A future international monetary system with a new regime of governance for energy

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The Next Stage: Financial Reforms, Jobs and Housing, the Dollar and the International System

Friday, November 13, 2009, Ronald Reagan Building, Washington, DC.
Economists for Peace and Security, the Foundation for Human Progress', the Initiative for Re-thinking the Economy; the New America Foundation, the World Trade Center Washington DC

Situation assessment

Let us look at the dollar situation one year after. The only thing is that the fire has been contained, at least for a while, with a immoderate flow of currencies poured by the government in the financial system, putting the future burden on the shoulders of ordinary citizens.

The dollar has not collapsed as it could have. The interdependency between China and the US, the impossibility for China to conceive in the short term an alternative to reserves in dollars made it that it even kept buying Treasury bonds at a zero interest rate or so. So did millions of institutions and people because they could not see any alternative in a context of risk aversion.

The paradox is that the very reason which would have brought to flee from dollar and Treasury bonds as reserve of value – that is the risk of a collapse – has strengthened this role, let apart the rise of gold, because all those who yet have enormous amount of this reserve in their balance sheet could not afford the risk to see them vanish. After a short while, at the end of 2008, the growth of the aggregate reserves of change in dollars has resumed. This simply means that there was no alternative to the dollar in the short term. China leaders were obsessed with the risk of a slowdown of its growth; all the more so at the sensitive moment of the 60th birthday of the communist regime. So they kept the Yuan anchored to the dollar and furthermore it is not convertible. The Euro neither can nor wants to be a unique alternative to the dollar. It is presently suffering from the evolution of the dollar which can in fact be assimilated to competitive devaluation.

G20 concentrated until now mainly on bank regulations. Very few were done about the issue of a future international currency. But everybody is thinking of it or at least should, because none of the structural problems has been fixed. Look for example at the commercial imbalance between China and the US. The Chinese government has launched an enormous stimulus package and Chinese growth will probably be two digits on the second semester. But where did the money go? To the development of domestic demand? No. Part to new infrastructures from the local authorities, part to the development of new capacities by the State owned enterprises, most of them yet with overcapacities, and part to a real estate and assets bubble. For the future, the recent Guandong fair showed that foreign orders for exported goods have resumed. Therefore there is no short term reason for imbalances to be reduced and both sides are nervous about what could become a serious trade fight. Public opinion is angry to see financial institutions which have threatened the whole society with their irresponsible and unethical practices and have been saved thanks to the public effort, go back to business as usual even when it comes to executives and traders compensations. And the renewed profits do not come from socially fruitful and long term investments or from a grand strategy of conversion to a greener economy. They come mainly from short term speculations on transactions, on currencies, energy and commodity prices.

Stability of currencies and foreseeable evolution of the cost of the factors, as it should be the case for energy if we want to move towards sustainable development, is paramount for real economy undertakings. But there is a growing suspicion outside the US that the current US government pays too much attention to Wall Street interests and arguments, as if the future the US economy, society and power would be bound to its role of financial superpower with profits for the financial sector representing an undue part up to 30% of the total.

Agenda and actions to be taken

Because none of the structural problem has been fixed, we need more than ever to prepare a new enlarged Bretton Woods. Enlarged in two ways: the way the different countries would be represented; the scope of the negotiations. This requires a careful preparation and a number of deep conceptual and institutional innovations.

In order to succeed, we need an agenda, just as it has been done for the Earth Summit in 1992 or for the Kyoto negotiation. Let say a Bretton Woods in five years from now in order to set a timetable. What could be the proposals? They should address five issues:

1. The stability of the exchange rates between four major regional currencies:

The Americas (North and South), Europe (including Russia and Africa), East Asia (Including China, Japan, Korea and Asean), South Asia (including India and Bangladesh). Whether the exchanges between these regions be labeled in dollars or a bunch of currencies is less important than the coordination of policies needed for its stability.

2. A regional monetary system in each of these four regions.

China and ASEAN seem yet to move in this direction with their new free trade agreement which will favor the development of the Yuan as regional currency. The way European Union came to the Euro in twenty years through the preliminary processes of the European monetary snake and the European monetary system gives a fairly good idea of what could be done at the world level.

3. A new approach for energy and commodity management.

First of all one must understand that the concentration of fossil energy resources in a relatively limited number of countries is from the 70s at the core of imbalances and that energy is actually a full-fledged currency (unit of account, means of payment, reserve of value) representing yearly trillions of dollars of currency emission. Energy has always been put apart from the commercial agreements but it is at the core of any new financial and monetary order. Two issues must be addressed in that respect:

- The short term stability of energy prices through the creation of global regulating stocks;
- A new regime of governance for energy in order to move towards sustainable societies and inter-regional justice. The alternative is war. One can see it with the desperate effort of China, the newcomer in the development family, to control oil and natural resources in Africa. This new regime of governance will necessarily be worldwide negotiable quotas paving the way to multidimensional currencies.

4. Periodic adjustment of imbalances.

We badly need institutional coordination under the guidance of the IMF.

5. New rules for pension funds.

They are, with fossil energy, our main saving silos and the ones which should naturally be long term oriented. New regulations orienting these funds in the direction of long term investment, namely the transition towards sustainable societies in developed countries and the sustainable development of underdeveloped countries would also contribute to rein in speculation.