in passing, to modify its name so that it is understood everywhere as the currency of the world.

So, truly democratic and universal, the Fund renovated, becoming an institution as much financial as monetary and truly democratic and universal, the IMF would have at its disposal the instruments necessary to the exercise of the responsibilities within the framework of an overall reform of the world institutional system. There is every reason to believe that the adoption of the above reforms will take some time. We can also hope, however, that they will contribute to creating the necessary climate for finally adopting a comprehensive reform of the monetary governance.

## III. <u>Strengthening the world monetary governance</u>

When circumstances come to lend themselves to it, it will be high time to convene a conference, which would aim to put in place a system of governance that finally meets the needs of the XXIst century and offers humanity a new horizon of cooperation.

*IMF governance*

To better respect the principle of universality and equality, it would be appropriate to implement now a unanimous proposal by the members of the “Initiative of the Palais Royal” significantly restricting the power of American and European veto to the IMF by requiring, for the most important decisions, a majority reduced to 70 or 75%, instead of 85% today.

It would also be appropriate to review the archaic procedures for appointing the leaders of the International Monetary Fund and the World Bank, and open them up to a truly democratic and universal choice.

With regard to the ordinary functioning of the Monetary Fund, a reform should finally be implemented to correct the current anomaly which paradoxically confers decision-making power on senior national officials sitting on the Board of Directors, while ministers and Governors sitting in its supreme body, the International Monetary and Financial Committee, intervene only for advice. This reform could easily be carried out: it would suffice to implement a provision approved during the Jamaica agreements in 1976 consisting in establishing a “college” of the Ministers of Finance and the Governors of the Central banks of the 24 countries with now decision-making power while the Board of Directors would prepare the agendas and decisions. All what remains today to be done is to set the effective date of this provision, which has be so far postponed indefinitely. This reform would have the advantage of ensuring better representation of Central banks and placing responsibilities at the political level, and no longer at the technical level, when strategic decisions have to be taken.

*G20 governance*

Given the orientation role of all the global financial institutions conferred now to the G20, it would be desirable to review its composition to provide it, also with a truly universal and equitable representation of all countries in the implementation of global strategies. Today, in fact, the G20 represents legitimately only its members: a group, certainly, of important countries, but whose number remains limited and within which the poorest remain absents. This last problem could be resolved by introducing a system of regional constituencies similar to that, which has served well so far the Bretton Woods institutions. It would suffice for this to invite the countries to group together regionally, so that each of them has periodically, by rotation, the opportunity to sit on this supreme body. We cannot emphasize this point enough: the world today has a clear need of global regulations. Only a body where each country feels legitimately represented could adopt them. In its absence, we would have to rely on non-binding guidelines, codes of good conduct, the inadequacy of which is now recognized. This new method of representation would have the advantage of facilitating the adaptation over the years of the composition of the G20 in accordance with the evolution of the respective weight of the different national economies.

In the aftermath of this new major conference, the international community would finally have a full-fledged global monetary institution, working in close cooperation with the other multilateral organizations, issuing a common currency serving the stability of the economic, social and ecological development of the planet. Many dangers would then be averted and the world could prepare under better omens the future of the next generations.

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The proposals above present an admittedly far-reaching agenda that will require wisdom as well as courageous decisions on part of global leaders on issues that go beyond their national borders and on which their predecessors were unable to reach a consensus on multiple occasions in the past. So, it is reasonable to ask two political economy questions.

First, why now is the right time for the top global leaders to tackle this agenda, despite their other urgent preoccupations? There is never a perfect time to start tackling difficult long-term issues. But, despite the seemingly calm on the surface in most international financial markets, deep problems have been simmering underneath for years: excessive liquidity; record debt levels in a large number of low income countries; rising debt defaults; reversal of private capital flows to most emerging market economies; breakdown of the global value chains; and, of course, the rising tensions between China and its main trading partners in the G7. We are fully aware that each country leader at the G20 Summit has to tackle major domestic or regional agenda (elections, possible recession, immigration, diversification of energy sources, climate change, conflicts or confrontations in all parts of the world, etc.), but on top of that, the very stability of the global monetary, financial and trading systems is at also stake and needs their urgent attention. It is in the interest of all nations and also of the self-interest of each country, however big and small, to protect these global systems. Over the longer term, the benefits of preventing a meltdown of the global system will be enormous value to everyone. Nobody else can tackle alone this agenda!

Second, why should the parties (countries, regions, institutions, bureaucrats) who currently control the system yield part of their powers in order to help make the governance of the international monetary system more legitimate and credible to the world as a whole, and thus make its more robust over the longer term?

Given the great value of moving towards a more robust and credible international monetary system that reflects the new global economic realities and anticipates where the world is moving. We are convinced that there is hardly a country, which can consider itself sufficient protected from the misfortune which threatened us.

So it will be worthwhile for the current stakeholders to yield some of their long standing prerogatives in order to make room for others (countries, regions, decision makers…). In particular, the proposed changes will mean recognizing the increased role of the Asian economies in the world, and their likely further rise in the coming decades; correcting the minuscule say presently given to the vast continent of Africa despite its crucial importance to the world as a whole as being by far, all along the present century the continent of its youth.

Everyone, therefore, as every interest to in taking part in the full implementation of these proposals. The universal common good now rests on it.