THE TRANSFORMATION OF GLOBAL GOVERNANCE PROJECT

1-2 APRIL 2019 SEMINAR

THE GOVERNANCE OF GLOBAL FINANCIAL SAFETY NETS: FIT FOR PURPOSE?

Seminar insights – Erik Berglof, George Papaconstantinou, Jean Pisani-Ferry and Andrès Velasco

1. **Financial globalisation has reshaped financial interdependence and increased the demand for global financial safety nets.** The IMF-centred safety net of the post-war decades was quantitatively and qualitatively adequate in a world of limited capital flows and mostly national banking. It does not respond to the needs of a world of unfettered capital flows, global value chains, market interdependence and international banking. Under such conditions, global financial safety nets must consist of several coordinated layers whose combination matches the potential needs of financially open countries.

   The current international regime departs from the 1990s template in fundamental ways. Capital flows are increasingly driven by push factors resulting from the global financial cycle and US monetary policy, rather than pull factors from domestic policies. Ergo, while conditional assistance remains the right response to capital outflows from domestic policy errors, it may not be the right response to externally-driven boom-bust financial cycles and self-fulfilling crises. At the same time, in times of stress, commercial banks doing business in foreign currency face liquidity shortages but may lack adequate foreign currency collateral, needing access to an international lender of last resort.

2. **Economic and political reasons explain why the IMF alone cannot respond to such needs.** Tackling financial account crises may require amounts of financial assistance that exceed by a wide margin what the multilateral system can realistically mobilise. Whereas the overall pool of resources available for international financial assistance has tripled in proportion to world GDP, IMF permanent resources represent only one-eighth of available resources excluding national reserves. In addition, whereas IMF governance correctly limits the politicisation of lending, it also limits availability of precautionary support. Despite attempts to broaden the scope of its facilities, the Fund is not yet well equipped to provide unconditional liquidity to prequalified countries. Stigma effects and a reluctance to move away from conditional lending explain why it has not succeeded.

   The IMF is also not better prepared to provide liquidity support to commercial banks operating in foreign currency. Covering such needs is an extension of the traditional role of central banks acting as lenders of last resort to commercial banks. They cannot be substituted in this role by an international institution. By the same token, the Fund cannot exercise conditionality towards central banks providing liquidity to their banking sector. Speed and scale require this operation to be based on trust.

3. **Massive accumulation of reserves at national level is indicative of pervasive distrust in the multilateral Bretton Woods system.** Reserves-to-GDP and reserves-to-trade ratios have reached unprecedented levels. Preference for such costly self-insurance, most notably in Asia where it emerged in reaction to the Asian crisis of the late 1990s and the IMF programmes that followed. Its rise amounted to a first major departure from the principle of mutual insurance embodied in the IMF articles of agreement. It signalled that several emerging countries regarded the Fund as excessively driven by the perspective, and even the interest of the advanced Western countries.

4. **In a significant departure from the established multilateral regime, a three-layer system has come into existence.** In addition to national reserves, it consists of:

   - *Bilateral support schemes, especially through swap lines.* Such swap lines may serve as confidence-signalling devices, macro-financial support, trade- or currency-promoting instruments, or channels of provision of international currency liquidity to banks ;
   - *Regional safety nets* to provide financial assistance to participating countries. There are by now seven, uneven in terms of size, institutional infrastructure and potential effectiveness, developed in part for resources, in part in response to IMF mistrust;

- *Multilateral financial assistance* through the IMF, in the form of traditional conditional assistance or of liquidity provision schemes granted to prequalified countries.

Such a system is necessary in a world of deep financial integration with private financial institutions, not only states, needing access to liquidity and with regional spillovers, especially in currency unions, justifying mobilising resources from neighbours and partners. As things stand, however, this network does not constitute a coherent system, in terms of coverage, resources, capabilities, predictability. It is questionable whether it will evolve into a coherent system, or degenerate into fragmentation.

