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Only a global 'Whatever it takes' organized at multilateral level could successfully fight the present Health and macro-financial crisis

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I. Introduction: First estimation of the macroeconomic impact of the Pandemic

Although nobody could reliably assess the extend and magnitude of the current depression since neither the duration of containment nor the policy responses are sufficiently known at this moment (6 April 2020), a plausible scenario - neither the worst nor the best one - allows anyway to forecast the worst depression since industrial revolution: 2020 GDP is about to fall between 20 and 30% and the ability and speed of recovery remains undetermined since it is directly linked to the kind of policy and political reactions authorities could adopt.

There are however many possible reactions and tools to mitigate this unprecedented socio-economic shock and to ensure a fast recovery. Basically, it is common sense that both fiscal and monetary policies are needed to compensate for part of this exceptional macroeconomic shock. Emergency measures consist in substituting public demand for private one and subsidizing the latter in a targeted way, supporting temporarily firms and households in order to prevent them and their human capital to disappear (credit guarantees, deferral of tax payments, and specific subsidies), and to monetary injections to avoid self-fulfilling debt crises by preventing an additional financial breakdown and maintaining the global liquidity mechanism by supplying immediately the demanded safe-assets on interbank and repo-markets. As soon as the recovery would be engaged, the policy-mix should also have to take care of assessing the new output gaps in order to be able to manage inflationary risks, because supply may well remain constrained for more time, while demand for goods and services could be catching-up at a faster speed. This concern is all the more important that productivity will inevitably be affected downwards as far as global value chains could not be restored and that investment cuts and capital destruction could add output limits. Nevertheless, inflation will occur as far as supply elasticity will be lower. This should help the debtors.

At first glance such a consensual view looks positive and it seems that authorities are responding correctly. Indeed, many measures were rapidly adopted, were necessary and are going in the right direction. But two key-questions have to be raised on time:

- Are they sufficient, both in their size and modalities?
- What policy-mix to conduct after the health crisis, taking already into account that the world probably won't be the same? The current parameters, calibrated upon several decades of globalization and trade and labor opening, cannot be extrapolated, with important consequences for monetary policies, which used to benefit during at least two decades from the "great moderation" thanks to the supply elasticity warranted by globalization.

Let's assess the answers to these questions first inside the euro-area for the fiscal and monetary measures, and second extending our views to the global economy.

II. Policy measures in the euro-area

1) Order of magnitude of adopted fiscal measures in the Euro-area

From a volume point of views, some very first estimation of the fiscal impact indicates that three months of lockdown followed by a slow recovery would mean an increase in public debt around 15 % of GDP. As such this seems manageable, even a lockdown for six months, considering that a debt increase of 30% is a "one-shot" which is legitimate to be distributed over several generations. However, the problem is that some countries have already (ab)used for years of such an easy postponement for the (illegitimate) benefits of the "baby-boomers", creating a strong intergenerational injustice. In particular, in the Euro-area, where many economies have to face this new round of high deficits from already very high debt ratios leading them to worrying levels approaching the 150 to 200% of their GDP. We have to take on board that the Euro-area has not yet been able to resolve its major flaw, which consists in being the only monetary area in the world functioning without a genuine Central bank (i.e. ECB is not a genuine Lender-of-Last-Resort) and without credible mechanisms of solidarity among its members. Indeed, the "no-bailing-out" clause limits the meaning of "whatever it takes" exposing some sovereign debts to a "one-bet speculation". Therefore, financial markets have still the power to precipitate a liquidity crisis and to turn it quickly into a solvency crisis. This is not only a threat for those over-indebted countries, but for the whole Euro-area and the EU itself, because a new sovereign-debt crisis would derail the expected recovery in the whole EU, putting at risk the single currency and the single market. This is the reason for the accommodation measures accepted by the ECB, especially its recent Pandemic Emergency Purchase Programme (PEPP) on top of existing other measures and the European Stability Mechanism (EMS).

