

## DEBATE

**Meir SHEETRIT, Member of the Israeli Knesset**

My question is for Mr Lipsky. You were quoted in 2009 as saying at the IMF that perhaps the Federal Reserve coinage reserve should be changed from the Dollar to a different denomination, which reflected the ability to draw money from the Fed. Is this kind of thinking still relevant, in terms of moving away from the Dollar as the reserve currency?

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Are you referring to moving away from the Dollar, or not using the Dollar anymore?

**Meir SHEETRIT, Member of the Israeli Knesset**

No. Today 70% of reserve currency globally is held in Dollars. You suggested changing it.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

What would you expect? Would you like it to be much less than 75%?

**Meir SHEETRIT, Member of the Israeli Knesset**

He suggested replacing the Dollar as the reserve currency in 2009. Is this still relevant?

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Is it still relevant to have your reserves in the Dollar?

**John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS); former First Deputy Managing Director, IMF**

I am not completely sure that I understand your meaning. We could start with a formal answer. There is an agreement within the IMF that, ultimately, the international system will be based on the SDR as the principal reserve currency, so yes. This commitment does not seem to be pursued in practice with any great alacrity. Nonetheless, if the reference was to the suggestion by Governor Zhou that, ultimately, the RMB should become an international reserve currency, that goal certainly has progressed substantially and will take a leap forward, if you will, if the membership of the IMF carry through the recommendation of the IMF staff that was issued last week to include the RMB in the currency basket of the Special Drawing Right, the reserve asset created by the IMF.

The immediate practical implications of such a decision are relatively limited, but they do open the way -- in light of the measures that have been taken by the Chinese authorities and their plans for the future -- to continue opening their capital account and modernising and strengthening their domestic financial system. Certainly, the use of the Chinese currency in the international system is likely to grow, but whether and how soon that supplants the Dollar is another question. A broad rule of thumb for reserve currencies is that a country should maintain its reserve balance more or less on the same order of the percentage of their international trade denominated in that currency, plus their international debt denominated in that currency. Today, the Dollar is not overused in those terms; its role in reserves essentially is in line with that broad rule of thumb. Whether that changes in the future will be another question, and certainly the creation of a viable alternative in the Chinese currency could influence common practice over time.

Ultimately, what makes the system work is confidence in the coherence and consistency of the economic and monetary policies of the principal authorities, not just the Fed, and it is certainly one of the goals of the G20 process to



enhance both the reality and the perception that policies are being adopted in a coherent and consistent way. That is a goal that is yet to be achieved.

**Mohamed LAICHOUBI, Former Minister of Labor and Social protection, Former Minister of Youths and Sports, Algeria**

Je développais, pour ma part, un certain nombre de questions et de craintes qui ne sont pas du tout levées à travers les différents intervenants.

La remarque, c'est que les grandes questions mondiales ont l'air d'être managées et gérées de façon parallèle, c'est-à-dire avec quelques étanchéités. Quand on prend la question du climat, la problématique, la dynamique au sein des spécialistes est totalement différente de la prise en charge par les politiques et encore plus par les opinions.

Sur le plan de l'économie, c'est la même chose. Le marché se gère en parallèle en totale différence de rythme et d'appréhension. Les grands groupes industriels, c'est la même chose. Les finances, les institutions multilatérales, on les dit dans le déclin, c'est-à-dire incapables d'influencer le cours politique des choses, et on peut continuer avec l'autonomie des banques centrales, les visions, etc.

Donc, la première conclusion : est-ce qu'il n'y aurait pas une sorte d'incapacité des politiques qui a été fabriquée par un modèle, par une machinerie qui a développé sans arrêt des étanchéités ? Du coup, la question qui se pose, est-ce qu'il n'y aurait pas ce liant politique entre l'opinion, entre le décideur politique et le gestionnaire et le spécialiste qui, le liant, c'est-à-dire la pensée politique qui a l'habitude d'organiser tout ça, d'éviter que le système agisse et évolue en rupture totale et en incompréhension majeure. Donc, ma question, est-ce que les opinions, est-ce que les politiques ne sont pas au fur et à mesure désarmés conceptuellement ? On arrive de moins en moins à lire le monde.

Ma dernière question, est-ce que vous n'avez pas le sentiment que les économistes techniciens – et je le dis sans vision négative – n'ont-ils pas supplanté le politique avec un élément négatif sur les impacts et est-ce que le profil du politique lui-même n'a pas changé ? Merci.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Mr Monti, you did address this. Do you want to come back to this question?

**Mario MONTI, Chairman of the High Level Group on Own Resources, European Commission, former Prime Minister of Italy**

Thank you for this privilege. I thought that a negative conflict of competence would have arisen on that panel member to whom this question was going to be explicitly posed. I took note of the different sides of this fascinating prism that you presented to us.

