

NINETY-FIRST INTERNATIONAL ATLANTIC ECONOMIC EUROPEAN CONFERENCE

FOREIGN DEFENSES AGAINST THE INFLATIONARY DOLLAR
HEGEMONY: WHY SO WEAK IN THE PAST QUARTER CENTURY?

Brendan Brown

Hudson Institute: Senior Fellow, Mises Institute; Partner, Macro Hedge Advisors

19-22 May 2021



Four main themes:

1. How does US spread inflation globally, distinguishing goods inflation and asset inflation?
2. What are the possible forms of foreign resistance and their effectiveness?
3. History of foreign resistance since 1919 – failures and successes
4. A counterfactual history of defensive strategies - 1996 to present; three case studies

How the US hegemon spreads inflation around the world

1. Distinguish spread within dollar zone and outside
2. Illustrative case of country X with freely floating currency and firm independent monetary anchor
3. How US can spread asset inflation to X, but within limits (to be described)
4. A successful defence still leaves X exposed to downsides from US inflationary policy

Costs of foreign defence against US inflationary hegemon

1. Exchange rate volatility
2. Export industries in general suffer
3. Domestic currency might become attacked by speculative mania (upwards)
4. Problems related to establishing anchor to independent monetary regime

Benefits of defence strategies against US inflationary hegemon

1. Less exposure to goods inflation
2. Domestic investors less likely to suffer impairment of rationality in midst of global asset inflation
3. Opportunities for domestic investors to buy global assets (outside bubble epicentre) cheaply
4. Less damage eventually to domestic investors from bubble-and-bust globally
5. Less malinvestment in the country with effective defence
6. Local currency could assume an international role
7. Less likelihood of asset inflation in domestic residential real estate market, less social tensions

History of defence strategies against US inflationary hegemon

1. Weimar Republic 1927
2. West Germany, 1969—79; 85-9
3. Switzerland 1972-8
4. Japan 1976-9; 2008-12

International

ES

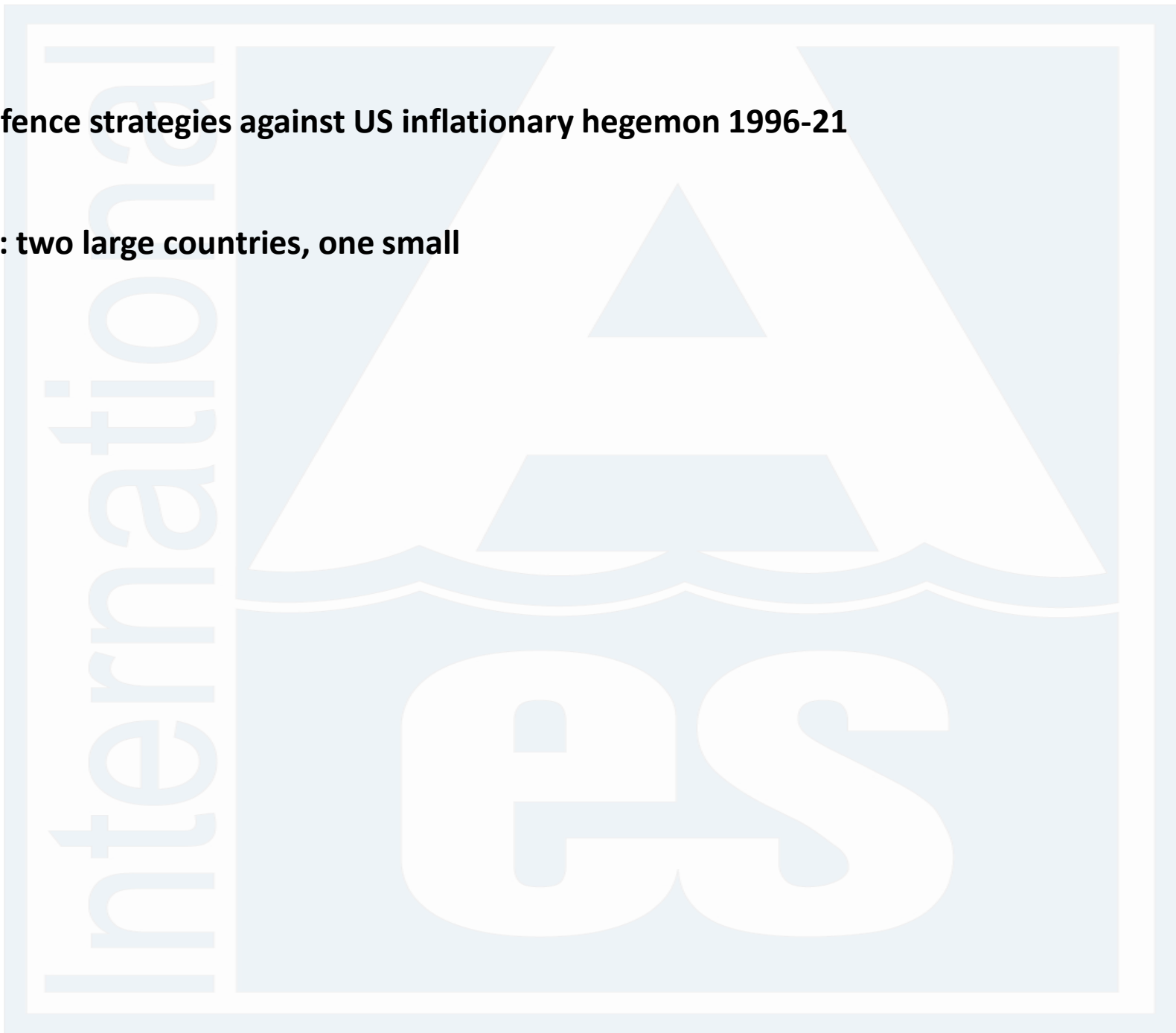
Counterfactual defence strategies against US inflationary hegemon 1996-21

Three case studies: two large countries, one small

Germany

Japan

Israel



Counterfactual defence strategies against US inflationary hegemon 1996-21

Conclusions:

Defence failures against US inflationary hegemon have increased geo-political dangers

US monetary inflation has hurt both US and its foreign allies, strengthened its enemies