

International Monetary Regimes

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Bretton Woods Regime

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What were its shortcomings?

(1) Hegemonic (USA)

(a) No concern rest of system.

(b) If hegemon net creditor (Germany), then deflationary worries.

If hegemon net debtor (USA, after 1950), then inflationary worries, (Triffin).

(2) Assymmetry.

Debtors have to adjust. Creditors do not. Keynes tried to introduce symmetry via Bancor. US, (Harry Dexter White) refused. IMF set up to facilitate and manage adjustment of deficit countries.

IMF has no grip on large surplus countries. The 'I am wonderful' syndrome. Impossible to tell countries to reduce current account surplus.

But current account surplus is generally matched by capital outflows, and returns on such capital flows often disappointing, (China/Germany).

Capital Flow Restrictions?

So symmetric constraints on (short-term) capital flows likely to be more acceptable. Change of attitudes in academia, IMF. Could be done as part of macro-prudential control mechanism, (RWAs or Taxes). Specific proposal in back-ground paper, but would need more work.

Changing Structure of Imbalances

China, Germany, Oil Producers are in surplus.
USA in deficit.

Two main factors will promote change:-

- (a) Energy
- (b) Demography

Rebalancing between ageing North and more dynamic South.

How will this affect Malaysia?