5. **Within the GFSN, coordination problems are being addressed pragmatically, but difficult issues remain unsolved.** Coordinating them raises issues of:

    - *Availability*. Commercial, political or geopolitical considerations weigh on the choice of countries to which liquidity lines are being provided by major central banks;
    - *Conditionality*. Even if institutions share the same philosophy the aims, maturity and scope of loans may differ, and so will the associated conditionality;
    - *Terms of lending*. Whereas Fund lending conditions are broadly uniform across countries, bilateral or regional lenders may tailor theirs to programme countries;
    - *Debt relief*. Multilateral debt relief granted to insolvent borrowers is in principle based on objective criteria and broadly uniform across countries; this is less true for bilateral or regional lenders, which may be based on economic or strategic interest and even seize collateral instead of participating in a multilateral restructuring;
    - *Seniority*. The hierarchy of official creditors raises difficult issues of principle, especially when loans were provided at the same time and on the basis of tightly coordinated conditional programmes.

6. **While the central role of the IMF in the global financial architecture is generally regarded as essential, its future cannot be taken for granted.** The Fund is now part of a heterogeneous network where it is neither dominant nor indispensable. This may affect fundamental principles of the international financial architecture such as equality of treatment and transparency. More fundamentally, the IMF was part of a post-war order characterised by a monetary and financial architecture dominated by the US. Whether this can evolve into a more symmetric multipolar architecture where several currencies coexist and power is more evenly distributed is highly uncertain.

7. **Architecture issues and governance issues cannot be separated.** As the dominant veto player, the US exercises overwhelming influence over the IMF but is not willing to increase its resources significantly. China, India and other emerging countries are unlikely to invest much into the future of the institution as long as they feel massively underrepresented in its governance. Europe is a staunch supporter of the Fund but is unwilling to renounce the influence that it currently enjoys within it. Unless addressed as a matter of urgency, this configuration portends the risks of a persistent deadlock in the reform of the international financial architecture and of its eventual fragmentation.

Keynote by Thomas Wieser – Financial Safety Nets: A European Perspective

We are gathering ten years after the Vienna Initiative was launched*. It was a cooperative solution to a problem whose gravity few suspected at first and which needed adaptability and flexibility to arrive at. The banking system in central and eastern Europe (CEE) was largely owned non-domestically, and when the crisis hit, liquidity started to flow out. There was strong incentive to be "first out the door", to defect first, as in a standard prisoners' dilemma. And there was a deplorable Western European lack of concern about potential consequences. The lesson from this episode is that closer integration implies spillovers, which have consequences for the allocation of supervision responsibilities and for the distribution of losses.*

Back then the risks were understood, but not taken seriously by sovereign decision-makers*. Western Europe governments had to be convinced that it was in their interest to nudge banks headquartered in their countries to stay in CEE in order to stabilise the macroeconomic situation. No coercion mechanisms existed, so leadership had to emerge, and cooperative structures and principles of loss attribution had to be invented in a crisis situation. The stars aligned and good cooperation was achieved, thanks perhaps to enlightened self-interest or the positive dynamic of an epistemic community, but these are all but guaranteed in a future crisis. Crisis structures and clear and transparent principles for crisis management should rather be put in place in good times.*

Turning to the euro crisis, the situation can be likened to "trapeze artists with only some safety nets"*. It is only when the ECB provided assurance of a full safety net that speculation was deterred and that the doom loop was dampened. Yet the ECB cannot play the role of a national central bank, and despite the fact that the ESM is fairly well equipped, monetary union remains incomplete.*

The relation of regional to global safety nets in the European case remains unclear*. The division of labour between the ESM and the European Commission, as well as the role of the ECB in future Eurozone programmes remain in question, as does the involvement of the ESM with countries outside the Eurozone, and their cooperation modalities, both in and out of crisis situations. Moreover, the participation of the IMF in possible future Eurozone programmes is now uncertain. Should it participate, the combination of EU and IMF conditionality remains an issue; and were the IMF not be involved, there is the question of member states' buy-in to the institution.*

