INTERNATIONAL MONETARY REFORM—ALL OVER AGAIN

Robert Z. Aliber
OVERVIEW—THREE KEY QUESTIONS

HOW CAN THE $500 BILLION U.S. TRADE DEFICIT BE REDUCED WITHOUT MOVING AWAY FROM GLOBALIZATION?

WHAT INNOVATIONS CAN BE ADOPTED TO REDUCE THE SHARP VARIABILITY IN CROSS BORDER INVESTMENT INFLOWS AND THE LARGE SWINGS IN PRICES OF CURRENCIES?

WHAT ARE THE FEASIBLE INSTITUTIONAL ARRANGEMENTS FOR ACCOMPLISHING THESE CHANGES?
OVERVIEW—TOPIC OUTLINE

BENEFITS AND COSTS OF GOLD STANDARD
BENEFITS AND COSTS OF BRETTON WOODS ARRANGEMENT
BENEFITS AND COSTS OF FLOATING EXCHANGE RATES
SCORECARD ON INTERNATIONAL MONETARY ARRANGEMENTS
U.S. TRADE DEFICIT AND U.S. JOB LOSSES
WHY THE UNITED STATES BECAME THE WORLD’S LARGEST DEBTOR?
WHY NORWAY AND GERMANY AND CHINA BECAME CREDITORS
MENU FOR REDUCING PERSISTENT GLOBAL IMBALANCE
INTERNATIONAL MONETARY REFORM
BENEFITS AND COSTS —THE GOLD STANDARD

THE POSITIVE CLAIMS

CURRENCY STABILITY

THE NEGATIVES

LACK OF MONETARY INDEPENDENCE

LACK OF CONTROL OVER PRICE LEVEL AND EMPLOYMENT LEVEL
BENEFITS AND COSTS—BRETTON WOODS

THE POSITIVE ASPECTS

STABILITY IN PRICES OF CURRENCIES

THE NEGATIVE ASPECTS

PRICES OF CURRENCIES TOO RIGID

INVESTORS HAD ONE WAY OPTIONS

LACK OF A MECHANISM TO RECONCILE DEMAND FOR INTERNATIONAL RESERVE ASSETS WITH SUPPLY
BENEFITS AND COSTS—FLOATING RATES

THE POSITIVE CLAIMS

FLEXIBILITY TO COPE WITH STRUCTURAL SHOCKS AND WITH DIFFERENCES IN NATIONAL INFLATION RATES

THE NEGATIVES

LARGE DEVIATIONS IN MARKET PRICES OF CURRENCIES
FREQUENT CURRENCY AND BANKING CRISIS
CROSS BORDER INVESTMENT INFLOWS DISRUPTIVE
“BEGGAR THY NEIGHBOR POLICIES” UNDERVALUATION
SCORER CARD AMONG THREE MONETARY ARRANGEMENTS

GS  BW  FR
STABILITY OF REAL EXCHANGE RATE  2  1  3
IMPORTATION OF MONETARY SHOCKS  1  2  3
CORRECTION OF PERSISTENT IMBALANCES  1  2  3

GS=GOLD STANDARD  BW=BRETTON WOODS  FR=FLOATING
1= HIGHEST SCORE
U.S. TRADE DEFICIT AND U.S. JOB LOSSES

U.S. MANUFACTURING EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
<th>MAN EMPLOY</th>
<th>MAN/GDP</th>
<th>MANGDP/WORKER</th>
<th>US TRABAL</th>
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<tbody>
<tr>
<td>1979</td>
<td>19 M</td>
<td></td>
<td></td>
<td>-$28B</td>
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<tr>
<td>2015</td>
<td>11 M</td>
<td></td>
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<td>-$750B</td>
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JOB LOSSES DUE TO $500 BILLION THE US TRADE DEFICIT

<table>
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<tr>
<th>VALUE ADDED PER WORKER</th>
<th>JOB LOSSES</th>
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<tr>
<td>$80K</td>
<td>6,250K</td>
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<tr>
<td>$100K</td>
<td>5,000K</td>
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<td>$200K</td>
<td>2,500K</td>
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WHY DID THE UNITED STATES BECOME THE LARGEST DEBTOR COUNTRY?

DID THE SHOCK ORIGINATE IN THE U.S. GOODS MARKET OR IN FOREIGN SECURITIES MARKET?

DID THE SHOCK ORIGINATE IN THE UNITED STATES OR IN THE SURPLUS COUNTRIES?