2) Order of magnitude of ECB quantitative easing

The ECB announced 750 billion € of purchases of assets in its new PEPP on top of the previous Purchase Programme of 120 billion €. It also broadened the range of eligible assets to purchase. Nevertheless, are these positive decisions sufficient? No, they aren't for facing the size of the required monetization of the new debts resulting from the present global crisis.

Drawing upon a first Bruegel simulation[1] in case of a 20% contraction of the 2020 GDP and a needed issuance of additional debts of 3,660 billion €, the total ECB asset purchases programmed for 2020 would only absorb a quarter of these new debt issued by euro-area countries. The increase in the debt ratio of the euro-area would reach 30% of 2019 GDP (but 40% measured on the depressed 2020 GDP level). It is clear that the decided measures of monetization are not only insufficient but unable to prevent the most indebted euro-area countries to face renewed market pressures and higher spreads. Indeed, the ECB would need to focus its interventions by buying more bonds from these countries than it is authorized or possible given the present position of Northern Member States on its Board. Contrary to the US Fed, the ECB quantitative easing is perceived as more limited than it should be for being a deterrent.

These measures will therefore become soon ineffective for the most indebted economies which are doomed to face renewed market pressures. The only hope is to expect that Northern Member States would realize the threat for their own interests of this potential new debt crisis, in terms of lower exports, lower jobs, lower fiscal receipts and the dark consequences of an EU disintegration.

Of course, in addition to the ECB, the European Stability Mechanism (EMS) could use its credit lines for getting cheaper loans for some countries in difficulty. This is what the Eurogroup proposed on 24 March with its "Pandemic Crisis Support (PCS)". However, the proposed amount for these credit lines would be limited to 240 billion€, and anyway the total lending capacity of the EMS is only 410 billion €. For being an effective deterrent for speculation, the EMS would need a very significant increase in its resources (at least reaching one trillion of € and maybe more), which seems politically and financially difficult. Anyway the intergovernmental nature of the EMS and its inner spirit make it a sub-optimal instrument for insurance and solidarity: its loans are not concessional but on the contrary they were initially conceived for castigating the weakest economies viewed as "sinners" by the Northern countries. This is why, it is envisaged to make its conditions more advantageous and its conditionality "lighter".

3) Additional measures in the euro-area are inevitable and urgently needed

Therefore, markets are already able to understand what some politicians and public opinions continue stubbornly to deny: a "whatever it takes" credible policy is the only win-win game for all Member States but it implies a genuine mutualization of the effects of the present crisis. From our point of view, the only effective way is a to decide immediately the systemic transformation of the MES into a Euro-area-Debt-Agency (EDA) giving it the statute of Euro-area Public Bank. This upgrading only requires a simple ECOFIN decision further to a Commission proposal. It would allow for resolving both the present crisis and the main weakness of the euro-area without any need to change the EU Treaty or to waste time in long bargaining: it is legally possible and easy to provide the necessary firepower to the ESM transformed into a LOLR without infringing the "no-bail-out" article and the independency of the ECB. This would solve the weakest feature of the EMU. Indeed, using the disposition of the **Article 123 §2 of the EU Treaty[2]**, allows for upgrading legitimately the MES into an EDA-public-bank. This Article 123

[1] Darvas, Zsolt, «The fiscal consequences of the pandemic », Bruegel blog 30 March https://www.bruegel.org/2020/03/the-fiscal-consequences-of-the-pandemic/

[2] It is amazing how this possibility has been systematically opposed by the establishment since the Greek crisis, with the visible consequences of losing three years in the EU recovery with a considerable collective cost for all MS. This historical mistake will remain in the future textbooks.

in its §1 prohibits (correctly) any ECB loan or overdraft to any government or public institutions, but §2 precisely sets (correctly too) that: "*§1 shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the European Central Bank as private credit institutions*".