One reason why IMF participation is likely to remain necessary is that the ESM has little to no autonomy from national governments and parliaments, while the IMF does*. Although the nature of the contingent liabilities resulting from conditional assistance are the same for IMF and for ESM loans, member states' parliaments do not regard them in the same way. The autonomy of the IMF and, to be clear, the lack of direct democratic control of its decisions are a good thing, because otherwise it would be a slow-moving Leviathan. It should also be observed that it has thus far been insulated from the vagaries of the Trump administration.*

The EU should better prepare to deal with financial turmoil in its neighbourhood*. Both the ESM (for assistance) and the ECB (for swap lines) face legal and political limitations. Yet the implicit interdependence model of policymakers relies too much on trade linkages and tends to underestimate financial linkages. In view of the situation in the near neighbourhood (Ukraine, Balkans, Mediterranean), the EU should develop a strategy for contributing to financial stability beyond its borders.*

Seminar minutes

▪ Session I – The GFSN: An Irreversible Departure from Bretton Woods?

The first speaker enumerated a number of points touching on recent developments:

- Governance issues and the GFSN are linked: revised IMF governance through its quota increase made recourse easier, especially in emerging markets (EMs). Quota issues are very political; but politics can change, especially in crisis. It is however difficult to convince politicians to increase resources for safety nets: to maintain momentum, it is thus important to keep making the point it is necessary.
- It is difficult for the IMF (or other international organisations) to handle swap lines: providing quick, cheap and large amounts of money is incompatible with its governance structures. Despite Fed support in short-term liquidity lines for EMs, the resulting Flexible Credit Line (FCL) was too small and expensive; however, it paved the way for large balance of payment precautionary facilities. It may be the avenue of precautionary arrangements is more fruitful to pursue for the IMF and RFAs.

- Discussions of governance must confront the roles of the US and China. The US has a de facto veto on IMF reform, and does not yet accept the necessity of a safety net with more resources. China's approach to multilateral safety nets is unclear, while being forthcoming bilaterally with its own conditionality and lack of transparency.
- The relationship between global and regional safety nets is a difficult one. There has been much back-and-forth with Chiang Mai, but progress is slow. The urgency of the situation with the ESM made it so that modalities (e.g. debt solvency analyses) were not discussed ex ante. Cooperation guidelines are developed, but more is needed.
- The role the private sector can play is underestimated: crises can be attractive times to invest, but only if there is "light at the end of the tunnel". Precautionary arrangements can be helpful in these situations, though exit may be tricky.

The second speaker recalled that freeing capital movement was a major departure from Bretton Woods. He then criticised the mental model whereby crises requiring financial assistance are the result of either policy mistakes or exogenous shocks; it would be more correct to analyse them as shifts of expectations leading to self-fulfilling moves to bad equilibria. Such shifts can arise from several mechanisms, including the "original sin" of borrowing in dollars (Argentina) or the "doom loop" between banks and sovereigns (Europe). To rule some of these out a lender of last resort is necessary.

This analysis implies that the standard debt solvency paradigm and the categorisation of countries as "sinners" vs. "virtuous" are both problematic. This suggests a large, rapid, and ex-post unconditional (though ex-ante conditional) GFSN, as a deterrent which would not need to be used. Potential recourse could be granted by prequalification to avoid stigma. This seems preferable to uncertain access to non-transparent swap lines or patchy RFAs with heterogeneous rules.

A large part of the discussion revolved around assessing the relative successes of the IMF and ways forward. Many agreed with the first speaker, arguing that the Fund had in fact performed well in the past 15 years: the GFSN commands eight times more resources than in 2007, IMF cooperation with the EU has worked well in most cases (excluding Greece), and no one questions its central role any longer. While in the 1990s the proposed Asian Monetary Fund was rejected as a rival to the IMF, now all RFAs cooperate with it: ESM assistance for example is conditional to participating in an IMF programme. Nevertheless, the Fund's firepower is insufficient. Crisis catalysed action to increase it, but growing capital flows means it will have to work with RFAs. In the crisis the ESM disbursed in the EU three times more than the IMF has done so globally.

