

Addressing deficiencies in the global monetary system could help prevent future crises

Bruegel and CEPII present in Paris their new Blueprint 'Global currencies for tomorrow: a European perspective'

Paris, 9 September 2011 - Today Bruegel, the Brussels-based international economics think tank, and Cepii presented in a press conference in Paris 'Global currencies for tomorrow: a European perspective'. The blueprint, co-authored by fellows from both organisations, examines how the international monetary system (IMS) might evolve and the implications of different scenarios for the euro area over the next fifteen years.

By 2020-2030 economic power is likely to be more evenly distributed among key players – the US, the euro area and China – than at any point in time in recent history. The authors discuss what factors enable a currency to play an international role, and conclude that neither the euro nor the renminbi are likely to be in a position to challenge the supremacy of the dollar. However, they are likely to come to play a meaningful international role, provided certain conditions are met.

The authors outline three possible scenarios for the IMS:

- A repair-and-improve scenario in which changes to current arrangements are introduced through incremental reforms.
- A multipolar scenario in which a system emerges structured around two or three international currencies.
- A multilateral scenario in which participants agree to take steps towards a strengthened international monetary order.

They conclude that at this horizon a multipolar scenario is the most probable one. To the extent that it would imply free capital mobility and exchange-rate flexibility between the different poles as well as the development of a liquid market for benchmark bonds, such an evolution of the IMS would be positive. However, the stability of a genuinely multipolar system cannot be taken for granted. It will imply each of the monetary poles agreeing to depart from purely domestic priorities and stand ready to fulfill its international duties in quiet times as well as in times of crisis.

Furthermore this blueprint analyses the lessons from economic and monetary history and suggests that several of the economic failings of recent years can be traced back to deficiencies in the global monetary system. So addressing these deficiencies would perhaps not solve today's economic woes, but it would help limit the build-up of new problems and it would provide guidance as regards the avenues for alleviating today's concerns.

The paper can be downloaded on Bruegel website at www.bruegel.org or at CEPII website at ww.cepil.fr

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**About CEPII:**

The CEPII is France's leading institute for research on the international economy. The CEPII's work, be it in international macroeconomics, trade, foreign direct investment or in the analysis of emerging and transition economies, very much stresses global interdependencies and their consequences for France and Europe. The CEPII provides its expertise to public and private decision-makers, as well as social partners. It has regular contacts with major French and European government organisations responsible for economic policy, with other public institutions (parliamentary assemblies, the Banque de France), and private companies.

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