International Conference: Kick-Off seminar of Jean Monnet Crisis Network “Crisis-Equity–Democracy”

IRELAC

With the support of the Erasmus+ Programme of the European Union

Robert Triffin International

The intertwined market failures explaining the systemic unsustainability

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Systemic unstainability is not only « technical » but also « ethical »

- = perverse cumulation of <u>ethical</u> and <u>technical</u> errors:
- Due to <u>simultaneous failure</u> of ideologies (left and right) and economists (both sides): no incorporation of externalities
- Result: sacrificing the future = intergenerational injustice and material paradox = disappearance of our societies:
- "me now" is self-destructing: "**tragedy of the commons**" = technical moral hazard process (Lloyd, W. F 1833, Mrs Foote E.N.1856)
- Pope Francis ("Laudato Si: care on our common home", 2015): the survival of humanity requires "*to turn back market into humanity*" by using market corrections for restoring social values
- **Need for a <u>two-handed solution</u>** = **1) « materialistic » individual incentives**: key relative prices changes in energy, in finance, in social cohesion + **2) organisational progress** : multilateralism + longer-term view (=less "machism" & more gender balance) which need a minimum of "ethical" change: ("negentropy")

Major irrational relative prices come from collective short-term preference

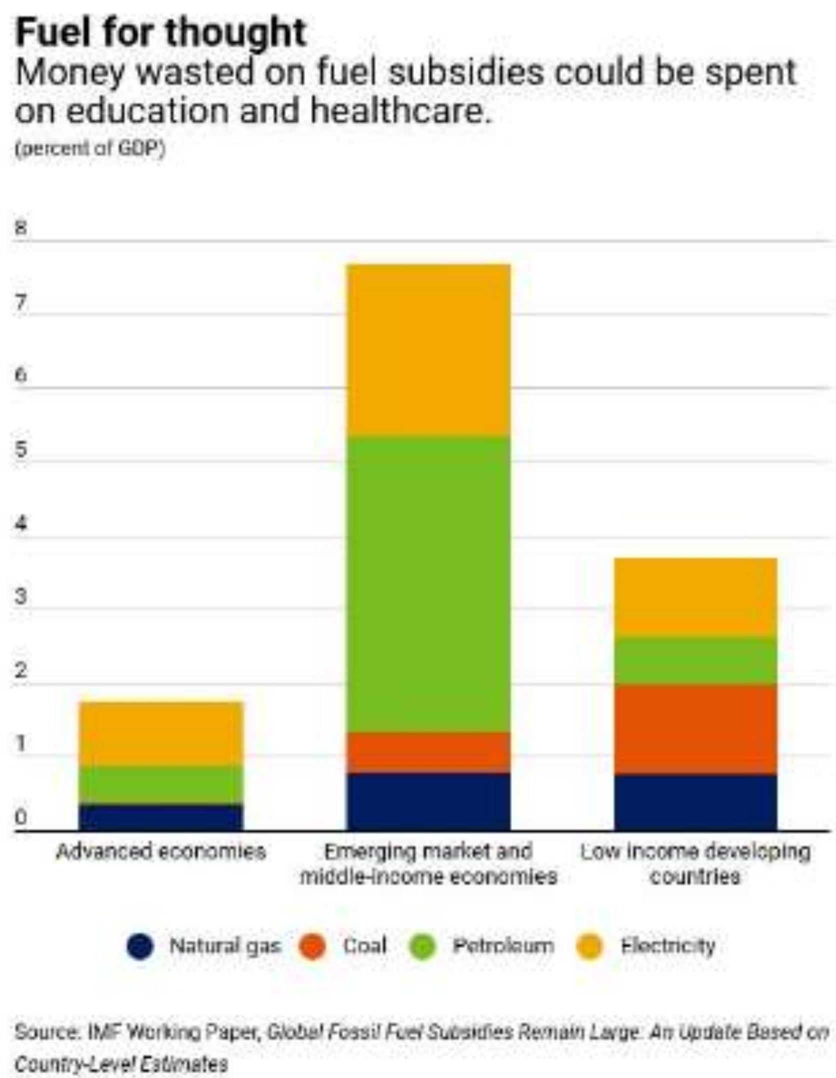
- Roots of unsustainability: myopic relative prices (populist bias) and myopic subsidies (vested interests)
- Why? systemic postponement of costs upon next generations
- => **<u>Over-indebtedness reversed pyramid</u>**: Public debt + Social security debt + Social debt + Environmental debt + Macro-financial imbalances and fragilities + geopolitical debt (underdevelopment, terrorism)
- => governance gap: no multilateral tools for global challenges, social costs pave the way to populist short-termism
- Urgent need for systemic measures correcting the causes of systemic dysfunctionalities
- Our response: **technically feasible** <u>only</u> in a systemic approach