Such an EDA receiving the status of a Public Bank of the euro-area would then be able to kill three birds in a single shot by:

1) Getting a legal direct access to the ECB cash facilities as any private banks (presently unlimited), thus fulfilling a de-facto role of the Euro missing LOLR, even without need to use it effectively as far as its potential use is a deterrent which restores a two-ways-bet on bonds markets and blocks then the self-fulfilling speculations.
2) Issuing its own bonds guaranteed by the MS, genuine "eurobonds", augmenting in this way its firepower well above the € 410 billion present limit, enabling it to intervene on a case by case basis, providing credibility and flexibility, in case the adjustment process would take longer and preventing the danger of aborting the recovery (no more "one-fit-for all")
3) Providing new safe-assets for the QE purchases of the ECB above the fixed limits for sovereign bonds, increasing so the potential means of liquidity injections, because the purchases of national bonds have limits of 33%, while the purchase of international agency bonds have a 50% limit. These bonds, which would euro-bonds, would permit also to consolidate credibility by increasing the means and efficiency of the PEPP. As a corollary, these safe-assets would contribute to accelerate the financial integration in the euro-area as well as to stabilize the liquidity condition and to improve the competitiveness of the financial markets by providing a whole-range of liquid euro-bonds duration.

This EDA would give to the markets the insurance the euro-area has a quasi-unlimited firepower, making up for the several constraints imposed on the ECB for limiting its role of LOLR, in particular stopping thus any one-bet speculation, preventing what occurred in the worrying episode of the Euro sovereign-debt crisis before the Draghi's 'Whatever it takes'. With a full central bank acting as a LOLR, the recovery would have been faster and stronger.

4) The Euro-area Debt Agency as a systemic solution to the conflict between the necessary EU solidarity and Member States indispensable responsibility

The upgrading of the EMS into this kind of EDA is much more than an emergency tool, it is mainly a systemic step towards a genuine financial integration and a better macroeconomic governance. In particular, the work of the EDA could progressively be used for ensuring fiscal discipline thanks to the organization of market rewards/sanctions by introducing a seniority clause favoring the euro-bonds, that would so become "blue bonds" enjoying full MS guarantee. Automatically all sovereign bonds would become "subordinated" i.e. affected by financial spreads according to market assessments of each country fundamentals and fiscal prospects. Let alone to wild markets, these spreads generally translate myopic over-reactions of financial markets, therefore they lead to a perverse internalization of the costs of past mistakes from national policies (too much too late). The systemic advantage provided by an EDA would precisely be to provide a flexible tool for inducing rational orientations and channeling the wild reactions of financial markets towards the fundamentals. The idea is to influence the spreads by an active policy of swaps between euro-bonds and national bonds according to the respect of fiscal policies and stability/adjustment plans and the speed of implementation of committed reforms: the initial reduction of the spreads produced by the EDA when policies are sound would trigger a market support which would do most of the job and prevent too short-term assessments. The power of these rewards would constitute a decisive incentive for influencing sovereign national authorities, Parliaments, as well as public opinion. Respecting the commitments to stability and fiscal adjustment would influence these swaps mitigating the spreads and giving supportive orientations to the speculators. Of course, the reverse could happen, limiting borrowers to the option of issuing subordinated bonds exposed to wild market over-reactions i.e. with a costly and more visible internalization of the budgetary costs of sovereign decisions.

Thus, such an EDA could produce a reconciliation between solidarity and responsibility, unlocking the present situation of a "prisoner dilemma" between Northern and Southern MS of the euro-area.

The seriousness of the present situation offers a widow of opportunity to improve the resilience of the EMU and EU integration process, but it could also spell the end of this process if policymakers fail to assess the risk of sticking to the status quo and adopt non-cooperative behaviors. This is the traditional "prisoner dilemma" in which individual logics lead to collective and individual higher costs. There is a need for breaking this dilemma by introducing a concrete solidarity tool able to give incentives for preventing free-riding by internalizing rationally the spillovers created by sovereign policies in an integrated monetary union.

