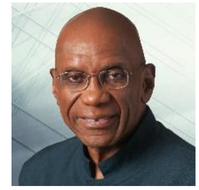

Opinion

Is This the Beginning of the End for Central Bank Independence?

This was the beguiling title of a lecture given by Professor Kenneth Rogoff of Harvard University at a seminar at IMF headquarters organised by the Group of 30 distinguished financial experts, during the week of the Spring Meetings of the Fund and the World Bank. After opening remarks by Christine Lagarde, the Managing Director of the IMF, Rogoff began his lecture with the observation that *no central bank can act independently in the absence of political support*. His lecture, motivated by Donald Trump's attacks on the policy of the US Federal Reserve, dealt with the erosion of that support and what the consequences might be.

Barbados' recent experience illustrates the truth of Rogoff's remark. Up until 2017 the Central Bank of Barbados strove in vain to eliminate a permanent core of lending to Government which kept growing over time. The Bank's attempts proved futile, because there was no political support for the cuts in the wages bill and in subsidies to state corporations which were needed to bring Government's cash flow under control.

While in Washington I attended the Annual Meeting of the **Bretton Woods Committee**, which featured a panel on the future of international trade. The moderator, Jim Kolbe, and the panelists, Carla Hills and Jim Bacchus, were all centrally involved in negotiating the original North American Free Trade Agreement, NAFTA. That experience gives them an informed perspective on Donald Trump’s trade policies. Bacchus made the point that isolationist strategies will ultimately fail, whatever happens in the short run, because human progress has been achieved through cooperation and imagination, in an inevitable process of evolution. Policies of economic nationalism and coercion stifle innovation and are a hindrance to cooperation; they will be defeated by the process of evolution, in the long run. Bacchus also made the point that the unilateral imposition of tariffs is illegal under international law. If any country finds that a trading partner's practices are unfair, the World Trade Organisation (WTO) provides the legal pathway for adjudication of their complaint. In ignoring this legal remedy, the US Government shows contempt for the rule of law.

All three members of the panel were agreed that attempts to manage trade, rather than to facilitate international transactions, were headed in the wrong direction. They see no alternative to the WTO, and while there seems little hope of progress on updating the agreement at the moment, they insist that ways must be found to resuscitate the multilateral cooperation agreements, in the best interests of the US, China and the rest of the world.

The most interesting topic in the Bretton Woods panel on international finance was the implications of the Brexit negotiations. The panel was moderated by Gillian Tett of the *Financial Times*, with Mark Carney, Governor of the Bank of England, Alex Weber, Chairman of Swiss bank UBS, and Clare Woodman, CEO of Morgan Stanley International Plc. Carney warned that the public debate on Brexit was too heavily focussed on how trading patterns might be affected.

Any changes in production and trade would show up only in the long term, as a result of decisions on the location of new investment projects. However, changes in the financial landscape could materialise very quickly, in contrast, and might be more consequential in the long run. Weber reinforced this point with the example of UBS. The bank has set up systems in Frankfurt to continue to service their European clients, in the event that the Brexit separation agreements - or failure to agree - make it problematic to continue to use London as the centre of European operations. All that would be necessary, in the event of a "hard Brexit", would be to transfer personnel from London.

The panelists were also critical of the failure of the World Bank and IMF to accommodate the increasing economic and financial weight of China. Although I am told that the Fund is staffed by increasing numbers of Asian nationals, the Boards of Directors of both institutions are heavily biased towards Western nations, as are the weights given to their views in Fund and Bank decisions. The Americans and Europeans continue to exercise monopolies over the chief executive posts at the Bank and Fund, respectively. The Fund's preoccupation with European debt in the past decade, and the US President's indifference to both institutions, have further eroded the legitimacy and influence of the Bank and the Fund.