In OECD: 2% of GDP wasted for subsidizing fossil energy
In LDCs 3.7% and Emerging 7.7% of GDP

This means a room for manoeuver of $ 3.000 billions per year !!

Paris Agreement on Climate change requires 1.000 bn of financial flows to emerging and LDCs per year

9. Fuel for Thought: Ditch the Subsidies



Source: IMF

The single root of the unsustainabilities: « the tragedy of commons »

<u>Diagnostic</u> for the systemic disease?

unsustainable activities are too profitable! ***private yield>social returns***

<u>Mechanism</u> explaining such divergences?

Myopic relative prices due to market or subsidies where spillover or public good effects: fossil energies, financial assets, social cohesion: their market prices don't incorporate externalities, or subsidies issue wrong market signals

<u>Solutions?</u>

Sustainable outputs must be made more profitable through correcting relative prices with taxes/subsidies, financial regulation, management of global liquidity (safe-assets) as a public good and social inclusion

<u>Feasibility?</u>

Yes if 2 conditions are met: governance <u>progress</u> (multilateral + gender balance + citizen support) and broad enough for tackling the whole set of unsustainability: CO_2 + over-financialization + global liquidity asymmetry + social exclusion

The intertwinned cumulative process of systemic unsustainability

"Greatest market failure" (Lord Stern) is the wrong carbon pricing

But global warming results of cumulative process combining 3 linked price distortions:

Cheap CO2 footprint + US$ safe-assets asymmetry (Triffin Dilemma) + unregulated financial globalization (inner instability of financial markets)

Triffin Dilemma (TD) => 2 big distortions spurring global warming and able to impede decarbonization