The EDA could solve the emergency crisis while opening the road to a better fiscal discipline inside the euro-area through simple market mechanisms and without changing the Treaty.

III. The Global view

1) The Pandemic is emblematic of global systemic dysfunctionalities

By definition the Corona-Virus Health Pandemic is global, threatening all citizens of the world with no exception. The associated socio-economic crisis is also global. It is also systemic and multidimensional. It is a wake-up call revealing errors and inadequacies in our governance practices and social, economic and financial fragilities, we all accumulated blindly under the present world economic order.

We used to take for granted our collective health exactly as we have done with our environment, our standard climate, our financial system, our security and our democratic guarantees. These collective goods are not any more freely warranted. The Pandemic is all the more symbolic that we have ignored – and we continue to ignore - the warnings of multilateral agencies either in the health domain or more generally on Climatic changes and on the risks of abandoning to under-development the majority of the Planet, with their socio-economic dysfunctionalities and their resulting financial, social and democratic fragilities which constitute a time-bomb for the advanced economies.

2) Present cooperative measures are largely insufficient for tackling the global issues

For the same reasons as in the euro-area, purely national solutions and national escape from the dangerous economic and financial consequences are not possible. Although, as inside Europe, the major economic powers have taken massive measures in the right direction, global cooperation and coordination remain far from what would be adequate and necessary.

<u>On the fiscal side</u>, the US decided a discretionary fiscal stimulus of some 5,5%, against 2% for the EU, but in the EU important deferral decisions were taken for postponing fiscal receipts which add a

significant support to business and consumers. Also numerous financial guarantees by the States for firms and workers have been scaled up to more than 13% of Euro Area GDP, against only 4% in the US. Most other countries took budgetary support measures to their economies of the same kind and the same magnitude.

On the monetary side, central banks vastly expanded their asset purchase programmes, lending facilities, and open market operations since the start of the coronavirus outbreak. The ECB decided to expand its asset purchase programme and suspended its self-imposed issuer limits in the context of its PEPP. It announced a 750 billion € programme and has also broadened the scope of eligible assets to include Greek government debt as well as commercial paper issued by non-financial corporations. The Fed has also introduced significant new innovations on top of those already experimented during the first GFC of 2008. The 15 March announced plan to buy for $ 700 billion of Treasury and agency-backed mortgage securities was committed on 23 March to become an unlimited quantitative easing if necessary in response to the crisis. Facilities designed to purchase primary and secondary market corporate debt have been introduced, allowing both direct and exchange-traded fund purchases for the first time ever. The Fed's most significant step has been the (re-)introduction of its lending facilities and its bilateral swaps with some other central banks, while in the ECB's case, asset purchases for 120 plus 750 billion € have been the most trailblazing element of its policy package. Other central banks decided similar actions.

Although the COVID-19 was the opportunity which triggered the crisis, the prospect for a global liquidity crisis were already very high in 2019 as the business cycle was turning slowly down and about to reveal the many fragilities involved in the way global liquidity is managed, especially as concerns the non-bank segments of international finance[3]. The major risk was a systemic illiquidity shock on shadow bank constructions that proliferated during quantitative easing.

However, it remains amazing that multilateral action and international cooperation have so far played such a limited role in addressing this systemic risk. By definition global liquidity issues cannot be resolved only at national level. The most significant initiatives have been the extension of the Fed bilateral swaps with a selection of other central banks, in order to supply liquidity in dollar to some off-shore markets. Nevertheless, this useful unilateral decision is limited to a selection of partners and excludes some important emerging markets, like China, in spite of their dependency upon liquidity in dollar. A partial correction seems to be the Fed decision on 30 March, opening up repurchase facilities to foreign central banks that hold US Treasuries. Furthermore, LDCs and most emerging economies won't have the financial capacity for absorbing the financial cost of the pandemic and resisting to its socio-economic fallout. One may doubt that the resources currently available to the IMF will be sufficient to see them through this crisis.