"In governance discussions, there are two elephants in the room: the US and China.

The IMF should also rely more on precautionary facilities; attempts to develop them, however, have been frustrated by member reluctance, often for contradictory reasons. To increase its firepower, the IMF could involve the private sector or borrow itself on financial markets, though this last option, a taboo in debates, would likely require a politically herculean change in quota nature, and imply higher lending costs.

To one participant's interrogation on the appropriateness of capital flow management measures, another responded that the IMF's stance was coming to "a more modern view"; one participant recalled such measures have been common in many Asian countries, and perceived as sensible by financial markets there. Another put forth the idea that the IMF could review the quality of sovereign assets to instil a measure of trust, but was answered that it could never do so in sufficient depth.

Some participants cautioned against the IMF having to rely on RFAs or swap lines to supplement its activity, as clear lines of responsibility and governance practices are still missing, and impartiality cannot be assured. Others warned that overly ambitious conceptions of safety nets invite moral or political hazard. Prequalification for assistance could be a problematic signal if made public, and may carry a stigma, while potential subsequent disqualification could trigger adverse market reaction.

One participant questioned why the IMF's centrality is unchallenged. It used to rest on its resources, expertise, and the quality of the institution itself; only the last justification still stands, but it is unclear for how long. Another answered that it is the only institution with a global mandate; it provides a forum for all to discuss issues, and is equipped with a good decision structure for what it is meant to do. Its expertise derives from its large number of programmes, giving it unique hands-on practical knowledge. Another however recalled the importance of getting the diagnostic right, to justify conditionality.

In concluding, the first speaker nuanced IMF success: before the crisis, its funds were in decline, and their emergency increase was temporary: they expire in 2020. Internal discussions on governance and norms of behaviour were set aside during the crisis to "keep everyone in the room" and achieve quota reform; it is an open question how long the status quo can last. Prequalification and precautionary arrangements are the solution to moral hazard: this was discussed but deadlocked over subsequent potential disqualification. Two issues remain outstanding for private sector involvement: unclear conditions for debt restructuring, and possibility of capital flows management measures.

"We are learning to do internationally what we learned to do nationally a century ago: create a lender of last resort."

The second speaker summed up the problem of the GFSN as creating an international lender of last resort. Central banks perform this function quickly with large amounts ex post. Thus, developing prequalification mechanisms is important, and would imply turning the IMF into a kind of rating agency; which in turn would imply that it would be tougher ex ante, in order to be able to provide assistance unconditionally ex post. The speaker concluded on a pessimistic note: that the global financial crisis had huge repercussions, deteriorating political conditions worldwide, and that it is uncertain whether democracy could survive another crisis of that magnitude. The problem is deeper and the system needs more than just tweaks.

- **Session II – Swap Lines: What Are They For?**

Swap lines address different problems than the IMF does. They are meant to assist international banks facing foreign currency funding pressures (usually in dollars). Drawing on bilateral swap lines, central banks can perform the function of lender of last resort to the banking system. The alternative would be for the requesting central bank to use up its foreign exchange reserves and risk capital outflows. The question is whether to move from specific uses of swaps to broader uses, to avoid the need for costly self-insurance, and what framework would be necessary to do so. The crux of the problem is that there is a tension between the full discretionary firepower of central banks and an institutionalisation that would abolish this discretionary character.

The first speaker highlighted key lessons from the use of swap lines from a market point of view. They served two different purposes in the crisis, depending on destination. To advanced economies, they were motivated by self-interested domestic monetary policy concerns: they alleviated a dollar crunch in destination states but also avoided unwanted dollar appreciation domestically. To EMs, they were motivated by geopolitics and a genuine desire to fight contagion. They were useful in turning market sentiment around, despite the fact that only four states were designated recipients, and only two (S. Korea and Mexico) drew upon their swap line.