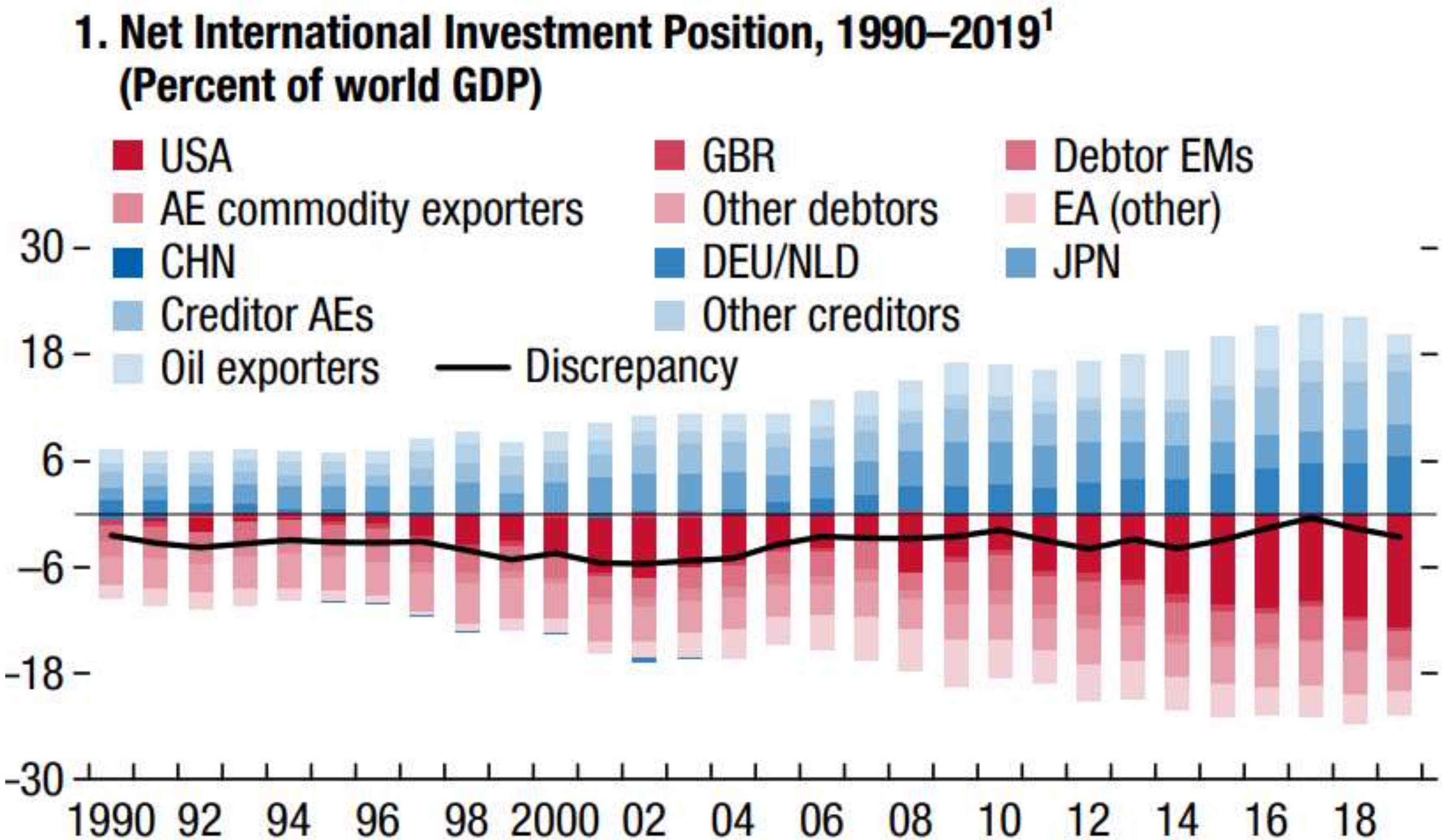
1) $ asymmetry biases global saving flows towards US over-consumption
2) $ quasi-monopoly of access to Fed "safe-asset" => global liquidity instability => financial yields > real yields absorbing real resources and reducing total factor productivity

= strong, costly cumulative process impeding decarbonization and creating macro-instability => social and political instability => populism (short-term views)

⇒ Need for a global systemic solution tackling the main price distortions: **HOW?**

1) Imposing a predictable rising path for carbon price with flexible carbon tax for the difference with world market prices (Monnet Network proposal: Schulmeister's chap. 20)
2) IMF issuing "Multilateral safe-asset" for regulating global liquidity (acting as a global LOLR: RTI's proposal)
3) Regulating financial globalization (ex. auction system impeding continuous trading and excess of speculation with algorithms, see Schulmeister's Chap 20)
4) Paying for social cohesion: financing collective goods by fiscal multilateral cooperation (preventing under-pricing of social costs of exclusion and tax-free riders)