This absence of systemic view of the features of the present crisis is alarming and might increase the global costs of this double crisis. Indeed, ignoring that the weakest economies, especially LDCs and some emerging economies, do not have the financial means for fighting the crisis might provoke tens of millions of deaths with dangerous feedback effects on the strongest and richest economies and

[3] See RTI report "Managing global liquidity as a global public good", RTI Working Party, chaired by Bernard Snoy, http://www.triffininternational.eu/images/Global_Liquidity/GL/RTI-CSF_Report-Global-Liquidity_Dec2019.pdf

democratic systems. On the medical side, it is impossible to eradicate the Pandemic if important regions remain infected. On the economic side, the same interdependence implies that letting aside LDCs and some emerging economies would weaken any recovery in the Northern economies, while on the security and human rights aspects, the consequences would be a time-bomb for democracy and peace.

Of course, multilateral organizations already took measures for helping LDCs and emerging economies, and this is welcomed, but the order of magnitude of their resources is clearly insufficient in front of the needs. Fighting the simultaneous evils aggressing our common future – Corona virus, economic depression, climate change and democracy weakening - will require a huge amount of financial resources that are not available in most of the poorest countries. This reality is already very tangible in the EU between the Northern and Southern economies, where the very high level of public debt limits the fiscal abilities to provide the necessary resources to both the health systems and the economies, increasing the risks of populism and illiberalism.

Unequal conditions in the fight against the Pandemic and its socio-economic consequences are not only a distributive issue: they raise a strategic issue for the Northern more advanced economies and their self-confident democratic societies. Only together, can we surmount the Pandemic and its impact on economies and respect for human rights. What is true inside the EU applies for the Planet and will become more visible for public opinions: this global triple crisis is about to make citizens and policymakers more aware that we are all in the same boat, nobody could save himself without helping the other passengers, even those who cannot swim. Therefore, the only option is to save the boat i.e. to dare adopting directly the best systemic solutions able to tackle the different faces of this global crisis.

In a way the coronavirus acts like a genuine catalyzer able to accelerate citizen awareness on climatic and governance changes and its consequences, a domain exactly similar to COVID-19 which is the "death messenger" of the rise of Ocean level, the eradication of many living species and food outputs, with terrific economic and migration disasters, overwhelming the whole boat and our Western democratic values. This reality continues to be denied by some vested interests and corresponds to a collective blindness as nobody likes to admit to be on the wrong way, not only those who benefit most of the system but also the majority of the others who wants to benefit too: it is not the Earth which becomes sick, but the whole humankind; responsibilities are shared. Not a single country and not a single citizen would dare to plead no-guilty, therefore all have to change and all must contribute according to their means.

On the "CO2 virus", the North cannot stop alone the irreversibility of its economic and political consequences, because it is a global systemic issue, exactly as the coronavirus cannot be stopped in the North alone without a collapse in the world economy and democratic order.

3) The case for an urgent strengthening of the multilateral order

Up to now, the lack of or insufficient international cooperation (except in medical efforts and the limited Fed swaps to some central banks) and the attempt to play down multilateral actions and to exclude any systemic reform are worrying features of the present crisis and should draw citizen attention: to tackle a global issue only with national tools looks amazingly naïve and irresponsible. Although this recent mood – already initiated after the 2008 global crisis - is inward looking, turning back towards unilateralism and selfish "domesticism" or old fashion nationalism, the seriousness of the linked triple virus "Pandemic-Depression-Human rights" could trigger a sound rebalancing reaction as far as national authorities would be able to seize the opportunity for moving out of their cautious "status quo" by innovating towards more international cooperation, as it was the case after World War II. The present extreme conditions should help to make more visible the advantages of multilateralism with respect to other attempts for national authorities but even for their public opinions. This global crisis opens an historical window of opportunities for restoring a more rational approach able to defeat also the virus of the populist waves. The challenge is to dare to undertake systemic reforms able to demonstrate to national public opinions the win-win game a strengthened multilateralism could bring. Before this crisis, public opinions' fears were exploited negatively by populist leaders for using popular emotions for trying to discredit and kick-off incumbent powers but without any consensus on what to do after. Now, the same emotional mechanism should be used for showing what to do positively and reaching a popular consensus on key systemic progress. Not trying it would be a catastrophic resignation opening the doors of the city to the evil.

