

General Discussion: Luncheon Address

Mr. Fischer: The trouble that one has is, the problem is not in the IMFs. It's in the president of the United States. And how this system is going to get around some of the sorts of things that have been done lately, including trying to destroy the global trading system, is very unclear, and I have no idea how to deal with this. But I very much hope that somewhere there is a group of people—experienced, smart—who are figuring out a way to deal with this problem and it's going to be a very difficult thing to do. But we are in a system in which things are getting worse day by day, and it's not a service to anybody, at least privately, to not focus on what the key problems are, and that would be the behavior of the United States, unfortunately.

Ms. Forbes: I'll help you out here. This one's easier, well not a political minefield. So, for your new digital currency, your SHC (Synthetic Hegemonic Currency). Is there any way that instead of creating something entirely new, you used the SDR (Special Drawing Right) as a basis? It even starts with the same letter. Why not start with something that already has some construct, history and track record—even if currently used for a different purpose? Why isn't that part of your plan?

Mr. Frenkel: One of the points made in this brilliant presentation is that, in the future we will need to have a system in which there is

greater room for *concerted* actions. In the old days, we referred to such a system as a system with policy *coordination*. The record, however, of policy coordination efforts over the past 35 years, has been mixed. Therefore, in order for the concerted actions that will be needed in the future system to succeed, we will need to make sure that the lessons of past challenges to coordination are learned. Specifically, those who favor policy coordination, point at the experience of the “Plaza Agreement” of 1985, in which the major industrial countries (G-5), have intervened in the foreign exchange market to bring about a decline in the international value of the U.S. dollar. This successful experience, however, should not be generalized since its implementation was very simple, and amounted to intervention in the foreign exchange market primarily by the U.S. and Japan. Two years later, at the “Louvre Agreement” of 1987, the needed coordination was much more complex, as it also involved the coordination of fiscal policies. Subsequent efforts of coordination met with much smaller success, since it needed to involve also structural policies, a task which was less feasible politically. At that stage, the attitude toward the adoption of an international policy coordination, has become much more skeptical and, was reflected by the German insistence to refer to this strategy as a strategy of policy *cooperation*, which is much less demanding than the strategy of policy *coordination*. Of course, in the height of the great financial crisis of 2008, governments and central banks were able to reach far reaching agreements about the required *concerted* actions. With this historical record in mind, the question is how will the future system of concerted actions incorporate the lessons learned from past efforts of coordination and how will it overcome the political challenges that such coordination faces.

Mr. Carney: I'll take them in the order that they were given and start with Stan Fisher's challenge. Without question, the euphemism of trade tensions doesn't do justice to the scale of the impact of recent trade actions, actual and potential. And to some extent—I don't think it's widely understood, but it's increasingly understood—the fundamental challenge to the nature of the system, the trading system. The way we would look at it, and I gave a talk about this a few months ago, is the extreme version of this in terms of immediate trade shock is Brexit because it's 40% plus of the trading relationship. And there's a

possibility of an immediate fundamental shift in that. That's not, now it's my disclaimer, a comment on the long-term economic impact of leaving the European Union but it's about the shorter-term effects. And the impact that Brexit uncertainty has had on U.K. investment has been profound. It's 22 to 25 percentage points below trend within three years, and at a time when everything else is telling them to invest. That behavior is now starting to be seen, not to the same order of magnitude not surprisingly, but that behavior is starting to be seen in more broadly corporate—we see it in places that are more immediately affected. I know in Canada and Mexico during the negotiations it was there. But it's now becoming internationalized and that's a very concerning thing in the short term from a conjuncture perspective. There is a long-term or medium-term fundamental issue about where the system is going. The point, so I am very much saying that is adding, but it interacts with the system as it is today and the fact that, no, we don't know where r^* is but we know it's pretty low, and that there's not that much policy space and there are material risks at the moment that we're all trying to manage.

Maybe I'll go to Jacob Frenkel's and finish with Kristin Forbes'.

You know this history well. You lived it. There are only certain circumstances where coordination, real coordination like coordinated actual policy, is either achievable or makes sense. It was achievable in October 2008. I was part of that. For obvious reasons, this was a focus of mine. It was actually in subsequent months, it was. I was part of that as well. Yeah, we're all implicated. Being on the cusp of the liquidity trap becomes a topic is the way I would put it. It becomes a topic. But it's not structural policy coordination. The point I was trying to make as a general one though is that while we have this system, and we'll have this system for my professional lifetime assuming I get another job after this, but we're going to have this system for a while. While we have this system, there will be circumstances in which it makes sense because of global spillovers for economies to use the flexibility in their regimes to extend the horizon, aggressive macroprudential, or even—in extreme cases, not as a reflexive thing—capital flow management measures. It makes sense because you have those spillovers. That's kind of cooperation. It's informed

surveillance. It's a judgment. That's different because the last two, and the first one you can lose credibility if you just seem to be always stretching your horizon, not respecting your horizon. And particularly on capital flow management measures it's not that far away from exchange rate management, and that can become addictive. Every time is a special situation. So you need some discipline of the system to inform those types of decisions, which are decisions that are taken by individual central banks and countries—that's the point I was trying to get across.

