Bretton Woods at 75—Rethinking International Cooperation
April 10, 2019
11:30 a.m. to 12:30 p.m.
HQ1 Atrium, International Monetary Fund

Moderator:
Christine Lagarde, Managing Director, International Monetary Fund

Panelists:
Melissa Dell, Professor of Economics, Harvard University
Emmanuel Farhi, Professor of Economics, Harvard University
Keyu Jin, Associate Professor of Economics, London School of Economics
Ricardo Reis, Professor of Economics, London School of Economics

In this session, panelists shared their views on the evolution of the global financial and monetary system, what challenges lie ahead, and the central role of the IMF in continuing to provide expertise to member states and as an avenue for further strengthening multilateral cooperation.

Key Points:

- **Emmanuel Farhi.** While the US dollar has preserved its role as the main global reserve currency, growing global demand for safe assets and interest rates at historically low levels, may lead to the reemergence of a "Triffin dilemma." New currencies will likely enter the competition for reserve currency status. Higher competition would bring benefits – including a more stable system, resolving the shortage of safe assets, and reducing the significant benefits enjoyed by the US as the sole reserve currency issuer. Nevertheless, the path is likely to be disorderly with increased speculation and volatility. Farhi noted that there is scope for modernizing the role of the IMF, possibly by administering a new global reserve facility, acting as a central counterparty clearing platform for bilateral swap lines, or by offering its own short-term swap facility.
- **Ricardo Reis.** Following the global financial crisis there has been an increase in bilateral swap lines to ensure liquidity to domestic banking systems, in particular of dollar liquidity. Reis noted that the distinction between bilateral swap lines and IMF loans is becoming less clear and suggested that the IMF could act as an intermediary between the US Federal Reserve and central banks; the IMF would take on the risk exposure and set interest margins based on countries' exchange rate risks. Reis also highlighted the unique position of the IMF to offer stress testing and asset quality reviews to its member states.
- **Keyu Jin.** The impact of China's entry into the global economy has been significant. Jin argued that as China continues to integrate, "the financial history [of this century] will be written by China"; it will anchor global demand, provide liquidity in times of crisis, become a source of diversification for global portfolios, and potentially gain reserve currency status. However, a more liberal China may also imply increased global volatility. Therefore, the pace of liberalization needs to be carefully considered and it is important to maintain the approach of "selective opening up." Fundamental change in China will take time. Going forward, the IMF could play an important role in enhancing cooperation and act as an intermediator to avoid confrontation among countries which would lead to additional market turbulence.
- **Melissa Dell.** There are long-lasting transitional costs from job disruption by trade and technological developments and it is imperative that these costs should not be underestimated. Dell gave the example of Mexico where violence and drug trafficking increased as jobs were lost due to increased competition from China. This is partly explained by economic conditions but

also from a decline in the trust of institutions. Mounting evidence shows that these effects can last up to 30 years. Dell underscored the need to broaden the policy perspective and recognize that these challenges need to be confronted by thinking about the distributional consequences and the interlinkages between policies. She also urged drawing lessons of past experiences of economic transitions.

Quotes:

"*The IMF is at the moment, yet again, at a point where we have to adjust, change and improve*". **Christine Lagarde**

Contributor: Marushia Li Gislén