"At the time, Fed swap lines were the only game in town."

From the point of view of European banks these lines are still needed, due to remaining dollar liquidity mismatches and low dollar coverage ratios. Dollar lending has doubled since 2007, which may be creating conditions for another potential dollar crunch. There is no substitute for Fed swap lines since they are liquidity creation from scratch; but other pockets of liquidity exist and could be made available. As the Fed is unlikely to extend swaps to EU EMs (e.g. Poland), the ECB could play a role in stewarding swaps for the entire banking union. The question of euro swap lines must also be confronted in view of an enhanced global role for the euro.

The second speaker recalled that there are three types of swap lines: Fed swap lines, meant to support banks, and explicitly not for balance of payments difficulties; small, conditional and discretionary Fed swap lines to a few selected Ems, designed to provide means to intervene in capital flows or exchange rates; and (of a clearly different nature) People's Bank of China (PBOC) swap lines to its 32 counterparts, meant to support exporters and the push for the renminbi to become an international invoicing currency.

IMF facilities and swap lines are both meant to remedy capital flows crises, which affect banks. In the crisis, banks faced acute currency mismatches; only the Fed could remedy this by lowering the cost of "synthetic dollars", but it made sense that partner central banks operated according to their domestic market knowledge and carried the counterparty risk. It was an effective strategy. Two issues can be pointed out however: first, swaps can strengthen the bank-sovereign doom loop, rendering IMF intervention necessary; second, swaps are by design meant to deal with short-term liquidity problems; but if the problem is one of solvency, its scope could require IMF intervention.

In sum, central banks are best equipped to deal with certain disruptions, and therefore swap lines are an essential tool that cannot be replaced by IMF programmes. However, the IMF can have a role to play, for example by evaluating the contingent liabilities involved in swap lines, by drafting swap line arrangements, or by underwriting some swap contracts as a fiscal counterpart to monetary programs. This need not trigger conditionality, but the quality of the collateral could be a problem; in turn, the IMF could take the exchange rate risk and play a role in determining the haircut if necessary. One participant noted that the IMF had considered underwriting swap lines but concluded it was difficult to do so within its current framework. This has been the origin of its Short-term Liquidity Swap proposal, which might materialise in the next few years.

Another participant suggested the ECB, like the Fed, gave swap lines out of self-interest for domestic financial stability, using monetary policy tools in line with its mandate. But, mindful of its own balance sheet risks, it could only give them to member states with sound fundamentals. This meant that it had to offer some member states (PL, HU, LT) repos instead of swap lines. It has standing arrangements with G10 countries, Denmark and China, and temporary arrangements with other countries. He suggested the ECB approach is flexible, tested, replicable, part of a framework and effective; but found it difficult to see how it could be developed further. Another participant recalled the growing interest in turning the euro into a global currency, and called for making clear the implications of this: the ECB would have either to endorse the fiscal risk, or be backed by a treasury, both of which are not yet possible.

One participant argued that the forex swap line network had been the key backstop in the crisis, and pointed out that in addition to uncertainty about their renewal in the future, there is a large gap as there is no line between the US and China. The participant argued that if swap lines are now key and the system is more bilateral, there is considerable uncertainty over what might happen if a crisis hits China. One avenue the participant sketched out was a "chain swap", whereby the ECB would draw on the Fed to extend a line to the PBC; but others considered this an abuse of the system that would quickly see the line shut down. One participant returned to the question of the political contingency of swap lines, questioning why European countries were relying on swaps and not building dollar reserves like Asian countries.

Discussion also revolved around the political questions and risks of central banks wielding such discretionary power given the non-negligible fiscal risk. The argument that they perform the function of lender of last resort in foreign exchanges was broadly accepted, though necessarily context-dependent. Some participants were uncomfortable with central banks taking inherently political decisions, conditional on the tacit agreement of political authorities; one added that despite the demonstrable usefulness of swaps for domestic monetary management, they are (especially in the US) not perceived well by the public, who see it as "lending to foreigners". One participant recalled the awkward experience of having the IMF push for a swap line with another country while both the government and the parliament were opposed.