Incapacité des politiques, les politiques des armées, les économistes n'ont-ils pas supplanté les politiques ? Je crois que l'aspect le plus important de votre question complexe est qu'il faudrait une synergie qui, peut-être aujourd'hui, n'est pas tellement là. Si les politiques sont désarmés, je vous suggère, en retour, de considérer aussi l'auto-désarmement qu'ils sont en train de s'infliger dans cette course au court terme dans la tonalité de gestion de leur pouvoir et je ne suis pas convaincu que les économistes aient beaucoup amplifié. Ici, je suis entouré par de véritables économistes auxquels, sur ce point-ci, je me permets, si vous le permettez Madame, de passer la parole.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Mr Sakong, you are an economist, and you were a politician as well. There is the fact that less and less political will is expressed, that you cannot integrate all the different pieces together.

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

I am an economist, but not a politician, by the way.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

You were Minister of Finance.

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

Yes, I was more of a technocrat.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

You were one of those.

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

In any case, since we live in a highly complicated, interdependent world, you do need economists and technocrats who can put things in an understandable macroeconomic framework and provide policy options to political leaders. Politicians of course should pay close attention to them for making right decisions. Of course, they have to be persuasive enough to make leaders listen to them.

**Renaud GIRARD, Journalist at *Le Figaro*, Editor at *Questions Internationales***

Nous avons parlé de la monnaie. Je voudrais maintenant parler un peu du commerce international des échanges qui est une session qui sera consacrée à ce sujet. Est-ce que vous pensez que les échanges – et cette question se pose à vous quatre – est-ce que les échanges économiques mondiaux peuvent se poursuivre, les échanges de biens et services, alors que les conditions de production, je parle bien sûr des conditions sociales, par exemple, ne sont pas du tout harmonisées ? Elles ne sont même pas harmonisées en Europe et elles ne sont pas harmonisées dans le monde.

Est-ce qu'on va continuer à avoir de plus en plus de libre-échange avec des différences sociales énormes entre les pays ou bien est-ce que, selon vous, on se rapproche d'une situation où le protectionnisme va être rétabli, par exemple au sein de l'espace européen, de manière à être compétitif par rapport au continent, si on parle de l'Europe, qui n'a pas les mêmes critères de production et les mêmes protections sociales que l'Europe.

**ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister**

I was just talking about our experience in Asia, which may be very different from what happened in Europe. We have a kind of concept of gravity in economics, where the shorter the distance between two countries, the bigger the trade, and the size of the two countries is so important in terms of increasing trade. Regarding Europe, you already have many big countries with a short distance between them, so you have a tremendous amount of intra-European trade, but in Asian countries, because of the recent growth in income, we are trying to capture the opportunity to increase trade between ourselves, which actually provides a lot of opportunities for neighbouring countries to upgrade their working conditions and their living standards. The ageing populations in developed countries, especially in Japan, is a very important issue in terms of reflecting on the type of trade we will have in the future. Therefore, there is a lot of complementarity among the countries in this region which they can benefit from, and of course political and traditional adjustments need to be made to get rid of friction, but generally, we will have more opportunities to increase trade and investment in the region. I do not know about European situation, but it is at least true for Asia.

**Mario MONTI, Chairman of the High Level Group on Own Resources, European Commission, former Prime Minister of Italy**

Oui, je crois Monsieur que ce que vous imaginez n'est pas une démarche vers un protectionnisme non coordonné et néfaste.



Peut-être, ce que vous avez à l'esprit, est la nécessité d'une plus grande homogénéité entre les conditions sociales, environnementales, etc. C'est un peu une position française qui est là depuis certain temps et que je souhaiterais résumer dans l'expression: «En Europe, il faut un marché unique, bien sûr, ouvert, bien sûr, mais pas désarmé». Donc, il faut que l'Europe ait une capacité de réaction pour ne pas être le territoire de conquête de la part des producteurs d'autres pays qui produisent dans des conditions non comparables aux nôtres.

On peut discuter longuement sur cette vue, mais je crains qu'aujourd'hui il y ait le risque d'un protectionnisme à l'intérieur même de l'Union Européenne, pays entre pays de l'Union Européenne, et d'une façon non gérée, non coordonnée, ce qui semble être un risque réel si nous voyons les réactions instinctives primordiales que beaucoup de partis et mouvements nationalistes et populistes, présents dans chacun de nos états membres, manifestent. C'est un peu dans cette catégorie de réactions instinctives, je crois, le phénomène qui m'a beaucoup choqué récemment, notamment que dans le pays qui a été le plus demandeur, en Europe, de la création d'une monnaie unique, donc la France, avant les élections européennes de 2014, on a assisté à des débats dans lesquels on semblait avoir complètement oublié ce fait historique. En effet, il ne faut pas penser que ça a été l'Allemagne à demander une monnaie unique – nous savons que c'était juste le contraire.