4) Proposal for a systemic solution to the health crisis and the global liquidity and economic depression

The order of magnitude of the financial resources necessary for tackling the health and socio-economic crisis worldwide requires an urgent and exceptional international cooperation, even for the richest regions, because the "first class" passengers could not escape the boat which would become a Titanic if those who have the capacity to organize a common escape would resign in the illusion they could swim with their individual safety-net. Therefore, they are condemned to save the boat because they have the means to do it.

However, these means are not just their financial resources, but also their ability to improve the present international architecture. Indeed, the exceptional needs for resources both in the North and the South cannot be satisfied only with traditional multilateral and bilateral loans. In the euro-area analysis, it is already clear that a combination of monetary creation and fiscal measures are necessary for mitigating the crisis in the common interests of all MS. At the global level, a similar win-win game could be created through the needed liquidity creation together with an increase in public debts worldwide for restoring the global supply chains and the employment.

The global solution should be along the same lines as what we proposed for the euro-area: to provide the missing monetary LOLR at the global level through an IMF issuance of a global reserve asset: a big SDR[4] allocation or jumping directly to a new global reserve currency directly issued by the IMF which would become a Multilateral Central Bank managing a **Multilateral Drawing Right (MDR**)[5]. The creation of global liquidity is a necessity for saving the global financial system but this could be organized in a way which allows to channel financial resources to the South, which in turn would feed a recovery in demand of the South for output from the North.

[4] SDR are the Special Drawing Rights created by the IMF in 1969 for becoming the official reserve currency, but they remained a weighted basket of the five main reserve currencies (Dollar, Euro, Chinese Yuan, Pound, Yen)
[5] For the technicalities of this upgrading of IMF and SDR into respectively a Multilateral Central Bank and and Multilateral reserve currency, see Ghymers, C., "'Whatever it takes' in times of pandemic & financial shocks: There exists an efficient "monetary vaccine" against the lethal virus of the coming global liquidity crunch", IRELAC Policy Brief Paper, March 2020.

A global monetary injection through an MDR allocation (or a huge SDR allocation as a second-best) allows not only to create immediately the necessary emergency financial resources, but it provides an efficient tool for regulating easily the global liquidity, something which remains extremely difficult only with national central banks, because one of them – the Fed - has to voluntarily accept to act as a de-facto LOLR. It is partially the case with the present extension to nine additional central banks of the stand-by swaps the Fed had been maintaining with five central banks since the 2008 global crisis. But this solution is very partial and only dedicated to play the "fire-fighters" after having tolerated pyromaniac behaviors. Indeed, using a national currency – the dollar - as the main international standard and reserve currency is a systemic incoherence because it obliges the US economy to supply the world with needed safe-assets (i.e. assets considered as the most liquid and credible) by an endless increase of its external debt at-sight which logically tends to diminish its credibility. This contradiction is the so-called Triffin dilemma[6], and it generates a "built-destabilizer"[7] through its spillover on global liquidity conditions which create pro-cyclical waves of liquidity because the dollar is the key "safe-asset" upon which the whole pyramid of international credit relies[8], for global liquidity and the whole macroeconomic conditions in the world..