> *"We're all second-guessing what central banks will do the next time around."*

The discussion concluded in broad agreement that multilateral nets cannot substitute swap lines: both layers are necessary, and it is equally necessary to minimise the blurring of their edges. It was argued that central banks should provide clear principles for their use of swap lines so that market actors can make informed decisions.

- **Session III – Regional Financing Arrangements: IMF Complements or Substitutes?**

The first speaker recalled the importance of the links between trade and finance: apart from traditional trade finance proper, the development of global value chains has driven FDI and financial support for transactions along the chain, thereby increasing liquidity needs. EMs have become more exposed to market sentiment. Whereas in the past they built foreign exchange reserves to avoid having recourse to the IMF, they are doing so now to counteract market volatility. At the same time, they are being denied swap lines by the central banks of advanced economies. In a similar process to the one that led foreign exchange accumulation, RFAs have emerged in reaction to advanced countries' lack of trust in the emerging countries and to the latter's mistrust of the IMF. As long as these problems are not fixed, RFAs will continue to flourish. But, swaps, RFAs and the IMF are not substitutable: it comes down to which is most easily callable.

> *"The odds are getting stacked against having an orderly system."*

The second speaker delved deeper into the details of RFAs. There are seven major ones today (ESM, CMIM, BRICS CRA, EU BoP assistance facility, EU EFSM, AMF, FLAR) but are heterogeneous in age, types of issues they deal with, funding source, conditionality, terms/duration of lending, relationship with the IMF. They have been interacting and learning from each other and the IMF more intensely since the crisis. They accept the centrality of the Fund, and are collaborating with it on surveillance, coordination of programme design, and co-financing. RFAs are considered as potentially more lenient than the IMF, but also as having better expertise due to being "closer to the ground" – an expertise that can conversely be clouded by partisanship. The speaker highlighted the positive role of RFAs and the cooperation they can produce thanks to different competitive advantages.

One participant challenged this view of complementarity, taking the example of the EFSF and Greece. The EFSF was born because a large part of the European political system was adverse to involving the IMF and there were disagreements over Greece's debt sustainability. The speaker answered that those arguing against IMF involvement eventually lost out; the subsequent ESM made IMF involvement mandatory. Another participant reported the IMF has developed flexible principles for coordination with RFAs and the learning process is still ongoing. The Greek case had prompted the Fund to revamp its debt sustainability toolkit and take political considerations (keeping the Eurozone together) into account. Another participant expressed concern over RFAs encountering the same problems the IMF and the ESM have, such as enforcing conditionality, market misperception and negative reactions, and blame-shifting.

"There are two kinds of arrangements: those with money, and those without. A regional arrangement without the elephants is just a bunch of monkeys."

Discussion revolved around the mechanics of cooperation, as well as China's Belt and Road Initiative. One participant classified the BRI as an unorthodox RFA, and expressed concern over its political underpinnings and future deployment; there was agreement that concern was warranted, and that IMF reform is necessary to maintain China's buy-in to the institution. On the mechanics of cooperation, one participant advocated joint scenario planning for crises, while stressing the importance of communication in ensuring acceptability of measures taken.

A participant opined that the true issue at stake, along with governance structures, is the constituency to which the institutions involved respond to, and deplored the lack of top-down coordination from the G20. Another suggested the important issue was resource size. As regards cooperation between RFAs and central banks and RDBs, it was said that there are always informal talks, as central banks are shareholders in both. The discussion concluded with participants concurring that common principles are needed, sufficiently strong to ensure a degree of consistency across safety net layers; but it is unrealistic to expect common rules, as circumstances and political environments differ.

