INTERNATIONAL MONETARY REFORM—ALL OVER AGAIN

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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 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 ARRANGMENT

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

SCORECARD 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

	MAN EMPLOY	MAN/GDP	MANGDP/WORKER	US TRABAL
1979	19 M			-$28B
2015	11 M			-$750B

JOB LOSSES DUE TO $500 BILLION THE US TRADE DEFICIT

VALUE ADDED PER WORKER IN U.S. MANUFACTURING	JOB LOSSES
$80K	6,250K
$100K	5,000K
$200K	2,500K

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

	% GDP	$'s Billions
Singapore	23.6	63
Taiwan	12.9	75
Thailand	10.7	46
Switzerland	9.4	68
Germany	8.9	295
Netherlands	8.1	57
South Korea	7.4	99
Denmark	7.3	25
Japan	3.7	191
China	2.4	210

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

INTERNATIOAL 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