Il y avait, dans beaucoup de milieux français, un sentiment d'aliénation, de *lack-of-ownership* et de désir de fuite de cet espace monétaire unique comme on aurait pu l'entendre en ce temps-là, à Lisbonne ou Athènes. C'est donc un peu dans cette perspective, pas tellement rationaliste mais de réaction instinctive – nommément l'appartenance à la monnaie ou pas – que je crains que des pulsions protectionnistes ne puissent se produire à l'intérieur même de l'Union Européenne.

**John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS); former First Deputy Managing Director, IMF**

Firstly, I recall that the Nobel Laureate, Michael Spence, directed a few years ago a group called the Commission on Growth and Development. It concluded definitively, without going into greater detail, that there is no case of a country successfully developing their economy without linkage to global markets, and if Europe were to engage in a process of closing itself off, I would become much more pessimistic about the outlook. There is, on the contrary, a large challenge and opportunity before Europe, and that is the so-called TTIP negotiations with the United States. This effort holds out the prospect of setting standards in broad areas of the global economy. Such an outcome would produce mutual efficiency gains that would demonstrate international leadership and that ultimately would benefit the process of global integration and global development.

I worry that so far on both sides of the Atlantic there has been lack of sufficient engagement at the political level to make people aware of what is at stake and to sell what is potentially an extremely powerful and positive development.

**Manaf ALHAJERI, CEO for Kuwait Financial Center (Markaz)**

My question goes to both Mr Lipsky and Mr Monti. I would like to address the issue of institutional excellence or institutional reform. Whether it is the G20 or the IMF, one feels that institutions can of course be public sector or private sector, and that there is a disproportionate effort in terms of addressing the governance of the private sector as opposed to the public sector. Nevertheless, in the Middle East, for instance, the public apparatus is disproportionately more important, it is the largest employer, and it is a tremendous way of introducing social justice. What we are seeing now is that neither the G20 nor the IMF is effective enough. Unfortunately, the IMF in many cases has been reduced to giving advice, competing with private sector consultants and unwittingly giving legitimacy to the wrong agendas.

Looking at the G20, we hear great things at the mission statement level in terms of institutional excellence. However, when we go to the individual country levels, and I am talking about European countries, there is a sense of competition between the different countries, because we feel that the private market forces prevail, and sometimes most of the visits that we see in the Middle East by ministers, and most of the agendas of ambassadors, are purely commercially driven, geared more towards producing exports, and rarely do we hear anything to do with institutional excellence, which we hear about at the G20 level.



**John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS); former First Deputy Managing Director, IMF**

The challenge of institutional excellence is one that transcends public and private institutions, and there is no easy and magic answer. There are two things I would like to emphasize about the IMF. First, although it is not so widely recognized, it has a unique governance structure: In its Articles of Agreement – effectively its constitution – it is specified that voting shares should be determined by economic weight, and that economic weight should be reassessed every five years at a minimum. If the long-term goal is the equalisation of per capita incomes around the world, and if that goal were to be achieved, then by definition the IMF's governance would become perfectly democratic.

Therefore, it is a very interesting and unique international institution, in that the internal mechanism would point to increasing democratisation over time if it succeeds in its goals. The Fund also has something called the Internal Evaluation Office, the IEO is a body that reports to the Executive Board, and attempts to look back, to examine the processes of the Fund, and help to provide an ongoing commentary driving toward institutional excellence. The G20, of course, is a very complex challenge in terms of how to make a voluntary intergovernmental organisation effective. Focused political leadership is absolutely crucial.

**Mario MONTI, Chairman of the High Level Group on Own Resources, European Commission, former Prime Minister of Italy**

I entirely agree with John. Political leadership becomes crucial in the G20, as in the G7 or the G8. However, what I think we have observed about these more voluntary, informal and yet useful forums (such as the G8 or the G20) is that their effectiveness depends not only on political leadership, but also on the seriousness of existing emergencies. We can say that the first G20s, in the US and then in London, held right after the crisis, were taken much more seriously in terms of subsequent implementation of taken decisions than was the case a bit later when the crisis was not so visible anymore. This is a normal human reaction to emergency perception.

Since I have been rather critical of the EU this morning, I would like to close with a fairly positive comment on the EU in this respect. Unlike the G20, the EU has a set of rules, institutional arrangements, etc. which, on one side, generate more slowness in the decision-making, but on the other also bring the advantage of introducing a bit more "permanence" in the process: decisions taken under the pressure of an emergency, once they become directives, regulations or whatever norms type in the EU, remain there and will be enforced through a clearly defined process. Therefore, the advantages of being an institution with super-national enforcement powers are extremely evident in this dimension; unfortunately, that is not the case for a forum like the G20.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Thank you very much. Therefore, more linkages and more long-term political vision seem to be necessary for more effective governance.