- **Session IV – Managing a Multi-layer and More Diverse GFSN**

The first speaker suggested that the international system may be more asymmetric than acknowledged and more fragile than recognised. He recalled the Bretton Woods system was designed to serve US interests, and US hegemony over the current system is still far stronger than the UK's was over the 19th century's gold standard. He dissented from the earlier agreement that the IMF stands at the centre of the system (and disagreed that it can in any sense be apolitical), putting forth that the central actors in the system are the US Treasury and Fed. With the dollar as international currency, the lender of last resort is in fact the Fed, and it will not pre-commit itself to granting swap lines: the US will keep its options open on weaponising its currency. Accumulation of dollar reserves is no protection; holders can be prevented from accessing them.

"The current system may be shifting in uncomfortable ways. Have we been thinking radically enough? […] In this field, power politics is the name of the game."

With China seen as a challenger to the system, the IMF is in an impossible position: if moves are made to give China and India the weight they deserve, the US may oppose its veto or walk away; if they are not, it cannot be called truly multilateral and its legitimacy suffers. It is still possible, but not likely, that the "China threat" will dissipate like that of Japan in the 1980s, and that the US will pivot back from President Trump's politics. But otherwise, the development of regional currency blocks ($, €, RMB) is a real possibility.

The second speaker tempered this view, suggesting the US has always had a pragmatic, if instrumental relationship with the IMF, and that its current behaviour is simply more naked. China professes a commitment to multilateralism, but is at the same time sowing the seeds of a parallel financial universe by building up its own structures such as the BRI and the AIIB, and massively developing its fintech and data handling capacities. The world may end up being split between the PayPal world and the Alibaba world.

Both speakers agreed that the IMF's governance is outdated, but expressed doubts that the articles of agreement could be reformed. Nevertheless, technical work is being carried out under the "Integrated Policy Framework" umbrella. Further revamping, for example through larger arrangements to borrow, may be possible; G20 impulse is helpful in this respect.

Discussion bore on the previously discussed themes of the importance of maintaining the IMF as an institutional lender of last resort and as the key, multilateral part of the financial safety net in a multipolar world. Doing so requires at minimum the buy-in of the democracies, to ensure pull on others. It was observed that there is some room to reallocate quotas without the US losing its veto power, playing on their three components (overall resource levels, calculation formula, and member state weights) - probably to Europe's detriment, and the possibility is at the mercy of US electoral timings.

"The hegemon tends to endure; but until when?"

Turning to the EU, recommendations were made to strengthen its participation in, and linkages with, the GFSN. This should be achieved in several ways, more or less politically probable: by producing safe assets, consolidating swap lines and developing forward market capacity to favour euro invoicing, also deepening EMU and giving itself fiscal capacity, and completing banking union. Some participants argued that a multipolar currency system has already emerged.

Several participants recalled the difficulty of reconciling slow, small-scale technical reform within the IMF and other international financial organisations and the political necessity to ensure continued democratic allegiance. The system is already not seen as completely legitimate anymore in advanced economies. A 4-pillar system might serve the interests of EMs better than that in the past. One participant countered however that GFSN elements are patchy and that the IMF's share in GFSN reserves is falling. Another highlighted the importance of unpacking the IMF: its staff, its board, its different constituencies.

▪ Wrap-up – Lessons for Global Governance

The first speaker likened the GFSN to a bucket, half-full after the crisis but leaking. The system is fragile: one or more of its nodes may fail in a crisis, which bolsters the case for RFAs as another layer in it. He asked whether the IMF might be split into its surveillance and lending functions. In his opinion, it makes sense to more actively involve the private sector; central banks were originally private, it would be more productive to make private players part of the solution rather than a problem to deal with. He concluded by urging the recognition that more crisis prevention measures are needed: regulation, macroprudential instruments, and capital flow measures.

The second speaker summed up by giving seven points.