The thing on the SDR, they are settlement instruments between monetary authorities as opposed to actual retail. The thing is that the use of money drives the event or drives the utility. That stable coin structure, if it's efficient, if it has a basket behind it, then that gives you—it's not the SDR—but it jumps forward to an actual use of money that can drive the other elements. The question is whether people are willing to price in it. It's a much more complicated thing to run, and is very complicated to run as a private entity. It's much less complicated to run if you're the supplier of the underlying assets. It doesn't mean—look, I mean, again under your control. There are issues with it, but it's a more attractive route. We can call it the SDR. We can rename it if that makes people feel better.

Mr. Bullard: So, you seem to talk about a generalized liquidity trap. What do you mean and what can we do to avoid that?

Mr. Carney: Well, I think—again, I'm going to lean on the framework this morning. We had a similar one, the Bank of England, the way we think about r^* in the U.K. for what it's worth, which is that we actually think the r^* in the U.K. has been somewhat lower than what's called the global r^* or certainly U.S. r^* because of some of the headwinds we've had, particularly the Brexit uncertainty which has fattened the left tail and kind of pushed it down. But when we think about the global levels, the global r^* is coming down because of the forces that I describe. Other factors are driving it, and there is a risk of almost a self-reinforcing effect there. That particularly matters for economies, and this is my self-reinforcing effect, that have a domestic wedge, below global r^* because of their own issues. If one of their issues is they can't drive the shadow policy rate to below their

equilibrium that slows growth. Disinflationary pressure feeds back through the system. That's what I'm saying. Just to be clear, I'm not saying we're in a liquidity trap.

Mr. Bullard: I thought you were referring to euro more generally.

Mr. Buti: Mark, you talked about moving in the longer term to a more polar system and I would like you to comment about the chance by the euro and the eurozone of being a part of that. A debate on the international role of the euro is taking place in Europe right now and there is a growing consensus that the eurozone is punching below its weight. What do we need to do, what are the basic preconditions for the euro and the eurozone to play a more important role?

Mr. Carstens: Thank you, Mark, for your brilliant presentation. You covered precisely a lot of topics on the international monetary system, challenges of central banks. But then there are other challenges that I think are very important and I think it would be very enlightening to hear your views. One that I have particularly in mind is the challenges that have to do with issues related to income distribution and the social opportunities and the monetary policy. That's an issue that I think is growing in importance, and at some point, may even be an issue that might affect the autonomy of other independent central banks. What would you recommend us to do in the years to come about this topic?

Mr. Carney: One of the advantages—I'm going to answer this in a slightly odd way, Marco Buti—but one of the advantages that the renminbi has over the euro in this development of other reserve currencies is as a medium of exchange, is a series—for example, there's more Brent oil futures that are priced in renminbi than in sterling now. There are a wide range of contracts, but just think of Belt and Road as effectively a renminbi financed and transacted area. The broad need that the medium of exchange priced in that currency coming first. I'm not sure what the European directive is that requires the euro to be used more broadly there. Certainly, things that the EU is doing anyways—capital markets union—that sort of deepening would be part and parcel of it. I'm not going to give you a very good answer because we're working on sterling, retaining its role there.

We're competitive which is why we should all—if only we could coordinate and cooperate, then we'd be better.

Agustín Carstens, you've asked a huge question and a hugely important question. I think we have to remember why we target inflation first and foremost. I know you know this, but because high and volatile inflation hurts the poor. The least well off in society are affected more than anyone else. They're the ones who can't hedge themselves, protect themselves, and also by getting that trade-off right, do a mandate or trade-off right, and Jay Powell you cited the employment figures in the United States today and what the FOMC is doing to maximize what it can do to ensure that the expansion continues in a way that you get this broadening out over time. In long expansions you get a broadening out over time of better and better economic outcomes. People, it's not just employment but they move to better jobs. So, we can't lose sight of the core contributions. I also think that recognizing that these issues as you said in your question are fundamentally political and so we can't stray into them. We should be aware of what they are. And I'll close with this, which somewhat surprisingly inequality had gone down in the United Kingdom since the financial crisis both in wealth and income. This is where you stop as a monetary policymaker. You don't take credit for that move in the Gini coefficient because other factors were driving it. But it is your responsibility to correct the record at least in that circumstance that these are the facts, this is what's going on, this is what we can contribute—low, stable, predictable inflation is best for everyone in society, but particularly those least well off, and having as many people in work subject to the first as possible are the best contributions to equitable growth.