Robert Triffin International

The Internationalization of the Euro and the Multilateralization of the Global Financial System

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Ladies and Gentlemen, dear friends and colleagues,
first, let me thank you for the invitation to give a speech here in Sofia, on behalf of *Robert Triffin International*. Both ELEC and RTI struggle for a more equitable economic and monetary system, for a more cooperative and integrated regional and global governance, and against what the sociologist Ulrich Beck called *methodological nationalism* in social sciences. ELEC and RTI have already organized a few joint initiatives in the last few years, and I hope we can manage some projects together in the coming future.
Today, I will talk about the need to return on the path towards multilateralism in the global monetary and financial system, already attempted a few years ago, and on the role that a few initiatives might play in this long-term process, starting from the internationalization of the euro.
I shall first dwell on a brief outline of the historical evolution of the system until the dangerous situation we are currently living, before turning to illustrate a few policy proposals.

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This is a very special moment in the history of the international monetary system. In a couple of weeks, we will be celebrating the 80th anniversary of the international monetary conference held in July 1944 at Bretton Woods.
The *Operation Overlord* had just reversed the fate of WWII, and the USA were on the way to showing their military supremacy to the whole world, with the nuclear bombs on Hiroshima and Nagasaki in August 1945.
A few months later, in Autumn 1945, the IMF and the International Bank for Reconstruction and Development, which would later become the World Bank, were established along the proposal made by Harry Dexter White at BW, in which the pivotal role of the dollar in international economic, financial, and monetary relations was recognized and – I would say – crystallized.
In the first few years after the end of WWII, the increasing need for balance of payment adjustments due to worldwide economic reconstruction and increasing world trade urged the creation of international liquidity, which could only be provided by the USD. This led most economists to express their worry concerning a possible dollar shortage.
In October 1959 in front of the US Congress, Robert Triffin expressed the opposite worry: that such increasing demand for international liquidity would be

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accommodated by the Federal Reserve, eager to finance an increasing domestic and external deficit of the USA, eventually leading to the unsustainability of the dollar pledge towards convertibility and the collapse of the system.

Since then, the Triffin Dilemma is there to remind of the danger of relying on a national currency as the only means to create international liquidity, both in payments and reserves.

The attempt made during the second half of the 1960s to issue an alternative reserve instrument to supplement the USD with a multi-currency reserve asset, the *Special Drawing Right*, failed. SDRs were indeed established in 1969, but their issues were negligible in terms of the requirements of the international monetary system. Despite the end of the system in August 1971, when the dollar ceased playing a *de-jure* hegemonic role, the dollar became the *de-facto* hegemonic currency in the international monetary and financial system. Floating exchange rates made the weaponization of the currency market emerge as the ultimate instrument of global financial stability, where the USA imposed their political and economic weight, assisted by the narrative of "the hegemonic stability", first theorized by Charles Kindleberger in 1973.

Since the end of the BW regime a sort of struggle started emerging between those who accepted the US dollar hegemony, and those who thought the role of SDRs should be further explored as an alternative: not only as a reserve asset, but also for development finance. A trend that remerged again since 2009 – when $250bn SDRs were issued during the global financial crisis – and even more now, after the issue of $650bn SDRs in August 2021.

As an illustration of this struggle, we may remember that after the first oil shock, in Autumn 1973, the IMF Managing Director, Johannes Witteveen, tried to use SDRs and the IMF itself as an intermediator to recycle the BoP surplus of oil-exporting countries to countries in need of BoP assistance due to their productive structure which made them vulnerable to oil prices, avoiding cumulative global imbalances. The USA preferred to establish bilateral relations with a few oil-exporting countries and exchange the use of the US dollar for oil invoicing, instead of SDRs, against the pledge to guarantee their security (you might have noticed, incidentally, that Saudi Arabia unilaterally ceased that agreement only one week ago).

Something similar happened again during the early 1980s and during the Mexican crisis of 1994, when the IMF Managing Director, Michel Camdessus, met a strong resistance from the USA, UK and Germany, to issue $50bn SDRs.

In 1997, the USA frustrated Japan's proposal to establish an Asian Monetary Fund during the East-Asian financial crisis, weaponizing both the dollar and the IMF.

Things changed since then, dramatically. Mostly due to the emergence of a new economic and political superpower: China.

China started first with cautious protagonism in the region: the Chiang Mai Initiative, initiated in 2001, was precisely meant to provide a first-line financial safe net in case of speculative attacks against the area, preventing countries hit by adverse financial speculation to accept the IMF conditionality. The currency swap agreements, first bilateral, were multilateralized in 2011, later becoming a fund financed by pooling part of their reserves, with a capital of $240bn.