1. The evolution of the GFSN has been conditioned by governmental wills, and has caused at times large and unequally distributed costs.
2. Different parts of it perform different actions;
3. And this diversity can be seen as a sort of strength.
4. The IMF cannot do the job alone; it is stretching its statutes as it is, has little room or time to evolve to work with the rest of the system, and faces strong political and social headwinds.
5. RFAs are very heterogeneous and still finding their place — and it is clear some matter much more than others (ESM).
6. The purpose of the GFSN itself is changing, due to both endogenous and exogenous factors.
7. Governance of the GFSN is an increasingly messy affair, as there is little political drive to reform and clear it up. The G20 may play a role here, but it is worrying that its legitimacy is being corroded in advanced economies and emerging markets alike.

Adrien Bradley

Seminar programme

1 APRIL

19.30	*Welcome Dinner and Keynote Address*
	Keynote: **Thomas Wieser** | Former President of the Economic and Financial Committee / Euro Working Group and Bruegel

2 APRIL

9.00 – 9.15	*Welcome and Introduction*
	Erik Berglof | London School of Economics and Political Science
	Jean Pisani-Ferry | European University Institute
9.15 – 9.30	Tour de Table
09.30 – 11.00	**Session I – The Global Financial Safety Nets: An Irreversible Departure from Bretton Woods?**
	Introductory Remarks: **Reza Moghadam** | Morgan Stanley , **Andres Velasco** | London School of Economics and Political Science
11.00 – 11.30	*Coffee Break*
11.30 – 13.00	**Session II – Swap Lines: What are they for?**
	Introductory Remarks: **Isabelle Mateos y Lago** | BlackRock Investment Institute, **Ricardo Reis** | London School of Economics and Political Science
13.00 – 14.30	*Lunch*
14.30 – 16.00	**Session III – Regional Financing Arrangements: IMF Complements or Substitutes?**
	Introductory Remarks: **Urjit Patel** | Former Head of the Reserve Bank of India, **Klaus Regling** | European Stability Mechanism
16.00 – 16.30	*Coffee Break*
16.30 – 18.00	**Session IV – Managing a multi-layer and more diverse GFSN**
	Introductory Remarks:**Charles Goodhart** | London School of Economics and Political Science, **Martin Mühleisen** | International Monetary Fund
18.00 – 18.30	**Wrap-up – Lessons for Global Governance**
	Introductory Remarks: **Charles Bean** | London School of Economics and Political Science, **George Papaconstantinou** | European University Institute

Seminar participants

Charles Bean	London School of Economics and Political Science
Erik Berglof	London School of Economics and Political Science
Patrick Bolton	Columbia University, Imperial College
Creon Butler	Cabinet Office, UK
Mark Bowman	HM Treasury
Adrien Bradley	European University Institute
Pietro Catte	Banca d'Italia
Karolina Ekholm	Ministry of Finance of Sweden
Nicola Giammarioli	European Stability Mechanism
David Gillespie	Oliver Wyman
Charles Goodhart	London School of Economics and Political Science
Hans-Joachim Klöckers	European Central Bank
Jean-Pierre Landau	European Bank for Reconstruction and Development
Isabelle Mateos y Lago	BlackRock Investment Institute
Reza Moghadam	Morgan Stanley
Martin Mühleisen	International Monetary Fund
Piroska Nagy-Mohacsi	London School of Economics and Political Science
George Papaconstantinou	School of Transnational Governance, European University Institute
Ant Parham	HM Treasury
Urjit Patel	Former Head of the Reserve Bank of India
Jean Pisani-Ferry	Tommaso Padoa-Schioppa Chair, European University Institute
Klaus Regling	European Stability Mechanism
Ricardo Reis	London School of Economics and Political Science
Polly Sculpher	HM Treasury
Christina Segal-Knowles	Bank of England
Beat Siegenthaler	UBS
James Talbot	Bank of England
Adam Taylor	HM Treasury
James Usmar	HM Treasury
Shahin Vallée	London School of Economics and Political Science
Dimitri Vayanos	London School of Economics and Political Science
Andres Velasco	London School of Economics and Political Science
Edouard Vidon	Banque de France
Thomas Wieser	Former President of Economic and Financial Committee/Euro Working Group and Bruegel