NUS National University of Singapore

Source: *The Business Times*, p3
Date: 1 June 2019

The US dollar is dominant in global trade and financial transactions. But in the long run, its dominance is likely to fade as the US' share of global GDP shrinks, resulting in the inability to expand the supply of safe dollar assets without exhausting fiscal capacity. PHOTO: AFP

Leaders whose actions shock markets risk eroding public trust in policy makers

Trump's sudden move to slap tariffs on Mexico is one example, say economists at forum

By Vivien Shiao
vshiao@sph.com.sg
@VivienShiaoBT
Singapore

POLITICAL announcements, such as Donald Trump's shock move to slap tariffs on Mexico, have an impact on monetary policy decisions and could undermine trust in policy makers, said economists and academics on Friday.

This erosion of trust could spill over into other areas, diminishing the influence that the US monetary policy has on the global economy, they added.

They were speaking to the media on the sidelines of the 6th Asian Monetary Policy Forum held in Singapore.

Edward Robinson, deputy managing director (economic policy) and chief economist, Monetary Authority of Singapore (MAS), explained that the immediate effect of such unexpected news first plays out in the financial markets.

Central banks will then assess the longer-term implications, a revision of growth prospects and if policy settings are optimal, he said.

"Monetary policy decisions are never partial... they need to take into account all considerations that bear on growth and inflation prospects going forward," he said, adding that there is a need for central bankers to constantly stay alert to changes to formulate policies.

On the other hand, Professor Steven J Davis, William H Abbott Distinguished Service Professor of International Business and Economics at the University of Chicago Booth School of Business, said he views the US' increasingly frequent policy changes "with concern".

"I do see that kind of action and frequent wielding of tariffs by the Trump administration as a violation of the rules-based international trading order, or at least, (a violation) of the norms that have been previously established," he told the media. "I worry that it undermines or causes people to take a second look at the reliability of the US as a policy making entity and its willingness to uphold the rules-based international trading order that it helped create."

Professor Bernard Yeung, dean and Stephen Riady Distinguished Professor at the National University of Singapore (NUS) Business School concurred that the erosion of trust is a key issue at stake.

He pointed out policy makers have the responsibility to inform people through a "forward guidance" to reduce panic and shape expectations. Prudent policy makers will ensure that there is substance in what they do and say in their forward guidance, otherwise it becomes "cheap talk" that erodes people's trust, he said.

With the US dollar the dominant currency of the world, it comes with many benefits for the US, but also many responsibilities, Prof Yeung pointed out.

"If you abandon the responsibilities, people will seek alternatives, and that is not what a sensible central bank, or sensible government would want," he added.

The implications of the US dollar hegemony was one of the presentations at the forum by Professor Pierre-Olivier Gourinchas, Professor of Economics at the University of California, Berkeley.

The US dollar is dominant in global trade and financial transactions, and it is here to stay in the short to medium term, he told the audience. But in the long run, the dollar dominance is "bound to disappear" as the US' share of global gross domestic product shrinks, resulting in the inability to expand the supply of safe dollar assets without exhausting its fiscal capacity, he said.

This year's programme also featured a closed-door policy dialogue with Senior Minister Tharman Shanmugaratnam, Coordinating Minister for Social Policies and MAS chairman, who spoke on the challenges faced by central banks as well as the labour market.

The annual forum is co-organised and funded by the University of Chicago Booth School of Business, NUS Business School and MAS.