Moving from the de-facto partial and imperfect international LOLR as presently done by the Fed to a legitimate, credible, and collegial institution as the IMF is, constitutes clearly an accessible first-best solution which would be able to solve simultaneously several key-issues:

- being universal and neutral, and not restricted to unilateral discrimination,
- being a systemic progress by providing immediately an effective tool for managing symmetrically, collegially and durably the world liquidity on the basis of objective criteria without need for additional coordination and without geopolitical pollution, preventing thus future global inflationary excess as well as deflationary risks; this feature is all the more important that the recovery will raise the key-issue of controlling global liquidity after so much national liquidity creation, something which would be very conflictual without a multilateral tool as proposed; different assessments could produce currency wars and additional difficulties putting the recovery at high risks
- resolving without budgetary costs the present liquidity crunch by offering the required "safe-assets" for stabilizing the global financial system, which are presently biased towards too scarce liquid US dollar assets
- making also possible a Pareto-efficient redistribution of the created, non-budgetary additional resources favorable to all countries, by channeling part of these resources towards the most urgent needs in LDCs for stopping the Pandemic there and restoring the global supply chains as well as the global demand for all producers; this redistributed additional liquidity would be allocated by IMF to finance "global corona bonds" issued by the World Bank which would be exclusively used for meeting the emergency needs of LDCs for stopping the virus and

[6] The Triffin dilemma expresses the logical impossibility to regulate global liquidity and to manage an optimal policy-mix in the US if the dollar is used as the main international reserve; the reason is the simple fact that increasing international liquidity means increasing the external liabilities of the US economy, because the demand for dollar as international reserve is an automatic cheap Foreign loan to the US economy.

[7] See Triffin, R., "The IMS (International Monetary System…or Scandal?) and the EMS (European Monetary System…or Success?)", Jean Monnet lecture, European University Institute, Florence, Banca Nazionale del Lavoro, Quarterly Review, n°179, December 1991

[8] See Ghymers, C. "Towards a Global Liquidity Problem: Is there a Pilot in the plane?", IRELAC Policy Working Paper, September 2019; see also Ghymers, C., "'Whatever it takes' in times of pandemic… op. cit.

supporting local measures for resisting to the socio-economic crisis. This stimulus would mean restoring the income of LDCs and their import capacity, thus restoring international trade and exports from advanced economies.

Such a win-win game at minimum costs for all tax-payers, would also improve significantly the stability of the world economy and its coherence. Indeed, the present system being based upon the US dollar, implies inevitably an unfair real resource transfer from the Southern economies to the US as they need to increase their external reserves in dollar[9]. This reality is explained by the fact that when a national currency, the dollar, is used also as the main international currency, any increase in the demand for reserves means an increase of the external debt at sight of the US economy which then absorbs the net savings of the rest of the world. The present system means that the LDCs are making very cheap loans to the US economy. In the proposed MDR option, these real resources would be used for financing the multilateral action and creating the win-win game necessary for saving the world.

5) Conclusion

The wake-up call of the corona virus shows that only a return to, and a strengthening of, multilateral cooperation could minimize the very high risks for health, sustainable socio-economic development, security and Human Rights. The growing degree of citizen awareness opens a window of opportunity for fighting the emergency needs and dangers through a systemic progress in the International Monetary System by deciding to upgrade the IMF into a multilateral LOLR able to manage collegially both the crisis and the post-crisis financial world.

In the EU and euro-area, the challenge is similar and also the recipe: the single currency needs its own LOLR for stopping the "one-way-bet" speculations and providing national incentives for sustainable adjustments to the Southern MS as well as guarantee for the Northern MS. This is possible inside the existing Treaty by upgrading the ESM into a euro-Debt-Agency able to trade-off European solidarity against more national fiscal responsibility through a combination of unlimited short-term monetary facility with medium-to-long-term conditional loans with sufficient mutualized financial resources.

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[9] What Robert Triffin coined thirty years ago as an « International Monetary Scandal" and not an "International Monetary System".