On a global level, China first launched the idea of boosting the use of SDRs (with Zhou Xiaochuan in 2009), until it managed to change the IMF quotas and enter the SDR basket, and later promoted the establishment of the BRICS (which recently evolved in the BRICS+).
All this was meant to provide incentives for the USA to understand that the era of the US hegemonic stability had come to an end; and was to be understood, in my opinion, as a warm suggestion to the USA to guide a change towards multilateralism, instead of eventually being subject to the inevitable geopolitical conflicts generated by the increasing divide between the global governance, still US-based, and the evolving balance of power in the world.
The triple shock that hit the world since 2020 (the pandemic emergency, the Russian invasion of Ukraine and the Israeli-Palestinian conflict, the resurgence of inflation) has led the USA to further weaponize the dollar and is leading to a new split between two blocks. With two economic and military superpowers (USA and China), two subordinate global powers (Russia, with its military weight; and the EU, with its economic weight), a few powers with regional ambitions (Turkey, Iran, Saudi Arabia, Canada, Japan, Brazil, South Africa) and a scattered panorama of subordinate countries in Asia, Africa and Central and Latina America.
This bipolar logic is extremely dangerous and should be resisted. Let me briefly explain why.
We are about to celebrate the 80th anniversary of BW. With some successes, and several shortcomings. In particular, the system has been failing to provide some crucial global public goods, in a period in which there is increasing demand for them. Peace, global financial stability, universal access to primary resources, fight against climate change, disparities in the growth rate (both *within* and *between* countries), the challenges posed by Artificial Intelligence (AI) and the digital transition, the need to embrace a costly green transition, both with huge social and employment impacts: these are a few critical public goods that require a coherent strategy, that cannot be left to the fragmented action and good will of single governments or loose, not enforceable, cooperation.
The first-best option is of course a radical reform of the global economic governance, reflecting the current and forthcoming evolution of the balance of powers in the world. A new structure which can only be based on multilateralism. In turn implying a long path of catching-up, equal dignity for each pole, a new understanding of international relations as devoted to the optimum governance of the whole planet as a multilayered (local, national, regional, global) system.

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Pending such dramatic reform of the international economic, monetary, financial, and even political system, a few proposals may be advanced to proceed along such path. I will cite four of them.

Building regional safety nets
Financial vulnerability depends on several causes: mostly on past production specialization patterns responding to colonial logics, but also to lack of capital and technology, low total factor productivity, etc. Irrespective of the final cause, financial

vulnerability is the single most important weakness preventing the establishment of a genuine and equitable multilateral system.
We should therefore attempt at building a systemic, multilayered, safety net, based on first-line regional defense and on a global LoLR. We should explore the possibility of establishing effective reserve pools at regional level in the most vulnerable areas, namely in *Africa* and in *Central and Latina America*.
Such Funds may be established: as a multilateral currency swap agreement, following the structure of the Chiang Mai Initiative in South-East Asia; as a public company owned by participating countries, as the European Stability Mechanism in Europe; or as a genuine fund pooling a share of national reserves, as Robert Triffin had been advocating for during most of his life.
What is important is establishing a mechanism which obliges central banks and their countries to cooperate at least in some broad macroeconomic stabilization policies, and experiment synchronized, synergic, and solidarity responses, rather than national, country-specific and fragmented ones, that make them more vulnerable to external influences.

CBDC and interoperability
All major Central Banks are currently exploring – and even experimenting – what is called CBDCs (Central Bank Digital Currencies). I think this is a great opportunity to create a less asymmetric global payments system, as CBDCs allow for their interoperability in a much simpler way than traditional money, and virtually at zero transaction costs.
Increasing the degree of interoperability and homogeneity of surveillance rules on these infrastructures might accelerate the transition towards a multilateral system, at least as concerns payments.

Increasing the use of SDRs as a lever to monetary cooperation among the constituent currencies
One way to help multilateralism is to increase the use of the only multicurrency reserve asset that we now have, SDRs. You might remember that SDRs were first discussed within the Bellagio Group and the Group of Ten during the 1960s. And most proposals were in favor of a genuine multicurrency asset that could be used not only in reserves, but also as a sort of liquidity provider by a global agency, the IMF.
We also know that such radical proposals failed, as the link between SDRs and development finance failed to become a leading system to channel SDRs and use them as fiscal money. These debates have recently resurfaced the international academic and policy debate, after the unprecedented issue of $650bn in August 2021.
It is within this context that in 2021 we first promoted a study to verify the possibility and obstacles to rechanneling European SDRs for development finance, suggesting the EU countries should pool their SDRs, for an amount of around €150bn (which they do not need, as none of the existing EU countries currently has BoP problems, and we further have the ESM to tackle critical financial issues) and channel them through two Multilateral Development Banks, which are also prescribed holders of SDRs for the IMF, one on the EU side, the European Investment

Bank, and on the African side, the African Development Bank; and use them as collateral to raise €750bn on financial markets to co-design a development project over a period of ten years that, given the amount involved, I suggested to call *Next Generation Africa*.