The failed IMS: rising global imbalances



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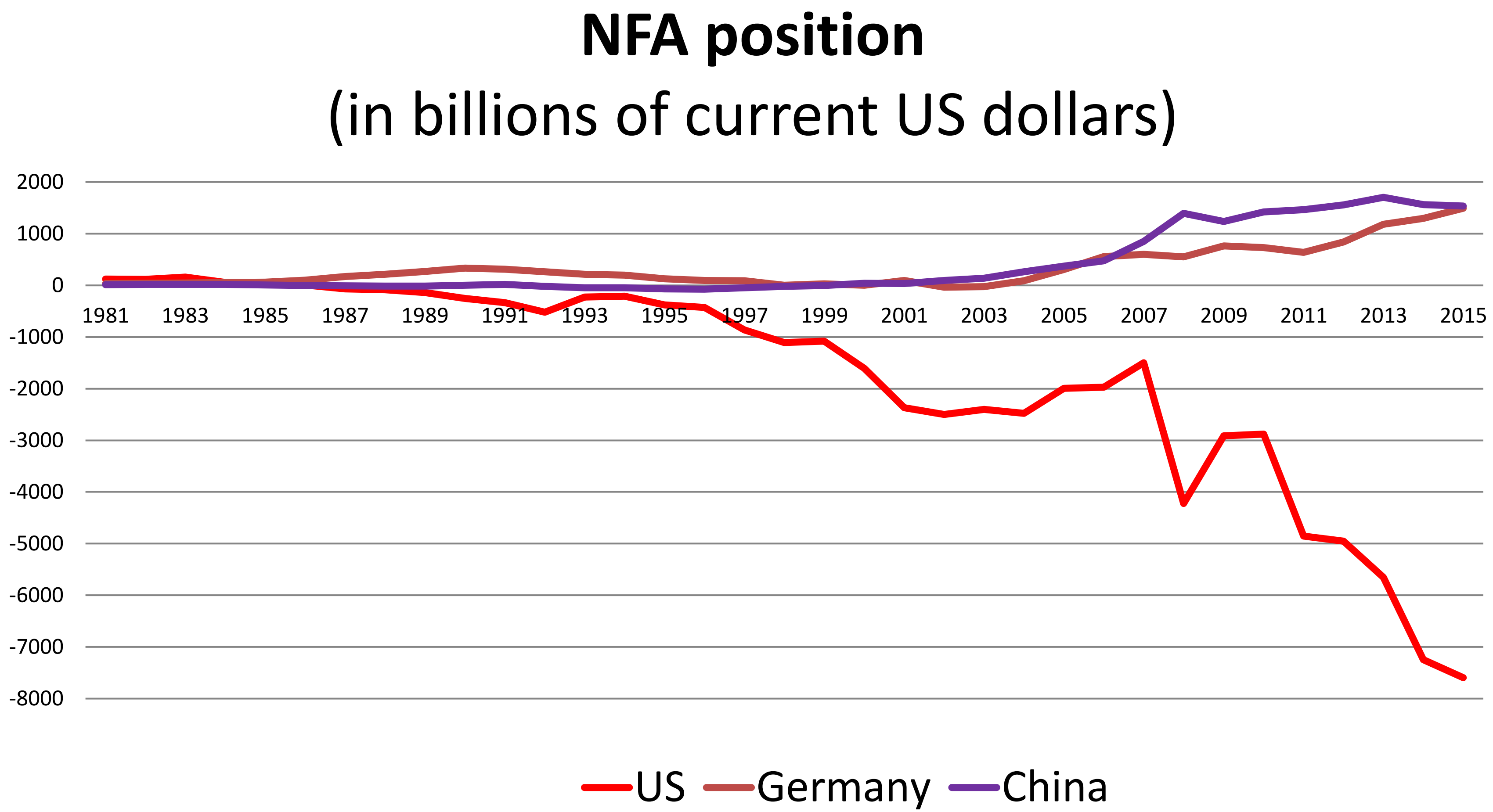
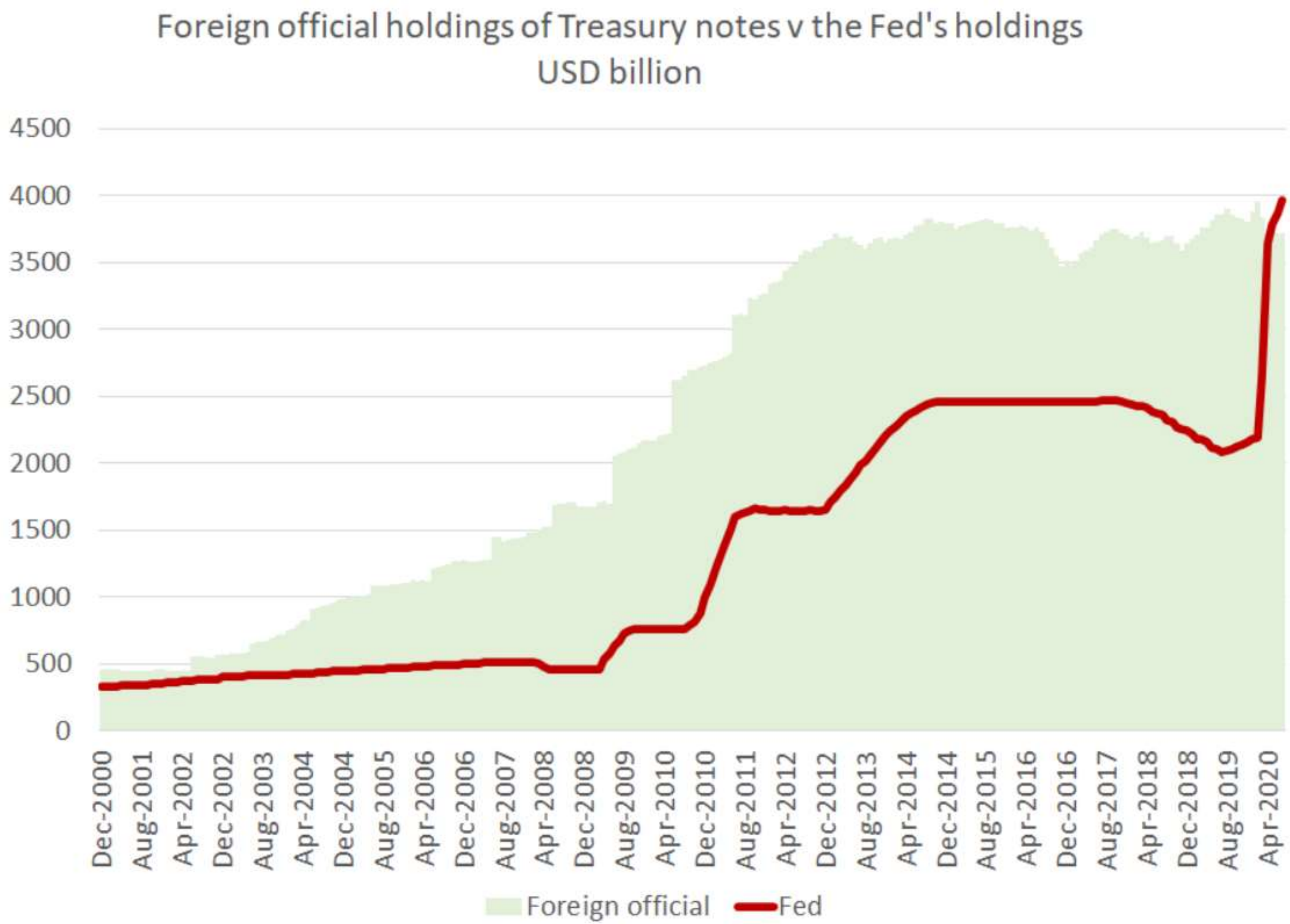
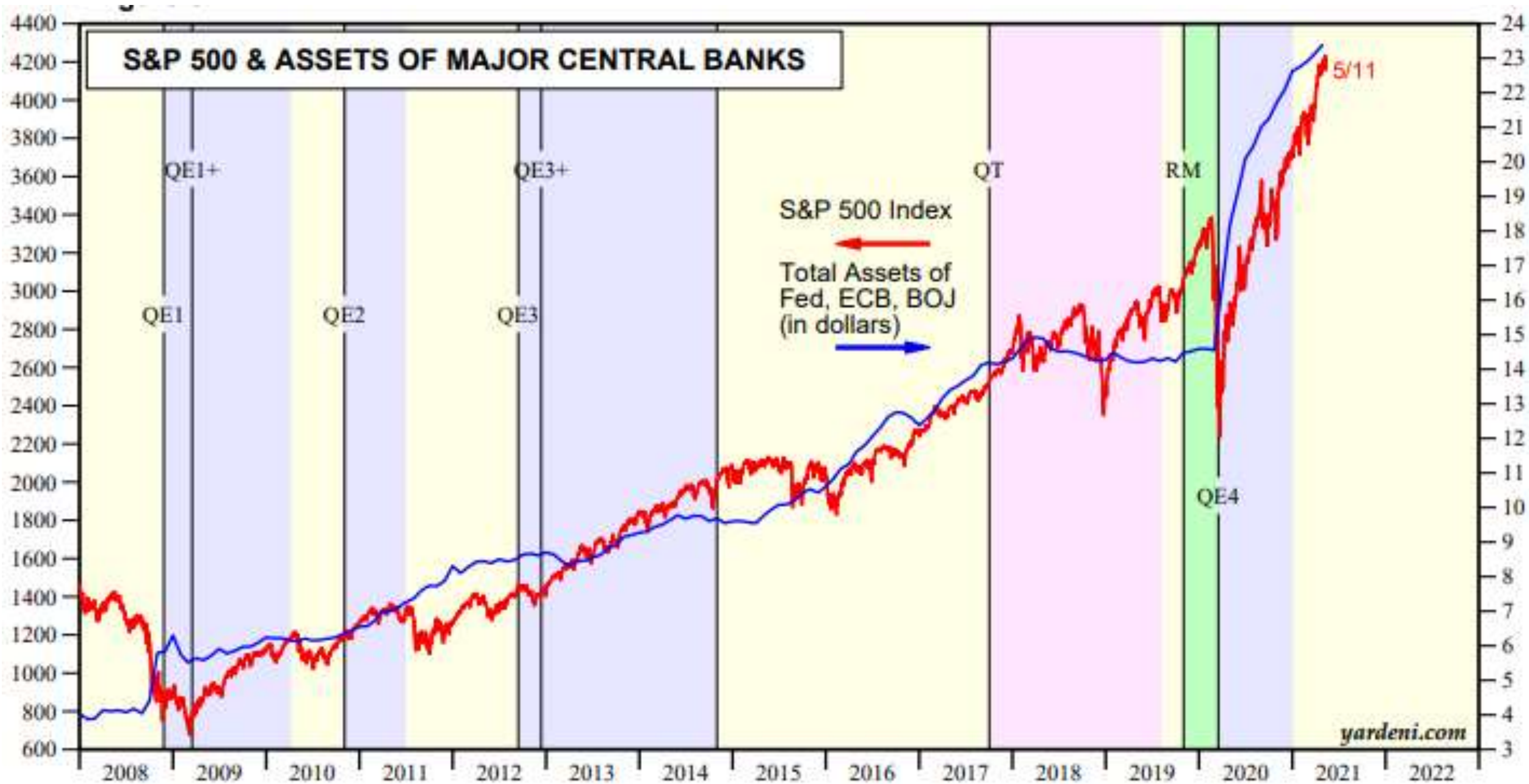


The US dollar de facto global LOLR gives quasi-monopoly to US$ as safe-asset



Global Monetary Base and US Stock exchange performance



Note: QE1 (11/25/08-3/31/10) = $1.24tn in mortgage securities; expanded (3/16/09-3/31/10) = $300bn in Treasuries. QE2 (11/3/10-6/30/11) = $600bn in Treasuries. QE3 (9/13/12-10/29/14) = $40bn/month in mortgage securities (open ended); expanded (12/12/12-10/1/14) = $45bn/month in Treasuries. QT (10/1/17-7/31/19) = balance sheet pared by $675bn. RM (11/1/19-3/15/20) = reserve management, $60bn/month in Treasury bills. QE4 (3/16/20-infinity).
Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

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JEAN MONNET NETWORK

"CRISIS-EQUITY-DEMOCRACY FOR EUROPE AND LATIN AMERICA"

FINANCIAL CRISIS, EQUITY, DEMOCRACY AND CLIMATE CHANGE:

CHALLENGES AND PROPOSALS

17-18 MAY 2021

INTERNATIONAL CONFERENCE