US Dollar

Mark Carney calls for global monetary system to replace the dollar

New approach would alleviate influence of capital outflows, BoE governor says

Mark Carney in Jackson Hole: the IMF could 'chang[e] the game' by building a multipolar system, said the Bank of England governor © Bloomberg

Chris Giles in London AUGUST 23 2019

Mark Carney, the Bank of England governor, has said that the world's reliance on the US dollar "won't hold" and needs to be replaced by a new international monetary and financial system based on many more global currencies.

In a speech at the annual Jackson Hole gathering of central bankers in the US, he called for the IMF to take charge of a new system of currencies, insuring emerging economies from destructive capital outflows in dollars and removing their need to hoard US currency. In the longer term the IMF could "chang[e] the game" by building a multipolar system, he said.

Having served as the leading central banker of Canada and the UK over the past decade, Mr Carney has significant influence and is well-regarded by other policymakers. His speech, delivered to other central bankers, will be seen as an attempt to burnish his credentials as a possible future IMF managing director, appealing to emerging economies in particular.

Mr Carney will leave the BoE at the end of January but, lacking support from Europe or the US, currently has little chance of securing the top job at the fund.

He used his speech on Friday to lay out the problems of an over-mighty dollar for the global economy.

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Mark Carney

The US accounts for only 10 per cent of global trade and 15 per cent of global GDP but half of trade invoices and two-thirds of global securities issuance, the BoE governor said. As a result, "while the world economy is being reordered, the US dollar remains as important as when Bretton Woods collapsed" in 1971.

Movements in the US dollar are therefore fundamentally important to other economies even if they have few direct trade links with the US, he said. This means countries are forced to self-insure and hoard dollars to guard against potential capital flight, leading to excess savings and lower global growth.

In turn, he said, this dysfunctional international monetary system contributes to lower global interest rates and has amplified the difficulties central bankers face in addressing downturns.

In the short term, Mr Carney said that countries could do little more than "play the cards they have been dealt as best they can", incorporating potential international spillovers into their monetary policy decisions and reacting to global risks. But this would not continue to work if the US becomes an ever smaller part of the global economy while the dollar remains dominant in the currency markets.

He therefore suggested that in the medium term — alongside all countries seeking to reduce their reliance on hot money flows denominated in dollars — the IMF should set up a global fund to deal with capital flight.

"Pooling resources at the IMF, and thereby distributing the costs across all 189 member countries, is much more efficient than individual countries self-insuring," he said, calling for a tripling of IMF resources over the next decade to $3tn.

In the longer term, Mr Carney said the solution was to create a multipolar global economy rather than waiting for China's renminbi to challenge the dollar.

For this, he suggested more thought should be given to creating a global electronic currency that could act as "synthetic hegemonic currency . . . provided . . . perhaps through a network of central bank digital currencies".

This could “dampen the domineering influence of the US dollar on global trade”, he said, meaning that US shocks would not reverberate around the world as they do now.

“The deficiencies of the international monetary and financial system have become increasingly potent,” Mr Carney said. “Even a passing acquaintance with monetary history suggests that this centre won’t hold.”