This would oblige both the EU and African countries to make cooperative strategies for the use of such funds and for monitoring their use, thus strengthening both regions in view of establishing global multilateralism.

Increasing the internationalization of the euro

The three proposals suggested above imply the involvement of other actors worldwide. We should try also to understand what we can do as Europeans. In the short run, the internationalization of the euro can provide an instrument to manage a transition towards a new multilateral system.

You are probably aware that in 1998 the Nobel Prize winner Bob Mundell made a wrong prediction: that the euro would substitute the dollar as principal reserve currency in the world. This did not happen.

Although the euro share in international payments increased, it remained around the same level as 25 years ago in international reserves: about 22%. The main reason is that the safety of a safe asset depends on the credibility of the political structure that is behind the currency.

The USD is the currency of a major economy, with a strong federal structure, which means decentralized when necessary, and centralized when needed, especially in taking quick decisions. In the 2008-09 crisis, it was the FED to play the LoLR and the US federal government to act as consumer of last resort for the world economy.

The EU is still an unfinished project, in which sovereignty is no longer in the hands of fragmented nation-States, nor is yet in the hands of a supranational government. Who is taking timely and efficient decisions in case of major crises? Nobody knows exactly, being the outcome dependent on occasional leaders, their intellectual biases, and national consensus-building logics, as we saw in the case of the NGEU. Euro-denominated assets are therefore not safe assets, from the point of view of financial markets.

Things may be changing now. There are several pressures that suggest the direction of an increasing internationalization of the euro should be further explored.

The first is the need to finance the European global actorness, in terms of: energy policy (such as transition to renewables), a single security and defense policy, innovation in digital transition, transport and communication infrastructure networks, actions against climate change, etc.

We may finance these European public goods according to the fiscal space that each country can count on, but that would result in increasing cross-country asymmetries, which is not tenable if we want to keep the European project alive.

The alternative is mobilizing huge public and private capitals on high-yield projects, allowing the EU to issue debt on the international financial markets, thus providing a viable alternative to the US Treasury bond.

This poses serious intellectual and cultural problems, such as the bias against financing public expenditures in deficit, still dominant in several EU countries. Being a global safe asset implies being ready to play – or contribute to playing – the LoLR

and the consumer of last resort in case of crises. With some implications for the economic policy and decision-making architecture of the EU, which can no longer rely on tiring negotiations to reach a consensual compromise between 27, maybe even more in the forthcoming future, Member States.
But even once this intellectual obstacle should be overcome, having a large amount of euro-denominated collective bonds in circulation is not a sufficient condition to become a competitive safe-asset.
It needs a strong, deep, and liquid capital market, which cannot remain fragmented according to national administrative boundaries, as it is now.
A second pressure comes from the international monetary system, as we just noticed, in which there is increasing need for safe assets while the legal constraint to issue further debt in the USA may become insurmountable. And the euro is still the currency which is closest to have the characteristics of a safe asset, while the yuan is far.

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Let me wrap up and conclude. The evolution of the international economic and monetary system shows that we are at a crossroad. Either we rebuild a bipolar world, which can be extremely dangerous, as we know from our experience from the past, or we move towards a multilateral system of global governance, based on equal, or at least similar, dignity for all poles.
The increasing need for global public goods pushes into this latter direction. Alleged national interests suggest that the former direction might be taken.
While trying to resist the temptation of bipolarism and trying to build multilateralism, we can take a few but significant steps towards it. I outlined a few of them. Among them, a preeminent place is given by the increasing internationalization of the euro. Not as another element of international currency war, but as a step towards the creation of a plurality of economic and monetary poles.
As Lionel Robbins claimed in a speech he gave in 1968, most international and regional monetary issues are in fact a political issue. Notwithstanding all the technicalities of the above-mentioned proposals, the issue is whether a political will shall emerge to tackle the problem of global governance in a cooperative or in a conflictual way.
BW was held during WWII. After 80 years since then, it is maybe time to have a new international monetary conference, during this very different but under many respects similar global conflict, that Pope Francis has already called WWIII.