

DEBATE

John LIPSKY

Okay, we have very little time left, unfortunately, but let us turn to the audience for questions. We will gather up questions and start over here. Mic please. Please state who you are, and your question, and please make it a question and brief.

Randy KOTTI

Hi, thank you very much. My name is Randy, I come from Paris, and I study at Le Corps des Mines which is a public policy program basically. Thank you very much for your talk, and most of you have mentioned the challenge of trust, and indeed since the last financial crisis, we have seen a crisis of trust in the monetary system, and the rise of ICOs, cryptocurrencies. My question is do you believe that such technologies are more as a threat, or an opportunity for the existing system, especially should we regulate them more, or should we leave them as they are? Thank you very much.

Tatsuo MASUDA

I am Tatsuo Masuda, MB Professor from Japan. A fascinating debate, but I am a complete amateur, but the one issue I would like to ask Mr Horii, you talked about something very interesting, the independence of the central bank from domestic in terms of pressures, but I think most central banks have become hostage to the government need to reinvent the economy, or so it thinks. However, if you pick up the top three most independent central banks in the world, and why? Thank you.

Volker PERTHES

Volker Perthes, from Germany. A totally naïve question by someone who doesn't understand anything about monetary policy. Would I be totally wrong in assuming that there has never been a hegemonic or reserve currency that was not backed up by a very strong military force? I have learned a lot about what the reasons are for the hegemonic position of the Dollar, but the military was never mentioned, so I am just asking that, and if it is not totally wrong, what would that mean for the future of the monetary system, particularly if the Euro wants to get in? Thank you.

John LIPSKY

Thank you. Okay, anybody want to comment on the crypto issue? Jean-Claude.

Jean-Claude TRICHET

Very simple, I would say that it is not the absence of trust in the existing currency which has created the try on the cryptocurrencies. I think it is technology. Technology is galloping so rapidly that with a number of fantastic innovations, it appears that you could run payments and transactions at a very low cost, with blockchain and so forth. Therefore, it seems to me that it is something which is quite natural. I do not interpret that as an absence of trust for traditional currencies.

As far as trust is concerned, but Bitcoin you can see goes up and down, up and down. That was more of a speculative instrument. The try to launch a basket digital, then proved that you have to be backed by those traditional currencies that are behind.

John LIPSKY

Does anyone at this-

Hélène REY

Yes, I think one has to be careful to distinguish between digital currencies and cryptocurrencies and in particular the decentralized blockchain technologies like Bitcoin or Ethereum which have to do with proof of work. Those are in my view harmful and have no public good aspect to them. Why? They are very bad media of exchange because their transactions costs are extraordinarily high due to energy consumption; from an environmental impact of view they are absolutely disastrous. They do not solve any problem: we have pretty good media of exchange already, (with one exception and I will talk about that in a second). On top of the environmental costs, these cryptocurrencies are used mostly for the Dark Net, so from a social welfare point of view they are a big negative. They should certainly not be connected to the official system, and they should essentially be regulated out.

That is very different from digital currencies in general. Central banks could issue digital currencies, and this is absolutely fine. Some central banks are very far along with this idea. Now, why is there some kind of need to have some digital currencies? Because we are still not doing very well for cross-border transactions. We are doing extremely well for transactions within the EU (especially wholesale), we have very good technology, etc., but for cross-border payments outside of Europe, there are still high fees which are taken by the financial system. Those rents should be competed out.

The last thing I want to say about that, one has to distinguish between the technology to do with cross-border transactions and the willingness to create a new currency, such as the Libra. New technology to transact can be good and desirable. Willingness to create a private currency, in my view, should be looked at extremely carefully. What does a currency provide? A public currency, issued by central banks, is used for macro-policy stabilization; liquidity is managed to ensure financial stability. When there is seigniorage, it is redistributed to the tax payers or invested by the government. Those are extremely important public goods.

What is the goal of a private company? Profitability. The public good dimension there is absent. Therefore, we have to be extremely careful and distinguish between new transaction technologies and need to create a new currency.

Sergey STORCHAK

Does somebody, an economic historian among us have a comment on the military?

Of course military influences play a big role, there is no question about this. However, I think what has really happened after the second World War is the fact that the Dollar was the only currency which can be converted into goods. The convertibility nowadays plays a big role in international transactions, but if there is no convertibility into goods, meaning that you cannot buy what you want when you possess the currency, so it would not help you with any military forces.

Jeffry FRIEDEN

There actually is a connection between the two questions. What makes a currency valuable and a valid means of international payments is the ability of those using it to turn it into real goods and services. That is why Bitcoin and other cryptocurrencies are not currencies. Their value is only based on what people think their value will be in the future, which is the definition of a speculative asset. No one stands behind them. Frequent flyer miles are more trusted than Bitcoin because at least American Airlines and United stand behind frequent flyer miles.

The military angle is related in the sense that military power is connected to the ability of a government to mobilize resources. There could be a connection between military and geopolitical power, on the one hand, and the expectation that the government will be willing and able to stand behind the currency, on the other. There is trust in the Swiss franc, but the country is far too small to exercise the power necessary to provide an international currency, including the resources to act as a lender of last resort and provide this public good function that people have been talking about.

John LIPSKY

Thank you. Akinari, do you have a final comment?

Akinari HORII

Yes, well before commenting on the central banks' independence, let me say a few words on each alternative to the Dollar. First, to Jean-Claude. The Euro market is thinner, as I said. I was a reserve manager of Japan. When I tried to buy USD500 million worth Trésors or Bunds by one shot, that action would move quotations, you know? That is counterproductive.

Jean-Claude TRICHET

Agreed.

Akinari HORII

But JGBs, US Treasuries have nothing of that sort. If you have joint markets in Euros, there will be no such effect, either.

Jean-Claude TRICHET

Agreed.

Akinari HORII

RMB, even the Chinese want to get out of the Chinese currency in order to place their wealth outside the country. How can foreigners believe in the integrity of RMB, simple! The SDR has no client base at all, because international investors can create their own baskets of currencies. If you are a small investor, you are tied to your home currency, but no one is interested in the currency basket SDR-

Jean-Claude TRICHET

Until now.

Akinari HORII

-until now, until now, okay. Now, central bank independence, it is a long story. It would take hours.

John LIPSKY

Yes, exactly.

Akinari HORII

I could perhaps answer you bilaterally.

John LIPSKY

Okay. Jean-Claude, final word?

Jean-Claude TRICHET

I would put the ECB in the three most independent central banks, because the question was what are the three most independent.

**John LIPSKY**

Very good, okay. Well, thanks very much to the panel. Let me draw a brief conclusion, very simple. One, you heard the old adage you cannot fight something with nothing. Right now, there is a something, it is the US Dollar, and there is nothing else ready now. Therefore, a sense that for now the system will remain Dollar-centric.

A sense that there are lots of reasons to wonder if it could remain this way in the future, but unclear exactly where that leads. It is not obvious what will happen. Mark Carney in his speech quoted Rudi Dornbusch, MIT saying, 'Chances usually take longer than you ever imagine until they actually occur when they happen faster than you thought possible'. It could happen here, but Rudi, wonderful as he was, was not a very good policy predictor. Thank you all, and thanks to our panelists.