COUNTRY GROUPINGS

- OIL EXPORTERS
- MATURE MANUFACTURING ECONOMIES (HIGH WAGES)
- YOUNG MANUFACTURING ECONOMIES (LOW WAGES)

DID THE UNITED STATES BORROW IN FOREIGN CURRENCIES OR DID FOREIGN COUNTRIES BUY U.S. SECURITIES?
## CURRENT ACCOUNT SURPLUSES

<table>
<thead>
<tr>
<th>Country</th>
<th>% GDP</th>
<th>$’s Billions</th>
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<tbody>
<tr>
<td>Singapore</td>
<td>23.6</td>
<td>63</td>
</tr>
<tr>
<td>Taiwan</td>
<td>12.9</td>
<td>75</td>
</tr>
<tr>
<td>Thailand</td>
<td>10.7</td>
<td>46</td>
</tr>
<tr>
<td>Switzerland</td>
<td>9.4</td>
<td>68</td>
</tr>
<tr>
<td>Germany</td>
<td>8.9</td>
<td>295</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8.1</td>
<td>57</td>
</tr>
<tr>
<td>South Korea</td>
<td>7.4</td>
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<td>Denmark</td>
<td>7.3</td>
<td>25</td>
</tr>
<tr>
<td>Japan</td>
<td>3.7</td>
<td>191</td>
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<tr>
<td>China</td>
<td>2.4</td>
<td>210</td>
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</table>
WHY COUNTRIES DEVELOP TRADE SURPLUSES?

OIL EXPORTERS

MANUFACTURES
   MATURE COUNTRIES
   YOUNG COUNTRIES
POLICY APPROACHES OF THE TRADE SURPLUS COUNTRIES

ALLOW PRICES OF CURRENCIES TO INCREASE
INCREASE GOVERNMENT SPENDING
UNILATERAL GIFTS TO GREECE AND AFRICA
INTERNATIONAL MONETARY REFORM--OBJECTIVES

STABLE REAL EXCHANGE RATES—LIMIT VARIABILITY IN COMPETITIVENESS DUE TO MONETARY SHOCKS
ACCOMMODATE STRUCTURAL CHANGE
DAMPEN MONETARY DISTURBANCES
INTERNATIONAL MONETARY REFORM—
INSTITUTIONAL FRAMEWORK

TWO CORNER APPROACHES

COMPREHENSIVE INTERNATIONAL TREATY (LIKE BRETTON WOODS)

DO IT YOURSELF KIT
PROTECT ITSELF FROM CARRY TRADE
HOW A COUNTRY CAN PROTECT ITSELF FROM PREDATORY
INTERNATIONAL MONETARY REFORM-INSTRUMENTS FOR CURRENT ACCOUNT

A COUNTRY IDENTIFIES THE PRICE OF ITS CURRENCY THAT LIMITS ITS TRADE SURPLUS/DEFICIT TO 2% OF GDP AT FULL EMPLOYMENT

THE COUNTRY SETS A BAND OF FIVE PERCENT AROUND THIS PRICE

THE CENTRAL BANK INTERVENES WITHIN AND AT THE BAND

THE CENTRAL BANK CHANGES THE CENTRAL PRICE IN RESPONSE TO DIFFERENCES IN INFLATION RATES AND STRUCTURAL SHOCKS
A MENU FOR REDUCING GLOBAL IMBALANCES

CHANGES IN PRICES OF CURRENCIES

CHANGES IN SAVING IMBALANCES

WHAT WOULD HAPPEN TO GLOBAL IMBALANCES IF THE TRUMP ADMINISTRATION WOULD PUT A PROGRESSIVE TAX ON FOREIGN PURCHASES OF U.S. DOLLAR SECURITIES?
INTERNATIONAL MONETARY REFORM—DAMPENING SHORT TERM CAPITAL FLOWS

THE SOCIAL COSTS AND BENEFITS OF SHORT TERM CAPITAL FLOWS

A VARIABLE RESERVE REQUIREMENT SHOULD BE APPLIED TO THESE FLOWS
CONCLUSION

FLOATING RATE ARRANGEMENT HAS BEEN COSTLY
  MASSIVE CHANGES IN REAL PRICES OF CURRENCIES
  MASSIVE TRADE IMBALANCES
  SURPLUS COUNTRIES FOLLOW BEGGAR THY NEIGHBOR POLICIES

EITHER SURPLUS COUNTRIES ADJUST TO REDUCE IMBALANCES OR THE
  UNITED STATES WILL ADOPT MEASURES TO INCREASE EXPORTS

AN INDIVIDUAL COUNTRY SHOULD ADOPT A CENTRAL RATE FOR
  A CURRENT ACCOUNT TARGET

A VARIABLE RESERVE REQUIREMENT SHOULD BE APPLIED TO SHORT TERM CAPITAL FLOWS