JEAN-CLAUDE TRICHET

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John LIPSKY

Now we come to Jean-Claude, the one of us who has actually been there, seen it and done it, and can speak with an authority.

Jean-Claude TRICHET

I do not know whether I will speak with authority! I share many of the views that have been expressed. I have six points I would like to make very rapidly.

First, it is true that we have a currency which is a hegemon in the present system, but the system is not entirely unipolar, and there I am not in line with many because I trust we should not forget that the structure of the system changed dramatically, I would say overnight, in January 1999 when we created the Euro. Before that, you had one currency, the hegemon, 10 times more important than the others, depending on your criteria. That is a system where you say, well, you do not need to be a great mathematician to see that it has a structure which is of a totally different nature from the present system where you have a hegemon, a number two, the Euro, which is five times more important than the number three, the Yen, and which is only three times less important than the number one. Therefore, we changed dramatically, in my opinion, the system of the international currency, so everybody knows the figures for reserve assets, international debt, international loans, namely around 60% for the dollar, 20% for euro and 3 to 4% for the yen.

That is the new structure for the international monetary system. Now, that being said, when I look at the criteria of the global payment currency, I have different figures, more flattering for the Euro, which illustrate the fact that the new currency is, indeed, significant, 45% for the Dollar, 34% for the Euro, 4% for the Yen. That is the proportion in global payment currency according to the BIS.

Therefore, why is there such a difference between the global payment currency and reserve assets, international debt, international loans? Despite the fact that the trends are a little bit different from what was coming out of the discussion until now, when you look at the figures you see that the Dollar had 70% of the reserve currencies at the very beginning, at the inception of the Euro. The Euro was, as computed, as was done by our eminent colleague, 19%, so approximately the same level as today. Today, it is still around 20%, but the Dollar came from 70% to around 62%. All other currencies gained market share. Therefore, there is a trend which is not negligible, at least according to that criterion of reserve currency, which plays in favor of the Euro.

That being said, the Dollar is still of course a hegemon. Hysteresis has been mentioned, very wisely, as regards the reason why when you have had the central position, you keep the central position for a long time. I was amazed myself to see that copper was traded in Sterling until 1993, aluminum until 1987, tea until 1992, coffee until 1992, long, long after World War II, and if I am well informed, cocoa until 2015. Therefore, hysteresis is there, and of course it is associated with the facility to continue to have the same currency denomination.

Now, there is another reason why the dollar remains dominant. Of course, what counts is the currency of denomination of the financial instruments, but also the signature behind. For instance, the treasury, if you take the benchmark bills and bonds, and there of course we are at a fantastic disadvantage in Europe because it is true that the difference between the volumes of the treasuries is very, very important, the daily trading of treasuries in volume in New York is USD 500 billion, and the equivalent in treasuries market in Germany, in France, in Italy would be approximately 1/25th of that level. Therefore, we are in a totally different universe on both sides of the Atlantic. Only the creation of a new

European very large safe bond would formidably amplify the element of depth and liquidity on the Euro market, which would permit to accelerate the transition. That is really the point.

The point is not that the currency has a defect, in my opinion. The currency, frankly speaking, was a great success but the problem of course is that the signatures behind the currency are not the same. Even if you already have Euro bonds, the bonds that are issued by the ESM for instance, or the EIB can claim very good signatures, but of course, the outstanding amounts are very small.

Now, shall I deplore the fact that the Euro is not at 50/50 vis-à-vis the US Dollar? I would say no because had it been the case, what would have been the consequence on the exchange market? Which kind of skyrocketing of the Euro vis-à-vis the Dollar would we have registered—unless of course it would have been duly organized by the international community to reorganize the dollar balances… But in a universe with free behavior of market participants, it would have been a total catastrophe on the exchange markets.

Therefore, I am not unhappy with the way it proceeds. It is a big transformation but a progressive one. Now, that being said, is it because of the fact that the Euro is not a currency of the size of the Dollar that we have problems with Iran, that we have problems with the sanctions of the US and so forth? I do not trust it is the case. I trust the problem is that the United States, for legal, cultural and political reasons, do not hesitate to blackmail all those who are not participating in the sanctions. When I look at all the European firms, it is not because they could not settle their trade in Dollars that they interrupted totally their trade with Iran, it was because they would lose a lot in their own interest in the United States of America, and more largely in the world because the US had a lot of legal capacity to impose sanctions on them.

Therefore again, the main problem we have, in my opinion, in Europe, if we want a Europe establishing an appropriate balance with the US, is mainly of a political nature. Both the treasuries and the safe bonds, which are not there, and the geopolitical capacity to tell our partner(s): if you blackmail us, then we will blackmail you, and let us agree that there is no reason that you would impose us in particular your own sanctions. It seems to me that it is there that we have the real problem. As regards Iran, the recent experience of trying to create a special vehicle to bypass the US Dollar proved that it was not the problem. We have no problem with bypassing the Dollar, we have a real problem bypassing the capacity of the US to impose legally its sanctions everywhere, first in the US, and then in the rest of the world.

On the future of the system, as many of the speakers, I trust that of course the RMB, when it is fully convertible, and when there is a clear will to participate with full convertibility in the international monetary system, we will have necessarily a large multi-polar world, and that will be again probably sooner than we think, but the RMB is still far to be a real international currency. How will we run that future system? There are several possible assumptions. We could run it as we have run the so-called hegemon, with the capacity to give very exceptionally indications to the market that the Dollar is going too low, or the Dollar is going too high, and I participated in all such so-called G7 agreements. Such agreements proved useful. They were not necessary in the most recent period of time because, for reasons that are extremely complex, the international system, the core currencies were and are relatively stable, even in the worst crisis ever since World War II. Therefore, this is something which academia is looking at, but I have no convincing analysis to understand why we were not trapped in one of these very large currency fluctuations that we had before, and that is an open question.

However, we can imagine that the four, the five major currencies would, from time to time, give some indications on their analysis, and tell the market, as we did in the Plaza and the Louvre agreement, in several such agreements, the last one was the Japanese G7 agreement where we gave the market important indications and I was very happy myself to participate in this message to the market.

We could also imagine to organize the international monetary system around a basket of currencies, and the SDR could be it, if there is a strong emerging private SDR market. It means a lot of will. I do not totally exclude that, and it seems to me that the fact that the definition of price stability or the inflation target of the major issuing currencies that are in the basket of SDR (RMB being apart) is the same, around 2% or very close to 2%, creates new possibilities. It is something which has not been looked at very carefully but is very important in my understanding. Of course I eliminate the possibility of the bancor, and I do not trust that a digital currency, if it is not backed by either a central bank, or a pool of central banks, could float. You would really need, to back any currency, a solid institution or set of institutions which would be responsible for the currency, to get all the three characteristics which were mentioned by Jeff, namely the Aristotelian definition of currency.

John LIPSKY

Thank you.